Media Briefing
An Analysis of the National Budget for FY2013-14

07 June 2013

CENTRE FOR POLICY DIALOGUE (CPD)
BANGLADESH
a c i v i l s o c i e t y t h i n k t a n k
Dr Debapriya Bhattacharyya was in overall charge of preparing this report as the Team Leader.

Lead contributions were provided by Professor Mustafizur Rahman; Dr Fahmida Khatun; Dr Khondaker Golam Moazzem and Mr Towfiquil Islam Khan.

Valuable research support was received from Mr M Shafiqul Islam; Ms Khaleda Akhter; Mr Mazbahul Golam Ahamad; Mr Kishore Kumer Basak; Mr Md. Zafar Sadique; Mr Salman Sakir; Ms Mehruna Islam Chowdhury; Mr Mashfique Ibne Akbar; Ms Meherun Nesa; Ms Shameema Nasreen Ahsan Mallik; Mr F. I. M. Muktadir Boksh; Ms Farzana Sehrin; Ms Saifa Raz; Ms Umme Salma; Ms Umme Shefa Rezbana; Mr Uttam Kumar Paul; Mr Md. Shamimur Rohman; Ms Samina Hessain; Ms Dwitiya Jawher Neethi; Mr Gazi Joki Uddin; and, Mr Md. Naimul Gani Saif.

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

Public Finance Framework

Overview of Fiscal Measures

Sectoral Measures

Social Sector

Social Safety Net Programmes

Election Pledges and Reforms

Concluding Remarks
Introduction
Setting the Benchmarks

- The budget for FY14 is the last one prepared by this government which will be implemented by three regimes.
- This is also the last chance for the incumbent government to fulfill (or make progress towards fulfilling) the pledges in the run up to the forthcoming national election.
- The budget has been prepared in the backdrop of –
  - Enhanced public investment
  - Moderated inflation
  - Substantial Surplus in BoP
  - Stable inflow of remittances
Setting the Benchmarks

- At the same time -
  - Slippage in GDP growth
  - **Falling private investment**
  - Significant shortfall in revenue mobilisation
  - Reliance on bank borrowing for financing fiscal deficit
  - Lower domestic demand

- Overall the economy has moved towards a **lower level equilibrium** where stability has been more or less maintained, whilst the objective of enhancing economic growth has been compromised

- The objectives of the budget for FY14 seems to be
  - Undertaking fiscal consolidation backed up by high growth of revenue
  - Reverting the downturn of private investment
  - Further control of inflation
  - Revitalising economic growth momentum
Macroeconomic Targets

- Target for GDP growth rate in FY14 has been set at **7.2%** (6.0% in FY13) – which was **7.6%** in SFYP
- **To cover** the present gap between SFYP target and record of GDP growth performance, **9.6%** GDP growth in FY14 will be required
- Implication of GDP growth being below target – the **road to LMIC status** has become **a bit longer**!
- **Private Investment** is substantially **below** the SFYP target in FY13
  - 19.0% against 22.7% → **3.7 percentage point short**
  - Target for private sector credit in FY14 (16.0%) was kept well above the present level (12.7% in March 2013) – projected growth is reported to be 18.5% in FY13!
- **Public investment** on the other hand is **one percentage point higher** than SFYP target
  - 7.9% (FY13 provisional) against 6.9%
- **Missing 2.7% of investment** (as % of GDP)
Macroeconomic Targets

- Export is expected to increase by 15% in FY14 (over 12% in FY13 – upto April 2013, 10.1% growth was attained)
- Import on the other hand is anticipated to grow by 10% in FY14 (over 3% in FY13 – (-) 6.1% upto March, 2013)
- The budget also predicts inflation rate to come down to FY14 at 7.0%
- Target for FY13 was 7.5% (7.9% in April 2013)
- It can also be seen that the medium term outlook proposed by the government has predicated a very optimistic scenario in line with SFYP target - e.g. 8% GDP growth in FY15 and 9.1% in FY18
  - On one hand GDP growth will accelerate while inflation will systematically slide
  - Similarly, the budget deficit will reduce (as % of GDP) while the financing will be more from foreign sources
  - Basis of such optimistic medium term outlook is not clear!
Public Finance Framework
Main Features of the Proposed Fiscal Structure

- **Revenue** (19.9%) projected to grow faster than **public expenditure** (17.5%)-
  - Total budget expenditure is set at 18.7% of GDP
  - Revenue income will be 14.1% of GDP
- **Development expenditure** (25.1%) programmed to grow faster than non-development revenue expenditure (10.3%)
- **ADP** - 29.6% of total public expenditure (27.7% in the RBFY12, 26.0% in FY13 to be the actual figure according to CPD projection)
- **Budget deficit** has been projected at 4.6% of GDP (4.8% in RBFY13)
- Balance in financing budget deficit will be restored –
  - **High foreign financing** target (22.6% growth over the RBFY13) has been set with anticipated gross foreign aid flow of **USD 3.8 billion**
  - Government’s **net bank borrowing** will decrease by (-) 8.8%
  - Borrowing from **non-banking** sector will be **2.5 times more**
- **Overambitious targets!**
Revenue Mobilisation

Share of Revenue FY14

- FY14 budget targets an additional **Tk. 24,785 crore revenue**
- **NBR** to take the lead role (with **83.7% of incremental revenue**) with 21.2% growth
- **45.7%** of incremental revenue from **income tax** – the highest in history; while **33.3%** from **VAT**
- **Import duty** collection target is at a **lower rate** – in view of lower collection this year, while MTMF projects a 10% import growth
- Non-NBR revenue growth will remain at a **subdued level**
- **Revenue targets are set over the unchanged (& unattainable) targets for RBFY13**
- **Overall revenue collection may fall short of Tk. 10,000-13,000 crore**
- **Weakest link of the budgetary framework!**
# Sector-wise Distribution of Total Expenditure

<table>
<thead>
<tr>
<th>Sector</th>
<th>Share in BFY14</th>
<th>Share in RBFY13</th>
<th>Change in FY14B over FY13R</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>%</td>
<td>Crore Tk</td>
</tr>
<tr>
<td>Public Service</td>
<td>14.4</td>
<td>6.8</td>
<td>19297.0</td>
</tr>
<tr>
<td>Fuel and Energy</td>
<td>5.1</td>
<td>5.3</td>
<td>1358.0</td>
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<tr>
<td>Transport and Communication</td>
<td>9.3</td>
<td>7.0</td>
<td>7358.0</td>
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<tr>
<td>Interest</td>
<td>12.5</td>
<td>12.3</td>
<td>4396.0</td>
</tr>
<tr>
<td>Social Security and Welfare</td>
<td>5.6</td>
<td>6.0</td>
<td>1097.0</td>
</tr>
<tr>
<td>LGRD</td>
<td>6.7</td>
<td>7.9</td>
<td>-204.0</td>
</tr>
<tr>
<td>Education and Technology</td>
<td>11.7</td>
<td>11.4</td>
<td>4532.0</td>
</tr>
<tr>
<td>Health</td>
<td>4.3</td>
<td>4.8</td>
<td>340.0</td>
</tr>
<tr>
<td>Public Order and Safety</td>
<td>4.7</td>
<td>5.1</td>
<td>824.0</td>
</tr>
<tr>
<td>Defence Services</td>
<td>6.5</td>
<td>7.1</td>
<td>955.0</td>
</tr>
<tr>
<td>Industrial and Economic Services</td>
<td>1.4</td>
<td>1.4</td>
<td>469.0</td>
</tr>
<tr>
<td>Housing</td>
<td>0.8</td>
<td>0.7</td>
<td>386.0</td>
</tr>
<tr>
<td>Recreation, Culture and Religious Affairs</td>
<td>0.8</td>
<td>0.9</td>
<td>-14.0</td>
</tr>
<tr>
<td>Agriculture</td>
<td>7.9</td>
<td>10.5</td>
<td>-2371.0</td>
</tr>
<tr>
<td>Others(Memorandum Item)</td>
<td>8.4</td>
<td>12.7</td>
<td>-5258.0</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>100.0</td>
<td>100.0</td>
<td>33165.0</td>
</tr>
</tbody>
</table>
Allocations for Public Services is set to be 1.5 times of RBFY13
- Of additional Tk. 19,297 crore, 65% is originated from ‘Investments in Shares and Equities’

Interest payments remains the sector with second highest allocation – 39.3% of incremental share
- Domestic Interest Payments will increase by 20.4% in FY13– about 39.4% of total incremental revenue expenditure

Foreign interest payment will be lower!

