



# A SET OF PROPOSALS FOR THE NATIONAL BUDGET FY2015

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# 1. INTRODUCTION

- ┆ Bangladesh economy experienced a high degree of volatility during the first half (H1) of FY14 in the backdrop of the political movement
  - ┆ Many of the important macroeconomic correlates evinced disquieting trends in the H1 of FY14
- ┆ Possible slowdown in economic growth, for the third consecutive fiscal year
  - ┆ Likely to drag the GDP growth rate below the threshold of 6 per cent
- ┆ The economy is still to regain its lost momentum as it gets on with the Q4 of FY14
- ┆ The expectation from the national budget for FY15 will be to help rejuvenate of the performance of major macroeconomic correlates and support growth dynamism through appropriate fiscal-budgetary measures and initiatives



# 1. INTRODUCTION

CPD budget proposals for FY2015 focus on a number of key areas:

- **An assessment of macroeconomic developments in FY14 and recommendations for macroeconomic policy stance for FY2015**
- A review of the **state of investment situation** and proposals towards pick-up in investment
- Fiscal-budgetary recommendations on issues related to the **rural economy**
- Proposals for **strengthening social protection** in Bangladesh
- **Non-economic issues** that need to be taken cognisance of to realise FY2015 budget proposals



## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Macroeconomic Trends in FY14*

- i The **looming uncertainties afflicting business and investment outlook has continued to persist** with adverse implications for major performance indicators
- i Export growth: Q3: 3.9%; H1: 16.6%
  - i During the Q1-Q3: 12.0%; Slipped below the annual target: 12.9%
  - i During Q3 of FY14, growth of export earnings from RMG products experienced a sharp decline
  - i The recent trends of export earnings from both RMG and non-RMG products call for careful scrutiny
- i Import growth: Jan-Feb: 8.3% H1: 10.6%
  - i Import of consumer goods (other than foodgrains) experienced a sharp decline ((-) 22.3%)
- i NBR revenue growth: Jan-Feb: (-) 0.1% H1: 5.5%
- i Growth of remittances inflow returned to the positive terrain after 6 months in February FY14 (0.1% growth); H1: (-) 8.5%



## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Macroeconomic Trends in FY14*

- | Possibility of economic turnaround in the near future also looked somewhat uncertain as the indicators related to **investment failed to show signs of improvement**
- | Private sector credit growth: end of Feb: 10.7%; end of Dec: 10.6%
- | Capital machineries import growth: Jan-Feb: (-) 1.4%
- | The gap widened as regards implementation rate of ADP in Q3
  - | Q3 FY14: 16%; Q3FY13: 19%



## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Macroeconomic Trends in FY14*

- | **Overall trends in macroeconomic correlates indicate** that the economy is, as of now, at somewhat of a **stabilised state**
- | Inflation rate remained closer to the target
  - | Mar: 7.5%; Target: 7.0%
  - | Food inflation continued to soar and non-food inflation declined
  - | Reflection of slowdown of domestic demand originating from stable exchange rate and global commodity and fuel prices
- | BoP remained within comfort zone
  - | Jul-Feb: USD 3.3 bln surplus
  - | Thanks to the resilient growth of export earnings and the lower growth of import payments





## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Macroeconomic Trends in FY14*

- i Fiscal deficit remained within the programmed
  - i Financing mix continued to rely mainly on domestic sources
  - i From domestic sources: Jul-Feb FY14: 94.7%; Jul-Feb FY13: 57.1%
  - i NSD Net sale : Jul-Feb FY14: Tk. 6,246 crore; Target: Tk. 4,971 crore
  - i Excess liquidity: as of end Jan: Tk. 94,855 crore
- i It is anticipated that the national budget for FY15 will face a daunting task in instilling momentum of the Bangladesh economy
- i The stabilised state of the macroeconomic situation will help to undertake the needed countercyclical policies

Fiscal policy package for FY15 will need to go for **consolidation of public expenditure** with prudent **prioritisation**, an **intensification of revenue mobilisation drive**, and paying **closer attention to financing of fiscal deficit** with **greater emphasis on foreign financing**



## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Recommended Macroeconomic Stance for FY15*

#### Fiscal measures and revenue mobilisation

- ┆ A pragmatic approach should be taken in planning FY15 revenue targets
  - ┆ NBR target hinted to be set at Tk. 149,700 crore
  - ┆ In that case, 19.8% growth will be required over revised target of FY14
  - ┆ NBR tax revenue mobilisation for FY15 may prove to be rather ambitious
- ┆ The government may consider the following proposals
  - ┆ *First*, the government should **revisit and rationalise the tax incentive structure**
    - ┆ It is also important to account for, analyse and publish the revenue foregone emerging from these tax incentives and should be tied with the intended objectives
    - ┆ May consider phasing out the tax holiday while considering renewal of (quick) rental power plants



## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Recommended Macroeconomic Stance for FY15*

- i *Second*, NBR needs to be **vigilant to curb tax evasion** emerging from trade mispricing, re-invoicing and misdeclaration
  - i Specialised taskforce should be set up; a number of public institutions (e.g. NBR, Bangladesh Bank and others) will need to act in a coordinated manner
- i *Third*, the government will have to put emphasis on **collection of wealth tax surcharge**
  - i Particularly important from the perspective of establishing economic and social justice
  - i need to review valuation of wealth, particularly those of real estates (both land, house and flats)
  - i NBR needs to design an action plan for FY15 to bring tax defaulters and dodgers under tax net



## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Recommended Macroeconomic Stance for FY15*

- i *Fourth*, there is a growing allegation that a number of **non-Bangladeshi citizens** are working in Bangladesh, without any proper paperwork and **without paying the due income taxes**.
  - i This issue needs to be investigated and corrective measures should be taken
- i *Fifth*, to continue ongoing implementation strategy of the forthcoming VAT law
  - i Government will need to introduce an awareness raising plan among the stakeholders
  - i NBR will also have to explore the possibility of expanding the VAT net particularly in the services sector
  - i Government need to consider raising the threshold for turnover tax to safeguard the interests of small traders and entrepreneurs
- i *Sixth*, the NBR chairman informed that, the government plans to reduce the number of items that face **supplementary duties** from 1,362 to 170 by 2015
  - i NBR should consider both economic benefits and possible revenue loss
- i *Seventh*, government will have to explore new ways to tap **non-tax revenues**
  - i formulation of a 'leasing policy of public property' (similar to 'toll policy') is needed on an urgent basis



## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Recommended Macroeconomic Stance for FY15*

#### i Public expenditure

- i The pattern of budgetary expenditure for FY15 needs to be planned in a prudent way
- i The size of the budget for FY15 will be to the tune of **Tk. 248,000 crore**
- i The demand for subsidy is likely to be within the limit in the backdrop of stable international prices
  - i The government needs to carefully plan the price adjustments of fuel and electricity during FY15 particularly in view of cost of production
- i Allocation demand for non-development expenditure may see some rise in view of a number of special circumstances in FY15
  - i An additional Tk. 6,000 crore has been sought for further recapitalisation of the SCBs
  - i The pay scale for public servants is also expected to be revised upward
  - i The rising demand from domestic debt servicing liability is likely to continue
- i Allocation for non-development expenditure needs to be prioritised and rationalised with caution



## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Recommended Macroeconomic Stance for FY15*

- i For development expenditure, there should be a priority guideline towards quality implementation of the large projects
- i Emphasis should be given on utilisation of the foreign aid component of the projects to ensure high rate of implementation of the ADP
  - i Capacity of the line Ministries should be enhanced
- i Padma Bridge project: it is important to re-estimate the project cost and the tolls to be fixed
  - i The awarding process of the contract should not compromise on the issue of quality and transparency
- i Small projects taken under political consideration only increases the size of the ADP and undermines the quality of development spending
  - i Number of ADP projects needs to be rationalised given the capacity of the agencies



## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Recommended Macroeconomic Stance for FY15*