### Economic Analysis of Revenue Expenditure

<table>
<thead>
<tr>
<th>Indicators</th>
<th>Growth FY13/RBF Y12</th>
<th>Share B FY13</th>
<th>Share RB FY12</th>
<th>Incremental Share FY13B</th>
<th>Change FY13/RBFY 12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pay and Allowances</td>
<td>10.4</td>
<td>20.9</td>
<td>20.9</td>
<td>20.9</td>
<td>2,337</td>
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<tr>
<td>Goods and Services</td>
<td>14.3</td>
<td>13.3</td>
<td>12.8</td>
<td>17.7</td>
<td>1,981</td>
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<td>Interest Payments</td>
<td>18.8</td>
<td>23.3</td>
<td>21.6</td>
<td>39.3</td>
<td>4,396</td>
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<tr>
<td>Domestic</td>
<td>20.4</td>
<td>21.8</td>
<td>20.0</td>
<td>39.4</td>
<td>4,399</td>
</tr>
<tr>
<td>Foreign</td>
<td>-0.2</td>
<td>1.5</td>
<td>1.6</td>
<td>0.0</td>
<td>-3</td>
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<tr>
<td>Subsidies and Current Transfers</td>
<td>0.9</td>
<td>36.2</td>
<td>39.6</td>
<td>3.6</td>
<td>399</td>
</tr>
<tr>
<td>Block Allocation</td>
<td>346.1</td>
<td>1.6</td>
<td>0.4</td>
<td>13.1</td>
<td>1,464</td>
</tr>
<tr>
<td>Acquisition of Assets and Works</td>
<td>12.0</td>
<td>4.7</td>
<td>4.7</td>
<td>5.4</td>
<td>601</td>
</tr>
<tr>
<td>Total Augmented Non-Development Revenue Expenditure</td>
<td>10.4</td>
<td>100.0</td>
<td>100.0</td>
<td>100.0</td>
<td>11,178</td>
</tr>
</tbody>
</table>
Explicit allocation for Defense services is 6.5% of total expenditure (7.1% in RBFY13)

One may expect this allocation to increase at the end of the year, following the past trend.
Subsidy

- Total subsidy for RB FY13 increased by 29.8% mainly due to BPC and agriculture (77.8% and 58.2% of incremental, respectively)
- **Total subsidy in RBFY13 is 3.6% of GDP**
- Clearing the **backload**!
- No clear mention of the total demand proposed for FY2014
- **Total subsidy** is expected to be Tk. 28,695 crore (2.4% of GDP)
  - reduced by 23.3%
- The is reflected in loans and advances ((-) 25.3% reduction)
- **Agriculture** subsidy will be **reduced by 25.0%**
- **BPC** subsidy is expected to be Tk. 7,950 crore ((-) **47.8% lower**)
- PDB subsidy for is expected to be Tk. 5,500 crore (6.4% higher)
  - Will it require another set of price adjustment – can the incumbent government undertake this?!
- Subsidy allocation for SoEs is lower than the limit provided by the IMF-ECF programme
Annual Development Programme (ADP)

- **ADP** of Tk. 65,870 crore (**5.5% of GDP**) has been proposed for FY14
  - 25.8% higher than RADP for FY13 and 19.8% higher than ADP FY13
  - Project Aid component will be 37.3% of total ADP (35.3% in RADP of FY13 and 39.1% in original ADP of FY13)
  - 39.1% higher than actual implementation of FY13 (CPD estimation) – did not occur in last decade
  - Tk. 3,437 crore (**5.2% of ADP**) has been allocated to unapproved block allocation
  - Self-financed development budget of Tk. 8,114 crore has been allocated for autonomous bodies and corporations - shown with the ADP for the first time
The ADP contains 1,046 projects; another 662 unapproved projects has also listed in the ADP.

Only 50 new projects are included- 1.3% of total ADP;
- 157 more new projects have earlier included in the RADP for FY13.
305 carryover projects consist of 13.0% of the total allocation (10.4% in FY13)

415 projects with 28.5% of total allocation expected to conclude in FY14 according to their project completion timeline

- Combining these two categories, about 720 projects (about 69% of projects) are expected to be completed
- Many of these projects may fail to meet their deadlines

Planning Commission identified some 305 of these projects to be completed in FY14

- However, 110 projects (36.1%) have been carried forward to this list from ‘expected to be completed’ list for ADP FY13
### Top 5 Sectoral Allocation in ADP (%)

<table>
<thead>
<tr>
<th>Sector</th>
<th>No of Projects ADP FY14</th>
<th>Share ADP FY14</th>
<th>Share FY13 RADP</th>
<th>Share FY14 ADP</th>
<th>Growth (%) ADP FY14 over RADP FY13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Top Five Sectors</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Transport</td>
<td>203</td>
<td>14.8</td>
<td>14.5</td>
<td>23.3</td>
<td>85.1</td>
</tr>
<tr>
<td>Power</td>
<td>54</td>
<td>14.4</td>
<td>15.0</td>
<td>13.7</td>
<td>5.7</td>
</tr>
<tr>
<td>Education &amp; Religious Affairs</td>
<td>105</td>
<td>13.4</td>
<td>11.6</td>
<td>13.3</td>
<td>32.6</td>
</tr>
<tr>
<td>Rural Development &amp; Institutions</td>
<td>86</td>
<td>11.4</td>
<td>11.8</td>
<td>10.1</td>
<td>-1.3</td>
</tr>
<tr>
<td>Physical Planning, Water Supply &amp; Housing</td>
<td>133</td>
<td>9.6</td>
<td>8.5</td>
<td>8.3</td>
<td>11.7</td>
</tr>
<tr>
<td>Unapproved*</td>
<td>662</td>
<td>2.9</td>
<td>NA</td>
<td>5.2</td>
<td>115.5</td>
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<tr>
<td>Development Assistance</td>
<td>NA</td>
<td>5.6</td>
<td>4.0</td>
<td>3.0</td>
<td>-15.2</td>
</tr>
<tr>
<td>Total ADP</td>
<td>1046</td>
<td>100</td>
<td>100.0</td>
<td>100.0</td>
<td>15.3</td>
</tr>
</tbody>
</table>

*Unapproved projects are not included in the ADP

- **The top 5 sectors** have received **68.7%** of total allocation
  - Transport Sector once again received highest allocation (23.3%) – Impact of Padma Bridge!
  - **83.4%** of incremental allocation towards Transport sector is for PMBP
The Padma Multipurpose Bridge Project (PMBP)

- Total allocation for PMBP for FY14 is Tk. 6,852 crore i.e. 33.4% of the total PMBP project cost
  - Almost 8 times higher the allocation provided in FY13 (Tk. 804 crore)
  - Tk. 1,600 has kept as project aid allocation in ADP FY14 (USD 200 million Indian credit)

- With the PMBP expected to absorb approximately 55.6% of the total incremental allocations in the ADP FY14 allocations and non-PMBP incremental allocation to be only Tk. 4,822 crore, allocation for other priority sectors such as health, education and the agricultural sector need to be entertained.