- | Financing of budget deficit
  - | **Accommodating the envisaged budget deficit** (excluding grants) within 5% (of GDP) would be a welcome initiative from the perspective of macroeconomic management
  - | **Financing structure of budget deficit** will be a challenge for the Government
    - | Without significant improvement in investment climate, depositors may help government mobilise a higher amount of money from net sales of NSD certificates
    - | Existing significant amount of excess liquidity will help to accommodate the required financing in the form of 'government bank borrowing'
    - | Major challenge will be to cater envisaged financing from foreign sources, particularly in the form of foreign borrowing
      - | amortisation payment may continue to rise
    - | Government has already sought budgetary support from the World Bank for FY15
  - | **Budget deficit financing mix** will be a prudent strategy both in terms of budgetary discipline as well as debt-servicing liabilities



## II. MACROECONOMIC BACKDROP IN THE RUN-UP TO THE NATIONAL BUDGET FOR FY2015

### *Recommended Macroeconomic Stance for FY15*

- i Supportive macroeconomic policies
  - i Successful implementation of the budget for FY15 will require a set of complementary macroeconomic policies
  - i The central bank should maintain stability of the value of BDT and avoid its appreciation
  - i It will be advisable to set the macroeconomic targets for FY15 in accordance with emerging realities and streamline the targets for the subsequent years while preparing medium term macroeconomic framework





## III. MANUFACTURING SECTOR

- i **Production:** Significant volatility over the past year (L&M industries: 16.9% in FY10; 9.4% in FY13)
  - i Slowdown in growth during the pre-election period (July-December, 2013)
  - i Good performance of some of the key sectors (apparels, pharmaceuticals and food processing) has contributed to maintaining noteworthy growth
  - i Performance of largely 'domestic market-oriented industries' was comparatively 'poor' during the pre-election period
- i **Private Investment:** Growth of private investment has been sluggish over the last year (7% in FY13 followed by 18.4% in FY12); continued in FY2014
- i Investment is yet to gain momentum in the post-election period due to unfavourable business environment
  - i Economy is moving from the phase of political unrest to the phase of political uncertainty of the post-election period



## III. MANUFACTURING SECTOR

**Public investment:** A high rate of growth during the last two years (32.8% in FY12 and 36.5% in FY13); could not be maintained in FY14

- i The weak state of private investment in the current fiscal year portrays a rather 'limited' crowd-in effect of public investment
- i Long term investment targets as envisaged in the SFYP have become rather 'illusionary' (41.1% during FY14 and 20.1% in FY15)
- i Limited impact of positive global economic outlook (growth of world trade 4.7%<sup>P</sup> in 2014 and 5.3%<sup>P</sup> in 2015)

### Factors Responsible for Sluggish Investment

#### Supply side factors

- i Severe disruption in industrial production due to prolonged violence and nation-wide strikes during pre-election period
- i Lack of enabling business environment in the pre-election period seriously damaged investors' confidence



# III. MANUFACTURING SECTOR

## Supply side factors

- i Public investment for development of physical infrastructure is lagging behind the demands of the private sector
- i 'High' bank lending rates in the backdrop of 'high' risks due to political uncertainties and 'additional' costs arising out of lack of the needed infrastructural facilities

## Demand side factors

- i Consumers' confidence has been slack - slowing down of economic growth and weakened purchasing capacity
  - i a) Pressure of moderate to high inflation in the previous years; b) negative growth in the inward flow of remittances; c) temporary/permanent unemployment due to closure of factories during the pre-election period
- i Slowdown of growth in employment in recent period – a) domestic market b) external job market.



# III. MANUFACTURING SECTOR

## Proposals for the National Budget 2014-15

### *Fiscal and budgetary measures for reducing supply side constraints*

- | Supportive fiscal measures to create an enabling business environment towards enhanced production and higher investment
  - | Expansion of subsidized credit facility for domestic market-oriented SMEs
  - | Special incentives for non-RMG export-oriented industries to improve their competitiveness in export markets
  - | Expansion of 'Export Development Fund'
  - | Assessment of tax holiday facility - preferable to go for selected 'strategically' and 'potentially' important sectors
- | Fiscal measures for a set of targeted industries: increase the VAT exemption limit for SMEs; reduction of import duty on raw materials used in furniture, pharmaceuticals and ICT sectors



# III. MANUFACTURING SECTOR

## Proposals for the National Budget 2014-15

### *Fiscal and budgetary measures for reducing supply side constraints*

- ¡ Strengthen monitoring of the 'fast-tracked' projects from the perspective of timeliness as well as quality of implementation
  - ¡ Padma multipurpose bridge, Rampal thermal power plant, Ruppur nuclear power plant, metro rail, deep sea port and LNG terminal
  - ¡ However, the rationale of a number these projects (e.g. Rampal thermal power plant and Rooppur nuclear power plant) is debatable.
- ¡ A number of other ADP projects also need faster implementation
- ¡ Dhaka-Chittagong four-lane highway; large scale power plants, expansion of gas connection in the industrial zones, on a priority basis; establishment of Special Economic Zones (SEZs); completion of Kaliakoir High-tech Park, completion of central ETP in the Leather city at Savar and shifting of leather factories from Hazaribagh etc.



# III. MANUFACTURING SECTOR

## Proposals for the National Budget 2014-15

### *Fiscal and budgetary measures for reducing supply side constraints*

- | Expediting the tendering process of the remaining off-shore gas blocks
  - | Needed resources should be allocated to build the infrastructure for the coal-fired electricity projects
  - | Needs to come out with an 'effective' exit plan for the quick rental plants
- | Need proper attention on lack of adequate supply of skilled workforce
  - | 'Skills for Employment Investment Programme (SEIP Phase I)' for human resource development in six sectors is a welcome initiative (Tk.1050 cr.)
  - | Increased budgetary allocation for education at high school, college and university levels for developing human resource
- | Imposition of additional 10% penal tax on tax-free incomes for companies enjoying tax holiday facilities but not investing in the capital market



# III. MANUFACTURING SECTOR

## Proposals for the National Budget 2014-15

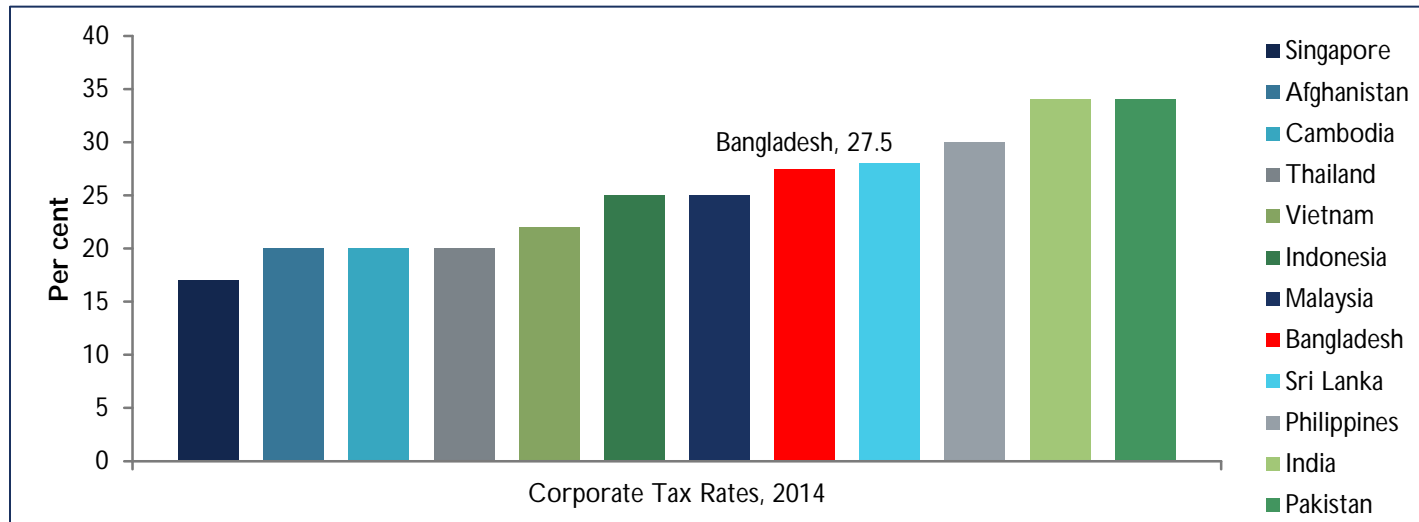
### *Fiscal measures for reducing demand side constraints*