- Foreign exchange reserves will definitely suffer erosion if there is no notable external financing associated with the project.
Annual Development Programme (ADP)

- It appears that, number of new projects in ADP FY14 was limited - however, the practice of **allocating symbolic allocation** (the minimum to keep the project in the ADP list) is still **pervasive**
- 25 `investment' projects under ADP received only Tk. 1 lakh for FY14
  - Of which **16 are from `Transport' Sector** while 6 are from `Physical Planning, Water Supply &Housing' Sector
- 55 investment' projects under ADP received only Tk. 1 crore for FY14
  - Of which **16 are from `Transport' Sector** while 9 are from `Physical Planning, Water Supply &Housing' Sector
## Budget Deficit and Financing

<table>
<thead>
<tr>
<th>Description</th>
<th>BFY14</th>
<th></th>
<th>RBFY13</th>
<th></th>
<th>Growth FY14 over RB FY13</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Crore Tk</td>
<td>% of GDP</td>
<td>Crore Tk</td>
<td>% of GDP</td>
<td></td>
</tr>
<tr>
<td>Revenue Collection</td>
<td>167,459</td>
<td>14.1</td>
<td>139,670</td>
<td>13.5</td>
<td>19.9</td>
</tr>
<tr>
<td>Total Expenditure</td>
<td>222,491</td>
<td>18.7</td>
<td>189,326</td>
<td>18.2</td>
<td>17.5</td>
</tr>
<tr>
<td>ADP</td>
<td>65,870</td>
<td>5.5</td>
<td>52,366</td>
<td>5.0</td>
<td>25.8</td>
</tr>
<tr>
<td>Non-ADP</td>
<td>156,621</td>
<td>13.2</td>
<td>136,960</td>
<td>13.2</td>
<td>14.4</td>
</tr>
<tr>
<td>Overall Deficit (Excl Grants)</td>
<td>55,032</td>
<td>4.6</td>
<td>49,656</td>
<td>4.8</td>
<td>10.8</td>
</tr>
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</table>

**Financing**

<table>
<thead>
<tr>
<th>Description</th>
<th>BFY14</th>
<th></th>
<th>RBFY13</th>
<th></th>
<th>Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Foreign Grants</td>
<td>6,670</td>
<td>0.6</td>
<td>5,280</td>
<td>0.5</td>
<td>26.3</td>
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<td>Foreign Loan-Net</td>
<td>14,398</td>
<td>1.2</td>
<td>11,903</td>
<td>1.1</td>
<td>21.0</td>
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<tr>
<td>Foreign Loan</td>
<td>23,729</td>
<td>2.0</td>
<td>19,951</td>
<td>1.9</td>
<td>18.9</td>
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<td>Amortization</td>
<td>9,331</td>
<td>0.8</td>
<td>8,048</td>
<td>0.8</td>
<td>15.9</td>
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<tr>
<td>Domestic Borrowing</td>
<td>33,964</td>
<td>2.9</td>
<td>32,473</td>
<td>3.1</td>
<td>4.6</td>
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<tr>
<td>Bank Borrowing (Net)</td>
<td>25,993</td>
<td>2.2</td>
<td>28,500</td>
<td>2.7</td>
<td>(8.8)</td>
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<tr>
<td>Non-Bank Borrowing (Net)</td>
<td>7,971</td>
<td>0.7</td>
<td>3,973</td>
<td>0.4</td>
<td>100.6</td>
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<tr>
<td>Total Aid Requirement (Net)</td>
<td>21,068</td>
<td>1.8</td>
<td>17,183</td>
<td>1.7</td>
<td>22.6</td>
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<tr>
<td>Total Aid Req</td>
<td>2.7</td>
<td>-</td>
<td>2.2</td>
<td>-</td>
<td>22.6</td>
</tr>
<tr>
<td>Total Aid Req (Gross)</td>
<td>30,399</td>
<td>2.6</td>
<td>25,231</td>
<td>2.4</td>
<td>20.5</td>
</tr>
<tr>
<td>Total Aid Req (Gross)</td>
<td>3.8</td>
<td>-</td>
<td>3.2</td>
<td>-</td>
<td>20.5</td>
</tr>
</tbody>
</table>
Budget Deficit and Financing

- **Share of domestic financing 61.7% (65.4% in RBFY13)**
- **Tk 25,993 crore (47.2%) will come from the bank borrowing (57.4% in RBFY13)**
- Net bank borrowing will decline by Tk. 2,507 crore from RBFY13
- **Tk 7,971 crore (14.5%) will come from non-bank sources (8.0% in RB of FY13)**
- Share of foreign financing will be 38.3% in FY14 (34.6% in RB of FY12)
- **Gross foreign aid requirement will be around USD 3.8 bln (USD 3.2 bln in RBFY12) – an almost impossible target in view of only USD 2.0 billion being received during Jul-Apr FY13.**

### Sources of Deficit Financing

![Chart showing sources of deficit financing]

- **Share (%)**
  - BFY14:
    - Foreign Grant: 12.1%
    - Foreign Loan (net): 26.2%
    - Bank Borrowing (Net): 47.2%
    - Non-Bank Borrowing (Net): 14.5%
  - RBFY13:
    - Foreign Grant: 10.6%
    - Foreign Loan (net): 24.0%
    - Bank Borrowing (Net): 57.4%
    - Non-Bank Borrowing (Net): 8.0%
Contingent Liabilities

- **Contingent Liabilities** in last two years increased substantially – as of March 2013 contingent liabilities stood at **Tk. 69,339 crore**
  - Of which, **BPC (43.4%); BADC (10.3%); BKB (8.2%); and BPDB (7.3%) and BCIC (7.3%)**
- Indeed contingent liabilities as of March was 36.6% of total budget (6.7% of GDP) – still quite high
- **Needs rationalisation.**

### Contingent Liabilities

<table>
<thead>
<tr>
<th>Item</th>
<th>Jun-10</th>
<th>Jun-11</th>
<th>Mar-12</th>
<th>Mar-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Contingent Liabilities (Tk. Crore)</td>
<td>29192</td>
<td>36445</td>
<td>64562</td>
<td>69339</td>
</tr>
<tr>
<td>of which BPC (Tk. Crore)</td>
<td>8500</td>
<td>12599</td>
<td>34012</td>
<td>30120</td>
</tr>
<tr>
<td>Contingent Liabilities as % of GDP</td>
<td>4.2</td>
<td>4.6</td>
<td>7.1</td>
<td>6.7</td>
</tr>
<tr>
<td>Contingent Liabilities as % of Budget</td>
<td>28.7</td>
<td>28.4</td>
<td>42.4</td>
<td>36.6</td>
</tr>
</tbody>
</table>
Defining Factors for Public Finance Framework

- If we make **NBR growth** attainment in FY13 at a **realistic level (15.0%)** the required growth rate for FY14 will **increased to 24.9%** (from 21.2%)
- **Higher than trend growth rate**

  - Only in **FY08 (27.4% - CTG effect)** and **FY11 (28.0% - international price effect)** a higher growth was attained – two unusual years!
  - Similarly the target growth rate for total revenue mobilisation reached to **22.8%** (from 19.9%)
  - A much challenging task in view of economic and political reality anticipated for FY14

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*CPD: An Analysis of the National Budget for FY2014*
Defining Factors for Public Finance Framework

- If ADP continues to follow its trend the final ADP expenditure could about 90% of RADP
- In view of this, total expenditure will also be lower
- Adjusting for these two figures, the target for FY14 becomes higher and much difficult to attain
- Indeed, a number of symbolic allocations may not be realised anywhere near their targets (e.g. for PMBP and PPP)
Defining Factors for Public Finance Framework

- Once again it appears that we are sliding back to loose fiscal targeting - leading to weak fiscal management
- Implementation of the plan will remain the key!
  - Can **ADP implementation capacity** be enhanced significantly?
    - Particularly the foreign aid component
    - What will be the **fate of allocation for PMBP**?
  - Can **subsidy requirement** be kept under the programmed level?
  - DO we need another set of **upward price adjustment**?
  - What will be the expenditure for **PPP allocation**?
  - Will the **revenue income targets be fulfilled**? - Considering the possible shortfall in FY13
  - Will it be possible to **attract** people to invest in **non-bank** borrowing instruments?
  - Do we have to **rely on bank borrowing** once again for financing the deficit?
Overview of Fiscal Measures
OVERVIEW OF FISCAL MEASURES