- ⌋ A major challenge will be to improve consumers' confidence by addressing demand side constraints through appropriate fiscal measures
- ⌋ Upward revision of the exemption limit for personal income tax (from Tk.220,000 to Tk.300,000) with concomitant adjustments in other slabs
  - ⌋ Increase in the tax exemption limit of house rent of individual tax payers
- ⌋ Logic of lowering the corporate tax rate calls for close examination
  - ⌋ Corporate tax rate of Bangladesh is one of the lowest in South Asia which is close to that of South East Asian countries
  - ⌋ Reduction of corporate tax rate may not have adequate positive impact on investment in the backdrop of overt dependence on debt-based financing
  - ⌋ Without having conducive business environment an increasing investible surplus will likely have only a limited impact on investment



### III. MANUFACTURING SECTOR

Figure 1: Corporate Tax Rates in South Asia and South East Asian Countries



Source: KPMG Database

- i Government may consider the option of not going for upward revision of tariffs on gas, CNG and other public utilities
  - i Adverse implications for consumers' non-food expenditure
  - i Encourage flow of funds through formal channels
  - i Need measures to reduce the cost of transfer of funds





## III. MANUFACTURING SECTOR

### *Monetary policy stance*

- Central Bank should examine the process of determination of deposit and lending rates and interest rate spread by the commercial banks
  - So-called 'market-based' approach in determining those rates appears to be not 'functional'

### *Other measures*

- Board of Investment (BoI) should be reorganised appropriately with a view to transform it into an 'effective' investment promotion agency
- Ministry of Labour and Employment (MoLE) should be considered as one of the 'core' ministries in the portfolio of the government
  - MoLE should be vested with necessary funds to put in place measures set out in the National Action Plan (NAP)
- Take necessary steps to finalise the 'Draft Financial Reporting Act'
- Strictly enforce the 'mandatory packaging act' for the selected agricultural products with a view to expand the domestic market for the jute goods



## IV. RURAL ECONOMY

### Overview

- ┆ In FY14, rural economy (agriculture and allied sector) received Tk. 17,471 crore which is **2.3% of total GDP** of FY14
  - ┆ The allocation was 11.9% lower than FY13
- ┆ Lower fertiliser price in international market is expected to reduce expenditure for fertiliser subsidy in the current year
  - ┆ During July13-March14, the average international price of **DAP** came down by **20%**, **TSP** by **25%**, **Urea** by **17%** and **MoP** by **19%** compared to the same period in the previous year
- ∅ CPD estimates show that given the current administered prices, **the government would require about Tk. 3,050 crore** as fertiliser subsidy against the allocation of Tk. 9,000 crore as agricultural subsidy in FY14



## IV. RURAL ECONOMY

### Overview

- Implementation of the development budget for agriculture and allied sector has remained poor till the last reported month
- During the first eight months of the fiscal year, only 36.7% (Tk. 1,548 crore) of total development budget for the sector was spent. Expenditure for the
  - Ministry of Land was 14.4 % (lowest) and
  - Ministry of Fisheries and Animal Resources 39.2% (highest)

*If this pace is any cue, timely implementation of the development projects will be a major challenge in the coming budget.*



## IV. RURAL ECONOMY

### Agriculture, Food Security and Food Safety

- i Consumer preference towards wheat is increasing in Bangladesh. During FY05-FY09, average wheat consumption was 2.7 MMT which increased to 3.8 MMT during FY10-FY14
  - i Budgetary allocation should be made for the DAE to **extend wheat cultivation** in the areas where weather is favorable for wheat growing
  - i Budgetary allocation could be made for the BARC to **innovate high yielding wheat varieties** suitable for Bangladesh
- i **Production and promotion of high-value crops** such as oilseeds, pulses, spices and fruits are important from both nutritional and food security perspectives. More allocation for production of these crops are needed
- i In order to adapt to the impact of climate change, special allocation should be made to **innovate and promote crop varieties which are salt and submergence-tolerant as well as drought tolerant and water efficient**