Personal Income Tax

- Personal income tax threshold has been increased to Tk. 220,000 from 200,000
  - Will be helpful for low income earners
  - However, taxable threshold in Bangladesh is lower than India
  - It is to be noted that the threshold for India is Rs. 200,000 (equivalent to Tk. 274,000)
  - But India has a higher marginal rate on personal income tax – 30% in India vs 25% in Bangladesh

- Threshold for women and senior citizens have been revised upward to Tk. 2,50,000 from Tk. 2,25,000
  - Good move considering the necessity of reducing tax liability of marginal taxpayers.
OVERVIEW OF FISCAL MEASURES

Personal Income Tax

- **Reduction of minimum tax for individual** tax payers living in the Paurashava area of district town (Tk. 3,000 to Tk. 2,000) and the Upazilas (Tk. 3,000 to Tk. 1,000)
  - Will help broaden the tax base

Surcharge

- In FY12, 10% **surcharge** was imposed on **income in excess of Tk. 2 crores**
- In FY14, 10% surcharge will be imposed on individuals with assets between Tk. 2 crores to Tk. 10 crores
- Additionally, 15% surcharge will be imposed for wealth on individuals having more than Tk. 10 crores in FY14
  - Progressive taxation towards more equity
OVERVIEW OF FISCAL MEASURES

Corporate Tax

- Tax for **publicly traded mobile phone company** has been increased from **35% to 40%**
  - One particular firm will be affected
  - **Erosion of incentive for being listed** (spread reduced from 10% to 5%)

- Tax rate **increased** for **cigarette companies**
  - **Good move** for revenue mobilization and public health

- Corporate tax remains unchanged for other cases
Black Money Whitening

- The FY 2013-14 budget proposed extension of the scope for whitening **undisclosed income** for investment in the **real estate** sector at a flat rate of **10%**
- Holders of undisclosed money can invest in this sector by paying taxes between Tk. 750 to Tk. 5,000 and Tk. 1,000 to Tk. 7,000 depending on location and size
- In case of plot/land, buyers can purchase by paying 10% tax on total value
  - Tax will be 20% in case of more than one plot/land
- However, the provision on allowing undisclosed money in the **capital market** has **not** been **extended**
OVERVIEW OF FISCAL MEASURES

- **Black Money Whitening**
  - The scope for whitening black money is **morally unacceptable and economic benefits remain questionable**
  - The opportunity benefits only some particular sector(s)
  - Only Tk. 38 crores was received as tax as against the total whitened amount of Tk. 1,305 crores during 2009-2013

**Whitening of black money under different political regime**

<table>
<thead>
<tr>
<th>Regimes</th>
<th>Total Declared (Tk. In Crore)</th>
<th>Total Tax Collected (Tk. In Crore)</th>
<th>Average Declared Amount (per year)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-1982</td>
<td>70</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Ershad (1982-1990)</td>
<td>850</td>
<td>185</td>
<td>106.25</td>
</tr>
<tr>
<td>AL (1996-2001)</td>
<td>1560</td>
<td>109</td>
<td>312</td>
</tr>
<tr>
<td>BNP (2001-2006)</td>
<td>1000</td>
<td>100</td>
<td>200</td>
</tr>
<tr>
<td>Caretaker(2006-2008)</td>
<td>9682</td>
<td>911</td>
<td>4841</td>
</tr>
<tr>
<td>AL(2009-2013)</td>
<td>1305</td>
<td>38</td>
<td>326.25</td>
</tr>
<tr>
<td>Total</td>
<td>14,467</td>
<td>1535</td>
<td>438.39</td>
</tr>
</tbody>
</table>

Source: Based on media reporting (not from official source).

*CPD: An Analysis of the National Budget for FY2014* 34
Import Duty and Supplementary Duty

- The present 3% customs duty on the import of capital goods reduced to 2% and 12% on raw materials reduced to 10%
  - Should be helpful in terms of stimulating private investment
  - Will reduce the investment cost and working capital cost
- Provision of 5% regulatory duty on goods chargeable to 25% customs duty will be continued
- Regulatory duty on few items which are chargeable at 10% customs duty has been proposed at 5%
  - Will enhance effective rate of protection for import-substituting industries and discourage import of these commodities
Import Duty

- Full exemption of *customs duties* applicable to *essential goods* such as rice, pulse, wheat, onion, agricultural inputs, life-saving drugs and industrial raw material like cotton will continue
  - Will benefit consumers
  - Exemption of customs duties on agricultural inputs (fertilizer, insecticides, seeds) will help the agricultural sector
  - Exemption of customs duties for some industrial raw materials such as cotton will promote textile industry.

**Table: Changes in various duties in FY2013-14**

<table>
<thead>
<tr>
<th>Types of Duty</th>
<th>Raised</th>
<th>Reduced</th>
<th>Waived</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs Duty</td>
<td>23</td>
<td>51</td>
<td>0</td>
</tr>
<tr>
<td>Supplementary Duty</td>
<td>22</td>
<td>0</td>
<td>40</td>
</tr>
<tr>
<td>Specific Duty</td>
<td>6</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Concessionary Benefit by SRO</td>
<td>36</td>
<td>4</td>
<td>0</td>
</tr>
<tr>
<td>Regulatory Duty</td>
<td>43</td>
<td>8</td>
<td>0</td>
</tr>
</tbody>
</table>
Value Added Tax (VAT)

- Existing uniform trade VAT at the rate of 4% at all levels of *wholesale and retail sales* will remain unchanged.
- 15% would be applicable for traders who are willing to pay VAT on actual value addition.
  - This is in preparation for the introduction of the new VAT rate from 2016.
**OVERVIEW OF FISCAL MEASURES**

**Tax Holiday**
- Existing tax holiday facilities has been extended from June 2013 to June 2015
  - Will be helpful for new industries
  - There has been criticism in the past with regard to misuse of tax holiday facilities and also its effectiveness
  - Proper implementation is necessary to ensure that the facility is not misused

**Duty and Taxes on Vehicles**
- No major amendment in tax structure of motor cycles, except that tax has been reduced on roller chains
- No modifications in the tax structure for reconditioned vehicles but restructuring of the depreciation rate
  - Cars older than three years will be comparatively cheaper, while cars less than two years old would be relatively highly priced
Tax Incidence at the Import Stage

- At the import stage, collection of revenue (import duty, VAT, SD, RD) during July-April FY13 was of Tk. 26,331 crore (this was about 31.7% of NBR’s total collection)
- CPD has examined the impact of proposed changes in CD, SD, RD and VAT (import) on import related revenues.
- The estimate shows that all the changes may net increase import related revenues by 4.2% in FY14
- Based on import data for FY12 and changes applied in existing tariff schedule of FY13
- The basis of the assumption is 3% growth of import in FY13 and 10% in FY14, as predicted in MTBF
- Estimated revenue collection may differ if the structure of FY12 import changes significantly
OVERVIEW OF FISCAL MEASURES

Tax Administration

- Modernize tax administration and management
  - Increase of manpower, including senior officials and logistics support has been proposed
  - A survey needs to be carried out regarding the human resource required in view of potential number of taxpayers
- The fully advanced and automated ASYCUDA World software will replace the existing PSI system on a pilot basis
  - This would be an effective tool which will provide a harmonized platform for the entire tax department
- Establishment of Management Information System for Taxation (MIST)
  - Tax information and Service Centers have been set up - A good initiative
OVERVIEW OF FISCAL MEASURES

Tax Administration

- Improving the tax compliance culture and tax payer services
  - *Introduction of* Alternative Dispute Resolution *(ADR)* to speed up tax related disputes

- Coordination and cooperation between the Customs, VAT and income Tax department will be ensured
  - This is needed to plug against tax avoidance and raise tax revenue

- Ensure transparency in tax administration

- Needless to mention that the tax administration in Bangladesh is plagued by narrow tax base, evasion of tax and inefficient tax administrations.

- It remains to be seen to what extent this proposal will be realized.
Sectoral Measures
Lower Allocation for Agriculture

- Allocation for **agriculture** and allied sectors in FY2014 budget (non-development and development) is Tk. 17,471 crores, which is 11.95% lower than the revised budget of FY2013
  - 7.9% of total budget expenditure
  - 11.95% lower than the revised budget of FY2013

- Allocation for the Ministry of Agriculture is **reduced** to Tk. 12,270 crores in the proposed budget from Tk. 14,878 crores in FY2013 budget, mainly due to cutback of agricultural subsidy
Subsidy is sufficient only for fertilizer

An amount of **Tk. 9000 crore has been allocated** as **subsidy** for the **agriculture** sector

**CPD estimates** that **Tk. 8300 crore** may be required as subsidy only for fertilizer

So, a **higher subsidy may be needed** for other agricultural inputs

### Agricultural Subsidy for Fertilizers

<table>
<thead>
<tr>
<th>Fertilizer</th>
<th>Price (USD/Ton)</th>
<th>Insurance and freight charge (USD/Ton)</th>
<th>Imported Cost (USD/Ton)</th>
<th>Cost (Tk./Kg)</th>
<th>Administered Price (Tk./Kg)</th>
<th>Demand for FY2014 (lakh ton)</th>
<th>Subsidy (Crore Tk.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>DAP</td>
<td>491.6</td>
<td>50</td>
<td>541.6</td>
<td>43.7</td>
<td>27</td>
<td>5</td>
<td>1665.84</td>
</tr>
<tr>
<td>UREA</td>
<td>396.6</td>
<td>60</td>
<td>456.6</td>
<td>36.8</td>
<td>20</td>
<td>13.5</td>
<td>1680.65</td>
</tr>
<tr>
<td>TSP</td>
<td>435.0</td>
<td>100</td>
<td>535.0</td>
<td>43.1</td>
<td>22</td>
<td>7.3</td>
<td>2112.64</td>
</tr>
<tr>
<td>MoP</td>
<td>390.8</td>
<td>100</td>
<td>490.8</td>
<td>39.6</td>
<td>15</td>
<td>7.1</td>
<td>2456.34</td>
</tr>
<tr>
<td>Others</td>
<td>410.0</td>
<td>80</td>
<td>490.0</td>
<td>39.5</td>
<td>25</td>
<td>0.8</td>
<td>1449.89</td>
</tr>
<tr>
<td>Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>8315.35</td>
</tr>
</tbody>
</table>
Bangladesh Climate Change Trust Fund (BCCTF): Implementation of 112 projects in the past fiscal year is satisfactory but very little fund utilized (Tk. 255 crore), casting doubt on the weight of these interventions

- Need more capacity building and involvement of union and upazila level stakeholders
- Need to finance rigorous systems for monitoring and evaluation as well as for project selection

- Steps toward early warning system by mobile phones a good sign
- Development of the legal and institutional framework for disaster management has picked up – the Disaster Management Act, 2012 has empowered UP level committees
- FY2011 pledge to protect 20k ha of land from salinity every year and salinity forecasting not being followed – salinity is a high risk of climate change
Expecting results from the six Bangladesh Climate Change Resilience Fund (BCCRF) projects esp. WB-funded afforestation programme
- Seek projects that serve dual purposes of climate resilience and income generation
- Construction of the 74 flood shelters and 100 cyclone shelters and revision of the Building Code is urgent – disasters in the meantime (Sidr, Aila, Savar collapse) have claimed many lives
- Develop comprehensive database of climate refuges
The budget has proposed a number of measures to stimulate industrial sector and to promote private sector investment. These have tried to address the concerns of decelerating growth of private investment.

- How far these measures will be effective will depend on a number of factors? a) evolving political scenario till the national election; b) commensurate improvement in physical and infrastructural facilities; c) extent of improvement in consumers’ demand and purchasing capacity and d) dynamics of the global economy external demand.

- A number of proposed measures is likely to facilitate new investment as well as to help retain or improve competitiveness of different industries.
  - Continuation of tax holiday (17 industrial undertakings, 17 physical infrastructure, jute goods, fabric & dyeing, poultry, fisheries, shrimp, fish etc.): *CPD had earlier proposed such measure in its FY14 budget proposals*
  - Reduction of CD on capital machineries & intermediate products, imposition of SD on finished products and on few other items similar to intermediate products: *CPD had proposed such measures*
Local industries have been given protection and support through the following changes in tariffs and duties. Some of these are import-substituting.

- Through (a) imposition of CD/SD on imports; (b) withdrawal/reduction of SD on domestic production; and (c) reduction of CD in imported input
- Imposition of 60% SD on imported potato chips, increase CD to 10% on imported milk powder and reduction of CD over milk tanker,
- Exemption of CD over raw materials of paper and reduction of CD over acrylic yarn
- Increase SD over float glass and reduction of CD over cobalt dioxide for glass industry, and reduction of CD of raw materials for ceramic industry
- Increased specific duty on billet (adverse impact on real estate sector)
- Exemption of CD on alloy steel and exemption of RD on CR coils
- Imposition of CD over LPG cylinder, and reduction of import duty on generator parts

A number of proposed changes in the fiscal measures may have adverse impact on domestic industries

- Reduction of SD on imported SIM cards; reduction of SD on imported consumer goods (sweet biscuits, waffles and wafers, and rusks and toasted bread)
Proposed measures in support of poultry industry would contribute to rebuilding its competitiveness

- Tax exemption for another two years; reduction of duties on raw materials and spare parts; ADP allocation of Tk.3.65 crore for poultry farmers of 22 districts and Tk.1.52 crore for HPAI (avian influenza)

Changes in Total tax Incidence of Selected Products

<table>
<thead>
<tr>
<th>HSCODE</th>
<th>Description</th>
<th>Change</th>
<th>HSCODE</th>
<th>Description</th>
<th>Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>04021099</td>
<td>Milk And Cream In Granules Or Solid Forms ≤1.5% Fat, Conc. Or Sweetened, Nes</td>
<td></td>
<td>19.019053100</td>
<td>Sweet biscuits</td>
<td>-33.2</td>
</tr>
<tr>
<td>25171010</td>
<td>Flint/grinding pebbles imported by VAT registered ceramic products manufacturing</td>
<td>-26.2</td>
<td>19053200</td>
<td>Waffles and wafers</td>
<td>-33.2</td>
</tr>
<tr>
<td>28220000</td>
<td>Cobalt Oxides And Hydroxides; Commercial Cobalt Oxides imported by vat regd. iron/steel product &amp; transformer manufacturer industry</td>
<td>-20.1</td>
<td>19054000</td>
<td>Rusks, Toasted Bread And Similar Toasted Products</td>
<td>-33.2</td>
</tr>
<tr>
<td>72082730</td>
<td>imported by vat regd. iron/steel product &amp; transformer manufacturer industry</td>
<td>-0.8</td>
<td>20052000</td>
<td>Potatoes, Preserved Other Than By Vinegar Or Acetic Acid, Not Frozen</td>
<td>169.6</td>
</tr>
<tr>
<td>85131010</td>
<td>LED lamps including rechargeable LED lamps</td>
<td>-20.15</td>
<td>2081100</td>
<td>Unbleached Plain Woven Fabrics Of Cotton With &gt;=85% Cotton, &lt;=&lt;100g/M2</td>
<td>-32.4</td>
</tr>
<tr>
<td>85447000</td>
<td>Optical Fibre Cables Made Up Of Individually Sheathed Fibres</td>
<td>-23.25</td>
<td>5020010</td>
<td>Artificial filament tow imported by VAT registered manufacturing industries</td>
<td>-0.8</td>
</tr>
<tr>
<td>73110010</td>
<td>Containers For Compressed Or Liquefied Gas, Of Iron/Steel, &gt;5000l, Ckd</td>
<td>27.9</td>
<td>73110010</td>
<td>Containers For Compressed Or Liquefied Gas, Of Iron/Steel, &gt;5000l, Ckd</td>
<td>27.9</td>
</tr>
<tr>
<td>85423910</td>
<td>SIM card</td>
<td>-16.2</td>
<td>85235200</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
**SMEs**

- Proposed **rise in annual turnover ceiling from Tk 70 lakh to Tk 80 lakh** for tax purposes will reduce tax burden and would have positive implications for SMEs’ competitiveness.