## IV. RURAL ECONOMY

### Agriculture, Food Security and Food Safety

- i In order to ensure fair price at both grower and consumer levels, an **Agricultural Price Commission** needs to be set up with adequate resource allocation
- i Funds should be allocated for establishing a **Food Safety Authority** which will play a major role in implementing food safety rules and regulations. The authorities could have a **Food Safety Inspection and Monitoring Cell** with modern equipment and adequate human resources
- i Government should set up **Agriculture and Food Safety Court** in each district which will deal with food safety, agro-market manipulation, and agro-input adultery related litigations
- i In order to protect farmers from climatic risks, and rural entrepreneurs from unexpected shocks, government should think about establishing a **Rural Insurance Entity**



## IV. RURAL ECONOMY

### Agriculture, Food Security and Food Safety

- i **Agricultural Call Centers** could be initiated in each union under the supervision of DAE and DAM in cooperation with TeleTalk. The centre would provide tele-help to farmers as regards cultivation and marketing related issues
- i Export of processed agro food e.g., pineapple canning, mushroom growing and dried food is discouraged by sanitary and phytosanitary issues. To overcome the challenge, adequate funds should be allocated towards **strengthening the capacity of BSTI**
- i Price volatility in potato market has been a common feature in Bangladesh. To reduce this, emphasis should be given to **establishment of more cold storage facilities in the bumper producing areas** such as Munsigonj, Rangpur, Bogra, and Rajshahi



## IV. RURAL ECONOMY

### Livestock, Poultry and Fisheries

- i Poultry farmers are currently exempted from income tax; this should be continued in view of the difficulties faced by the sector. Moreover, **duty free import facilities for poultry feed** may be continued
- i Existing 25% custom duty on import of chicks and eggs should be continued in order to encourage local poultry farmers
- i Due to the alarming levels of pollution in open water bodies, the fishery sector is under risk. Implementation of environmental laws and introduction of **Water Pollution Tax** are therefore needed to protect fisheries



## IV. RURAL ECONOMY

### Land and Water Resources

- i **Digitalization of existing land recording system** will reduce hassles experienced with land registration and will hastens its pace. Ministry of Land has taken a pilot project to digitalize land recording system in Bangladesh. The initiative needs to be expanded all over the country
- i In order to protect the rapid depletion in ground water level, funds should be allocated for **re-excavation of canals** to increase the navigability. Also, funds should be allocated for **renovation of dams**, particularly in the northern districts, to conserve the surface water for irrigation purposes
- i In order to replenish the diminishing soil quality, the government could think of putting in place **Soil Pollution Tax** on polluters. An **incentive mechanism** may be developed to encourage **adoption of organic and well-balanced fertiliser use**





## IV. RURAL ECONOMY

### Rural Infrastructure

- Government should establish **Information Technology Centers** with funds from development partners across rural areas in Bangladesh. These centers should have computers with high speed internet connection and be openly accessible to the rural population
- A climate change adaptation institute ( a possible name: **Bangladesh Climate Change Adaptation Institute**) needs to be established
  - It will coordinate adaptation activities and conduct necessary research to suggest appropriate adaptation strategies



## V. SOCIAL PROTECTION

- ¡ Social Protection Policy (SPP): broad based and multi-dimensional concept
  - ¡ labour market interventions and
  - ¡ provisions of various kinds of cash and non-cash transfer
- ¡ Social Safety Net Programmes (SSNP) in Bangladesh has been delimited to a few categories of support (VGD,VGF, OMS etc)
- ¡ Government has prepared a draft on National Social Protection Strategy (NSPS) for Bangladesh in 2014
- ¡ The allocation for the SSNPs has been falling over the years (2.5% of GDP in FY12 which came down to 2.1% in FY14)
  - ¡ Overall allocation to the SSNPs will need to be increased in Bangladesh in view of the rising demand