- Increase investment ceiling of small & cottage industries from Tk.25 lakh to Tk.40 lakh for tax exemption: annual turnover from Tk.40 lakh to Tk.60 lakh: Positive initiative.

- Proposed upward revision of VAT eligibility on turnover of small traders, wholesalers and shopkeepers: May not have significant adverse impact because hike is not significant.

**Light Engineering**

- Reduction of CD on capital machineries & intermediate products will reduce overall production cost.

- Exemption of CD and RD on alloy pig iron, non-alloy pig iron, flat rolled products, carbon filter etc. will reduce production cost.
Industry

ADP Allocation in Industrial Sector

- Proposed allocation for the industrial sector in ADP14 is Tk.2313.9 crore which is 12% and 20.8% higher than ADP13 and RADP13 respectively
  - One single project i.e. Shahjalal Fertilizer Project received over 2/3rd of total allocation (43% to be competed by FY14)
- 40 projects will be implemented in FY14; inclusion of 1 new project (BSCIC Industrial Park, Bhairab)
  - Timely completion of projects remains a concern (e.g. strengthening and modernization of BSTI and SARSO); Time period is extended for 9 projects

ADP Allocation in SMEs

- Adequate allocation will be required for quick implementation of a number of projects: Sirajgonj Industrial Park (47%; FY15), Gopalganj (82%; FY14) and Mirsarai Industrial estate (81%; FY14)
- Progress in implementation of a number of projects is not up to the mark.: Comilla Industrial Estate (0.98%; FY14); BSCIC Special economic Zone (15%; FY15)
Industry

Export Promotion

- Proposed allocation of **Tk. 2,592 crore** (8% of total subsidy in FY14) as **export incentive**: Positive

- **Leather**: Proposed reduction of CD on selected inputs of leather (chromium, casein etc) is likely to reduce production cost
  - Leather Estate Project: Poor allocation for relocation of leather estate to Savar resulted in only 28% of completion of the project till now (original completion date: 30, June 2012)

- **Jute**: Proposed extension of timeline for exemption of 15% of the income tax for Jute Industries till June, 2015 will support newly set up industries
  - Slow progress as regards a number of projects: HYV jute and seed production project (36% till FY2014); Applied Jute Research project (52.5% till March, 2013)

- **Ship Building**: Proposed exemption of CD, SD and VAT for vessels above 5000 DWT capacity will facilitate domestic production of vessels up to 5000 DWT; exemption of duty and taxes above 5% on anchor chain, life boat, rafts will support local industry
Textiles and RMG: Proposed exemption of CD on acrylic yarn will make the fibre locally available at lower cost which will facilitate development of spinning mills
  - Reduction of SD for a number of woven/knit fabrics would reduce leakages through bond facilities and reduce smuggling

10 vocational institutes, strengthening of the knitted textiles colleges and support to RMG sector under BWTG programme should be properly implemented as per the revised timeline

Pharmaceutical Industry: Completion of API Industrial Park Project will be further delayed (48.5% in FY14; extended till 2015)
  - Reduction of duty on cartridge/membrane filter for the pharmaceutical industry was likely to benefit local companies
Significant downward revision of ICT budget in RADPFY13 (63%)

- ADP allocation for FY14: Tk.757.6 crore, 56.6% higher than FY13 and 153.2% higher than RADP for FY13

No mention about ICT Development Fund (Tk.700 crore) as mentioned in AL’s Election Manifesto

- ICT Skill Trust Fund has been proposed with an allocation of Tk.50 crore for skill development to train 10,000 professionals in next two years: Positive initiative

- Attention needed for timely completion of SASEC Information Highway, Software Technology Park, and connection to the 2nd Submarine Cable: HTP, Kaliakoir (FY16): Delayed; New timetable
Reduction of CD on computer accessories is appreciated (web camera, server rack)

- Proposed reduction of CD on optical fibre and its raw materials will help quality optical fibre to be available at cheaper price
- Reduction of SD on SIM cards will little impact on telephone sector; rather it would affect local SIM producers

Development of National e-governance architecture under A2I Programme needs to be expedited
A number of **tax proposals** will **benefit** different groups of stakeholders in the **capital market**

- **Withdrawal of 3% tax over extra premium** on listed company’s share’s face value: **withdrawal** of source tax
  - Total withdrawal of any interface between capital market and tax administration is not good
- **Withdrawal of 0.05% tax at source** in case of transfer of bonds
- **15% tax rebate on investment** in private mutual funds
- **Increased threshold limit** for tax-exempted dividend income (from Tk.5,000 to Tk.10,000)
- **Existing provision of exemption of gain tax** will **continue**

However, these facilities will have **limited impact** in stabilising the capital market
However, the timeline with regard to investment of **undisclosed money in the capital market discontinued** after 30 June 2013

- ‘**Financial Reporting Act**’ needs to be finalised soon
  - Effective functioning of demutualised stock exchanges needed

- **SEC should prepare a code of conduct for institutional investors** to encourage them towards long term investment
  - No mention about Tk.900 crore refinancing scheme
A total of 11 projects will be implemented under the labour and employment sector
- Total allocation: Tk.370.1 crore; 31% higher than RADP13

Fresh allocation has been made in several projects two years after their inclusion in the ADP: CPD had earlier proposed
- Reform and modernization of 3 industrial relations and 22 Worker Welfare Centres and 5 zonal and 4 regional offices of factory inspection authorities

Necessary allocation is required for other projects
- Reconstruction of Dhaka divisional labour office for multipurpose usage (Labour tower) and re-establishment and modernization of 8 labour welfare centres
Industrial Workers

- No mention about building dormitories for workers: Such projects could be implemented under PPP initiative
- Reduction of CD on fire extinguishers will support improvement of safer workplace in the industrial sector
- Project on ‘Promotion of social and environmental standard in the industries (PSCE)’ needs to be emphasized
- One would have expected some concrete information as regards measures to prevent re[eat Rana Plaza.
ADP allocation for power sector in FY14: Tk.9053 crore (17.2% of total allocation)
- 14.6% and 5.7% higher than ADP and RADP in FY13 respectively

A total of 54 projects will be implemented in FY14
- 5 power generation plants to be completed in FY14: capacity 1480 MW
  - Proper monitoring is required for timely completion of projects

Four private sector projects are ongoing: Chittagong (Mohra) 50 MW, Potenga, Chittagong 100 MW, Ghorarshal, Narshindi 100 MW, Ashugonj 50 MW: Proper monitoring is required

Proposed reduction of CD on solar lantern and LED lamp will help access by low income group people and will reduce kerosene subsidy

Exit plan for quick rentals is not yet clear
- Subsidy for power sector will remain high in FY14 (Tk.5500 crore (p))
The plan does not indicate significant diversification in energy sources as was originally envisaged.