## V. SOCIAL PROTECTION

- ¡ The large number of SSNPs (95 in FY14) calls for addressing several issues including governance, institutional capacities, co-ordination, systematic monitoring and evaluation and other administrative issues
- ¡ Introduction of Management Information System (MIS) can be an important tool towards better management and effective delivery of the social protection programmes
- ¡ Funds should be allocated to introduce an electronic data base of the beneficiaries which will help track allocations, monitor progress and assess outcomes
- ¡ Employment Generation Programme for the Poorest (EGPP)
  - ¡ About 485 Upazilas have been brought under the coverage with 7 lac beneficiaries having been registered in each of the phases
  - ¡ Considering the number of poor people in Bangladesh (31.5% of the population in 2010), both allocation and coverage of social safety nets ought to be increased in a significant manner



## V. SOCIAL PROTECTION

- i Allocation of the Social Assistance programmes
  - i The current amount of old age allowance and for the widow, deserted and destitute is only Tk. 300 per month
  - i Considering the impact of inflation and rising living expenses, this amount should be increased to at least Tk. 500
  - i In Brazil, the average benefit per family under the *Bolsa Familia*, a well-recognized and successful social protection programme, was found to be significantly higher in a relative sense
  - i The allowance for the persons with disability should be increased from the current rate of Tk. 350 to Tk. 500
  - i Current allocation for the welfare of acid burnt and disable is **only Tk. one crore**
  - i Considering the high cost of treatment and vulnerability of those people, allocation here should be increased significantly



## V. SOCIAL PROTECTION

- i Block Allocation rose from only Tk. 6 crore in FY09 (0.4% of total SSNP allocation) to Tk. 1933 crore in FY14 (7.6% of total SSNP allocation)
  - i Block allocation is a cause of concern from the perspective of good governance since this type of allocation lacks transparency and undermines effectiveness of the expenditure
  - i Funds should be earmarked for specific projects to the extent possible
- i Government is planning to introduce a National Pension Scheme which will cover private sector employees by 2018
  - i It is expected that about 3.0 million officials and employees in the private sector will be covered under the national pension scheme
  - i Putting in place a universal pension scheme will call for adequate planning and appropriate design



## V. SOCIAL PROTECTION

- If Bangladesh is to move towards a comprehensive social protection, Government will need to consider putting in place an adequate insurance policy for workers as well
  - Group insurance for workers became compulsory for the owners under the Labor Law 2013
  - However, the respective part of the labor law is quite inadequate both in terms of related provision and the amount of money to be received by the workers
  - Bangladesh should also be a signatory to ILO Convention CO17 (worker's compensation convention)
- A broad based insurance for the flood victims may also reduce the vulnerability of the flood affected people



## V. SOCIAL PROTECTION

- | National Social Protection Strategy focuses on consolidating the lifecycle system of social protection
  - | In view of this, the school feeding programme, introduced on limited scale, should be further scaled up
  - | Since Bangladesh is lagging behind in terms of achieving MDGs in areas of malnutrition intake and stunting of children, this particular programme ought to receive due priority
  - | Implementation of school feeding and stipend programmes should receive similar attention particularly in view of the special needs of the students in the char and haor areas



## VI. IMPORTANCE OF THE NON-ECONOMIC FACTORS IN FY2015

- i Along with economic correlates, non-economic factors play an equally critical role in contributing towards socio-economic development of Bangladesh.
- i These underlying factors have assumed greater importance in the second half of FY2012-13 and have continued to matter in terms of their significance for the performance of the economy over the upcoming fiscal year.
- i Non-economic factors underpin social and political environment, indirectly affecting macroeconomic performance.
- i Some of these non-economic factors are structural in nature and had informed and influenced developmental outcomes for some time.





## VI. IMPORTANCE OF THE NON-ECONOMIC FACTORS IN FY2015

- ┆ “Traditional” non-economic factors may be broadly classified into three categories:
  - ┆ (i) weak implementation capacity of the state relating to, inter-alia, human resource management, devolution of power and autonomy and data/information availability and monitoring
  - ┆ (ii) weak oversight capacity relating to, inter-alia, rule of law, democracy and representativeness and control of corruption and leakages
  - ┆ (iii) weak capacity for reforms relating particularly to regulatory reforms, administrative reforms and legal and institutional reforms
- ┆ A number of “new issues” have emerged which impinge on delivery capacity of the government.
  - ┆ While such issues aggravate some of the traditional factors, on the other hand, new dimensions have been added by the continuation of the democratic disquiet in the backdrop of the recent non-participatory national elections.



## VI. IMPORTANCE OF THE NON-ECONOMIC FACTORS IN FY2015

- i *Implementation capacity* of the GoB has been historically inadequate.
  - i Weakness in the human resource management of the public sector is one of the foremost impediments to developmental progression.
  - i Effective autonomy of parastatals is hardly seen in practice.
  - i Inadequate processes and practices in the area of monitoring as well as information asymmetry constitute two core shortcomings of the current state of implementation capacity in Bangladesh.
  - i IMED suffers from acute resource shortage. When projects do get monitored this is usually done in terms of funds spent rather than the actually achieved results.
  - i Earmarked funds in successive ADPs have systematically remained underutilised. Lack of implementation capacities of the line ministries can be largely held responsible for this.
  - i However, corruption and bureaucratic procedures also contribute to the non-utilisation of funds.



## VI. IMPORTANCE OF THE NON-ECONOMIC FACTORS IN FY2015

- ┆ Low level of *oversight capacity* is another non-economic factor which remains a lingering concern
- ┆ In a general democratic setting, policies set by the legislature and implemented by the executive organs of the state are often monitored by the judicial and quasi-judicial bodies.
  - ┆ In Bangladesh, institutions belonging to the “national integrity system” including the Anti-Corruption Commission, Human Rights Commission and Information Commission have often remained inefficient (and often partisan).
  - ┆ Pervasive corruption and inadequate enforcement of rule of law are significantly undermining the economic growth prospect in general and the government’s ability to raise revenue and implement development projects.
  - ┆ The state of malgovernance affects the most disadvantaged sections of the society and by implication frustrates the anti-poverty stance of the development policies.



## VI. IMPORTANCE OF THE NON-ECONOMIC FACTORS IN FY2015

- i Regarding *reform capacity* of the Bangladesh government, it may be recalled that while a number of regulatory, administrative, legal and institutional reform proposals are being discussed for quite some time, implementation of these initiatives had been rather disappointing.
  - i Lack of political commitment has held back these proposals from being implemented in reality.
- i The “new non-economic factors” are in some sense due to extreme aggravation of the factors underlining the weak implementation, lax oversight and inadequate reform capacities of the state.
- i The emerging nature of the polity has further weakened the transparency and accountability process. In the absence of political predictability, lumpy and irreversible investments are shying away from the Bangladesh economy.



## VI. IMPORTANCE OF THE NON-ECONOMIC FACTORS IN FY2015

- i The following proposals can be considered for the upcoming FY2014-15 budget in view of the preceding discussion:
  - i The government should consider a Task Force to spearhead adoption of the pending reform measures including adoption of the Civil Service Act.
  - i Promotion of a civil service based on merit, informed by professionalism and free from political interference is a singular necessity for the development process to gather new momentum.
  - i Local government bodies are to be endowed with effective devolution of power and fiscal autonomy.
  - i Capacities of agencies implementing major public investment projects of the government should be strengthened.



## VI. IMPORTANCE OF THE NON-ECONOMIC FACTORS IN FY2015

- i The profile and capacity of the IMED should be enhanced so that it can deploy modern processes and techniques while monitoring the implementation of development projects.
- i The transaction costs of contract enforcement have to be reduced by improving the judicial processes and creating alternative dispute settlement mechanisms.
- i A participatory and pluralistic democratic polity, driven by an inclusive and credible national election, will be necessary to provide the much needed confidence to the investors.





THANK YOU