Plan for Fuel Use (%) in Power Generation

<table>
<thead>
<tr>
<th>FY</th>
<th>Gas</th>
<th>Coal</th>
<th>Liquid Fuel</th>
<th>Water</th>
<th>LNG</th>
<th>Import</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012-13</td>
<td>76.42</td>
<td>2.86</td>
<td>18.69</td>
<td>2.12</td>
<td>--</td>
<td>--</td>
</tr>
<tr>
<td>2013-14</td>
<td>77.02</td>
<td>1.92</td>
<td>16.67</td>
<td>1.86</td>
<td>--</td>
<td>2.53</td>
</tr>
<tr>
<td>2014-15</td>
<td>79.37</td>
<td>1.66</td>
<td>12.5</td>
<td>1.66</td>
<td>--</td>
<td>4.82</td>
</tr>
<tr>
<td>2015-16</td>
<td>79.34</td>
<td>6.98</td>
<td>6.09</td>
<td>1.5</td>
<td>1.58</td>
<td>4.5</td>
</tr>
</tbody>
</table>

Source: Budget FY2013-14

Primary Energy: Gas

- Total allocation is Tk. 2255.0 crore in FY14; 40.2% and 62.7% higher than ADP and RADP in FY13 respectively
- A number of projects for gas exploration is being implemented: A number of IOC projects is expected to be completed by 2013: additional supply of 300 MMcf gas
- BAPEX need to be strengthened for on-shore gas exploration
In the 2013-14 budget speech, ‘Devolving power to the Local Government’ is reflected as one the three major issues. (other two being a. Special initiatives and b. Administrative Reform Program)

Local Government (Union Parishad) Act 2009; Local Government (Municipality) Act 2009 and Local Government (City Corporation) Act 2009, Upazila Parishad (Amendment) Act, 2011 have been passed which is a good step for decentralization of governance and increased people’s participation. However, it is to be seen how real empowerment follows.

Transfer of tasks to the upazila parishads supported increase coordination of activities; visible successes are yet to yield

Appointment of administrators at the district level may increase citizens involvement in the development activities, but how it fits in with the overall LG system is not clear.
Table: Allocation for LGD in the Total Budget (2008-09 to 2013-14)

<table>
<thead>
<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Local Government Division</td>
<td>12,961</td>
<td>13,220</td>
<td>12,433</td>
<td>10,393</td>
<td>10,909</td>
</tr>
<tr>
<td>% of total budget</td>
<td>5.83</td>
<td>6.98</td>
<td>6.48</td>
<td>6.45</td>
<td>6.67</td>
</tr>
</tbody>
</table>

Table: Growth rate of allocated total LGD budget

<table>
<thead>
<tr>
<th>Ministry/Division</th>
<th>Growth of 2013-14 over RB 12-13</th>
<th>Growth of RB 2012-13 over original 12-13</th>
<th>Growth of original 2012-13 over RB 11-12</th>
<th>Growth of RB 11-12 over original 11-12</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Govt. Division</td>
<td>-1.96</td>
<td>6.33</td>
<td>19.63</td>
<td>-4.73</td>
</tr>
</tbody>
</table>

- Over the last 5 years, the LGD allocation percentages of total budget were usually above 6%, while this year it declined to 5.83 percent of total budget.
- For the last two consecutive years, allocation in revised budget was enhanced over the original outlay.
- **Total allocation for LGD amount (12,961 crore) decreased** from last year (2012-13) revised budget (13,220 crore) by 1.96%
Table: Allocation for LGD in Annual Development Programme (2009-10 to 2013-14)

<table>
<thead>
<tr>
<th>Ministry/ Division</th>
<th>Budget 2013-14</th>
<th>Revised 2012-13</th>
<th>Budget 2012-13</th>
</tr>
</thead>
<tbody>
<tr>
<td>Local Govt. Division</td>
<td>11,195</td>
<td>11,274</td>
<td>10,815</td>
</tr>
<tr>
<td>% of total ADP</td>
<td>17.0</td>
<td>21.5</td>
<td>19.7</td>
</tr>
</tbody>
</table>

- Allocation for LGD in ADP remain stagnant, though the share has decreased from 21.5 percent to 17 percent of ADP.
- This trend was also observed in Development assistance -decreased from 5.56 percent to 2.95 percent.
- Talked about 11 lakh govt. officials are to be transferred to the district level administration, the reason for this, as explained difficult to understand and Only transfer does not make bureaucracy inspirational after all.
- Budget does not address the real issues of LG’s in- ensuring improved services to the people through capacity enhancement.
Decentralization of planning and the implementation of rural development plan at the district level will be compatible with the national objectives, regional requirements, local needs, peoples’ aspirations and technical and administrative constraints. A development administrative structure at the district level has to be built up which will have the dual function of planning and implementation of rural development programmes.

**District Budget for Tangail is 0.75% of the total national budget**

Out of the 56 ministries, expenditures of 39 are involved in the Tangail district budget.
## District Budget

<table>
<thead>
<tr>
<th>Major Areas of Expenditure</th>
<th>As a percentage of Total District Budget</th>
</tr>
</thead>
<tbody>
<tr>
<td>Education</td>
<td>17.06</td>
</tr>
<tr>
<td>Primary and Mass Education</td>
<td>11.40</td>
</tr>
<tr>
<td>Disaster Management and Relief</td>
<td>8.76</td>
</tr>
<tr>
<td>Local Government</td>
<td>8.71</td>
</tr>
<tr>
<td>Health and Family Welfare</td>
<td>8.32</td>
</tr>
<tr>
<td>Food</td>
<td>6.61</td>
</tr>
<tr>
<td><strong>Cumulative share of the top six</strong></td>
<td><strong>60.86</strong></td>
</tr>
<tr>
<td>Total Development</td>
<td>33.16</td>
</tr>
<tr>
<td>Total Non-Development</td>
<td>66.84</td>
</tr>
</tbody>
</table>
District budgets are implemented in India and Nepal among other countries.

It will allow the government to have greater control over district administration and hence, could result in more efficient use of resources and better implementation of law and order.

This is a good initiative by the government. However, the government must be able to craft district budgets as per the needs of the district when the Tangail experiment is replicated in all 64 districts.

The government must also ensure transparency and accountability of 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, practices relating to budgeting for disadvantaged sections and practices relating to fiscal decentralisation.
Social Sector
In FY2014, 23.17% of budget is allocated to social infrastructure sector, of which 19.6% is proposed for Human Resource Sector (education, health, and other related sectors).

Human Resource Sector receives 23% of ADP allocation for FY2014.

In FY2014, Tk. 25,093 crores (11.28% of total budget) have been allocated for the education sector.

- It was Tk. 18,360 crores (9.70% of total budget) in FY2013.
- The allocation is 2.11% of GDP in FY2014 compared to 1.77% in FY2013.

In ADP FY2014, only one project is newly added out of 106 projects related to Education and Religious (of which 85 investment projects and 21 technical assistance projects).
**Initiatives to be taken to eradicate illiteracy by 2014**

- Raise teacher-student ratio
- Set guidelines for inclusive education for all
- Implement Primary Education Development Program-3 (PEDP-3)
- Establish Primary Teacher Training Institutes (PTIs)
- Plan to bring more than 7 lakh children under the ‘Education for All’ program between 2013 and 2017
- Establish of model schools at upazila levels

**Successfully Implemented Initiatives**

- 100% free books at primary level
- Nationalization of 26,193 registered private, community and other primary schools
- Schooling programme for urban working children
- Enacted Private University Act, 2009
- 100% 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’
- Initiatives taken to nationalize the jobs of 1,03,845 primary school teachers.
Health

- Allocation for FY2014 is Tk. 9,470 crores or 4.26% of total budget as opposed to Tk. 8,150 crores (4.3% of total budget) in FY2013.

- This is about 0.79% of GDP which is lower than previous year’s share (less than 1% of GDP).

- In the ADP of FY2014, only 3 new projects have been initiated for Health, Nutrition, Population and Family sector (total 45 projects of which 35 investment projects, 8 technical assistance projects and 2 JDCF projects).
Health

Major Achievements

- National Health Policy 2011 has been formulated
- Child mortality rates reduced to 53 per thousand live birth in 2011 from 65 per thousand in 2008
- Proposal has been made to enhance the existing value slabs of cigarettes from premium to lower segment by 21.21%, 19.32%, 13.13% and 15.70% respectively
- Implementation of e-Health programme and internet connection to 800 government hospitals and medical centers
Gender Budget at a Glance

- Allocation for gender budget in FY2014 is Tk. 61567 crore which is 5.18% of GDP.
- Gender related expenditure has increased to 27.67% of total budget in FY2014 compared to 26.26% in FY2013.
- However, allocation for the Ministry of Women and Child Affairs has been reduced to 0.65% of total budget in FY2014 as opposed to 0.70% in FY2013.
- Gender budget for 40 ministries (FY2014) has been proposed as against 25 ministries in FY2013. However except for Education, Health and Rural Development, in most cases, development of women is only vaguely related to the priority spending programmes.
Special Initiatives for Women

- Allocation of **Tk. 80 crores in Women Development Fund** for female entrepreneurs
- In FY2014, Tk. 364.32 crores have been allocated for the allowance of 10 lakh widows and divorced/abandoned women’s allowance. This is 10% higher than FY2013
- Tax free income threshold for women has been increased to Tk. 250,000 for Tk. 225,000
Allocation for Children in the Budget

- Investing in children is equivalent to investing in the future
- Children have given improved allocation compared to recent years
  - 4.7% of total budget in FY14 (this was 3.6% in FY2013, 4.6% in FY2006)
  - 0.9% of GDP in FY2014 (revised upward from 0.7% in FY2013)
- Figures include both projects under ADP and SNPs from non-development budget. Projects concerning children directly and indirectly are included in the calculations. For example, projects for maternal health are included as these can indirectly affect the child’s health
Social Safety Net Programmes
Social Safety Nets

Social Safety Net Programmes (SSNP) Receive Lesser Attention

- In FY2014, allocation for social safety net programmes (SSNPs) is Tk. 25371.35 crores, which is 11.4% of budget and 2.13% of GDP.
  - This is higher than the allocation in FY2013 (in nominal terms), but lower in terms of percentage share of budget and GDP.
  - Total beneficiary under coverage (lakh-person) decreased by 4%.
  - Only 5 new programmes added, 5 slashed but 33 of the continuing programmes got lower allocation than in FY2013.
- Additional Tk. 4800 crores are needed for SSNPs to achieve 3% share of GDP by 2015.
- Consolidation of SSNPs is needed in terms of programme allocation and selections.

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</thead>
<tbody>
<tr>
<td>Allocation for SSNP (Crore Tk.)</td>
<td>13845.27</td>
<td>16705.81</td>
<td>20893.52</td>
<td>21975.23</td>
<td>23097.52</td>
<td>25371.35</td>
</tr>
<tr>
<td>SSNP, Percentage of Budget</td>
<td>14.71%</td>
<td>15.12%</td>
<td>16.07%</td>
<td>13.63%</td>
<td>12.2</td>
<td>11.40%</td>
</tr>
<tr>
<td>SSNP, Percentage of GDP</td>
<td>2.25%</td>
<td>2.42%</td>
<td>2.64%</td>
<td>2.40%</td>
<td>2.23</td>
<td>2.13%</td>
</tr>
<tr>
<td>Social Empowerment, % of Budget</td>
<td>2.64</td>
<td>2.95</td>
<td>3.18</td>
<td>3.18</td>
<td>2.97</td>
<td>2.49</td>
</tr>
<tr>
<td>Social Empowerment, % of GDP</td>
<td>0.4</td>
<td>0.47</td>
<td>0.52</td>
<td>0.52</td>
<td>0.54</td>
<td>0.47</td>
</tr>
<tr>
<td>Social Protection, % of Budget</td>
<td>12.07</td>
<td>12.16</td>
<td>12.89</td>
<td>12.89</td>
<td>9.23</td>
<td>8.92</td>
</tr>
<tr>
<td>Social Protection, % of GDP</td>
<td>1.85</td>
<td>1.95</td>
<td>2.12</td>
<td>1.88</td>
<td>1.68</td>
<td>1.67</td>
</tr>
</tbody>
</table>
Social Safety Nets

- Allocation for food security programmes in FY2014 is Tk. 6998.08 crore, which is:
  - 3.14% of total budget
  - 27.58% of total SSN budget
  - 0.68% of GDP

- Lower budget allocation for OMS (-10.98%); VGD (-0.91%) and FFW (-2.39%) than that of FY2013 due to stable market price of rice.
In budget FY2014, allocation in 10 major programmes under Employment Generation Programme (EGP) is Tk. 1738.50 crore which is:
- less than 1% of total budget
- only 0.14% of GDP

In FY2014, total EGP’s coverage decreased by 33.64% from FY2013.

Within EGPs, ‘Employment Generation for Ultra Poor’ is the top programme in terms of its allocation (Tk. 1400 crore)

Allocation for ‘Employment for Ultra-Poor in Northern Region’ in FY2014 reduced to 0(zero) from Tk. 15.31 crore in FY2013

Eleven (11) programmes have no allocation in FY2014

National Services programme does not provide any guarantee for permanent employment
Election Pledges and Reforms
Implemented and Ongoing Policies/Programmes: Reforms in Economic and Legal/Institutional Sector

- **Implemented Programmes (335):** More reform programmes in economic areas (217) than the legal and institutional reforms (118);

- **Ongoing Reform Initiatives (260):** Reforms in economic areas (235) are more than the legal and institutional reforms (25);

- The number of ongoing reform initiatives are not more than the completed programmes but still the number is big.
Election Pledges and Reforms

**Major Missing Programmes:**
Some programmes should have been completed by 2013

- Digitisation of Land Registration
- Establishment of Economic Zone
- Establishment of Competition Commission
- Formation of Accreditation Council to monitor education standard of the private universities
- Construction of Dhaka Elevated Express Way Railway Sector Project
- Construction of Dual Gauze Double Lines between Dhaka-Tongi, Joydevpura and Dhaka-Narayanganj
- Construction of Elevated Express from Hazrat Shahjalal International Airport to Chandra, Dhaka - Ashulia
Election Pledges and Reforms

Major Missing Programmes:

- Approval of Anti Corruption (Amendment) Bill
- Construction of Tunnel in the Karnaphuli River, Chittagong
- Amendment of Bangladesh National Building Code
- Refinancing facilities to SME sector
- Strengthening of Local Government by decentralisation of the Central Government
- Enforcement of Performance Based Evaluation System
- Formulation of Civil Service Act
Concluding Remarks
Key Challenges of Implementation of Budget FY2014

- FY2014 will be operationalised at a time when three governments are expected to successively take charge of implementing the Budgetary proposals.

- A key deciding factor from the perspective of implementation of Budget FY2014 will be whether the budget will be front-loaded or back-loaded. How much effort the outgoing government will put in its residual tenure.

- The current political uncertainties will likely 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.

- Bangladesh has not been able to attain more than 7% GDP growth in the past. Attaining the targeted growth of 7.2% will critically hinge on raising investment-GDP ratio and lowering capital-output ratio. Both of these will be a challenge and will call for important departure from BAU scenario, will not work. This will call for significant breakthrough in terms of resource generation, resource allocation, efficacy of resource use and efficacy of development administration. Will there be a appetite for all these in an election year?
Key Challenges of Implementation of Budget FY2014

- Performance of Bangladesh economy is still predominantly dependent on stimulating **domestic demand** (about 85% 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 FY2014.

- The issue of **Padma Bridge financing** and the generation of the required resources and its likely implications for fiscal-monetary management will likely remain a continuing distraction in FY2014.

- Target for **revenue mobilisation by the NBR** has been set at high levels (particularly in view of 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.
Key Challenges of Implementation of Budget FY2014

- Public sector investment has performed well in FY2013. Further improvement on this will require significant effort on the part of government machinery towards better coordination, higher efficacy of implementation, coordination between fiscal and monetary policies and measures.

- 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, infrastructure will remain key to attracting private sector investment. Inspite of the progress made in 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).
Key Challenges of Implementation of Budget FY2014

- A major challenge will be mobilising the required 3.8 billion dollar of foreign aid for underwriting the deficit financing. The second challenge here will be the 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 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 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.
GOOD LUCK