CPD Working Paper 134

CPD's Recommendations for the National Budget FY2020-21

CENTRE FOR POLICY DIALOGUE

CPD's Recommendations for the National Budget FY2020-21

CPD Working Paper 134

Publisher

Centre for Policy Dialogue (CPD)
House - 6/2 (7th & 8th floors), Block - F
Kazi Nazrul Islam Road, Lalmatia Housing Estate
Dhaka - 1207, Bangladesh
Telephone: (+88 02) 58152779, 9141734, 9141703, 9126402, 9133530
Fax: (+88 02) 48110414
E-mail: info@cpd.org.bd
Website: www.cpd.org.bd

First Published May 2020

Disclaimer: The views expressed in this paper are those of the CPD IRBD 2020 Team alone and do not necessarily reflect the views of the CPD or its partners.

Citation: CPD. (2020). *CPD's Recommendations for the National Budget FY2020-21*. CPD Working Paper 134. Dhaka: Centre for Policy Dialogue (CPD).

ISSN 2225-8175 (Online)
ISSN 2225-8035 (Print)

Centre for Policy Dialogue (CPD) was established in 1993 as a civil society initiative to promote an ongoing dialogue between the principle partners in the decision-making and implementing process. Over the past more than 25 years, the Centre has emerged as a globally reputed independent think tank, with local roots and global reach. With a view to influencing policies, CPD deploys both research and dialogue which draw synergy from one another.

A key area of CPD's activism is to organise dialogues to address developmental policy issues that are critical to national, regional and global interests, with a view to seeking constructive solutions from major stakeholders. CPD involves all important cross-sections of the society in its dialogue process, including public representatives, government officials, business leaders, activists of grassroots organisations, academics, development partners and other relevant interest groups.

The other key area of CPD's activities is to undertake research programmes on current and strategic issues. Major research themes are: macroeconomic performance analysis; poverty and inequality; agriculture; trade; regional cooperation and global integration; infrastructure; employment, and enterprise development; climate change and environment; development governance; policies and institutions, and the 2030 Agenda for Sustainable Development.

As part of its global networking initiatives, CPD hosts the secretariat of the *LDC IV Monitor*—an independent global partnership for monitoring the outcome of the Fourth UN Conference on the LDCs. CPD was also the initial convener and founding host of the *Southern Voice on Post-MDGs*, a network of 50 think tanks from Africa, Asia and Latin America, which seeks to contribute to the ongoing global discourse on the SDGs. CPD was the Secretariat of Southern Voice during January 2013–June 2019. At present, CPD hosts the office of the Chair of the network. At the national level, CPD hosts the Secretariat of the *Citizen's Platform for SDGs, Bangladesh*—a civil society initiative that include more than 100 Partner organisations, founded with an objective to contribute to the delivery of the SDGs and enhance accountability in its implementation process.

Dissemination of information and knowledge on critical developmental issues is another important component of CPD's activities. Pursuant to this, CPD maintains an active publication programme, both in Bangla and in English. As part of its dissemination programme, CPD has been bringing out **CPD Working Paper Series** on a regular basis. Research work in progress, background papers of dialogues, investigative reports and results of perception surveys which relate to issues of high public interest are published under this series.

The present paper titled *CPD's Recommendations for the National Budget FY2020-21* has been prepared by the CPD IRBD 2020 Team. For any queries related to the paper, please contact: info@cpd.org.bd

The paper has been prepared under CPD's flagship programme *Independent Review of Bangladesh's Development (IRBD)*, as part of the project titled "Institutional Strengthening to Support Bangladesh's Dual Transition," which is being implemented by CPD, in partnership with the Embassy of Denmark in Bangladesh and the Embassy of the Kingdom of the Netherlands in Bangladesh.

The report is prepared based on CPD's budget proposals submitted to the National Board of Revenue (NBR) in April 2020, and the Ministry of Finance (MoF), Government of Bangladesh in May 2020. The report was earlier released at a virtual media briefing live streamed from CPD office in Dhaka on 9 May 2020.

Series Editor: *Dr Fahmida Khatun*, Executive Director, CPD.

CPD IRBD 2020 Team

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

Excellent research support was received from *Mr Md. Zafar Sadique*, Senior Research Associate; *Mr Mostafa Amir Sabbih*, Senior Research Associate; *Mr Muntaseer Kamal*, Senior Research Associate; *Mr Md. Al-Hasan*, Senior Research Associate; and *Mr Abu Saleh Md. Shamim*, Programme Associate; *Ms Nawshin Nawar*, Programme Associate; and *Mr Tamim Ahmed*, Programme Associate, CPD.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2020 Team.

Acknowledgements

The CPD IRBD 2020 Team would like to register its profound gratitude to *Professor Rehman Sobhan*, Chairman, CPD for his advice and guidance in preparing this report.

The CPD IRBD Team also expresses its sincere thanks to *Dr Debapriya Bhattacharya*, Distinguished Fellow, CPD for his support.

The Team gratefully acknowledges the valuable support provided by the Dialogue and Communication Division, CPD in preparing this report. Contribution of the CPD Administration and Finance Division is also highly appreciated.

The CPD IRBD 2020 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

Abstract

The national budget for FY2020-21 is going to be formulated at a time, when the Bangladesh economy, like other economies around the world, is suffering from the fallouts of COVID-19 pandemic. The government will need to pursue an expansionary fiscal policy and go for expanded public expenditure to help mitigate the risks and shocks originating from the pandemic, stimulate domestic demand and strengthen supply-side responses. This will lead to higher budget deficit. There must be renewed efforts for better mobilisation of resources and raising efficacy of public expenditure. The fiscal space to be created due to higher budget deficit should be used efficiently and with inclusivity, so that concerns of rising inequality are not further accentuated in view of COVID-19 response.

Contents

Acronyms

ACC	Anti-Corruption Commission
ACPR	Associates for Community and Population Research
ADP	Annual Development Programme
AIT	Advance Income Tax
BFIU	Bangladesh Financial Intelligence Unit
BIN	Business Identification Number
BPC	Bangladesh Petroleum Corporation
BSCIC	Bangladesh Small and Cottage Industries Corporation
CD	Customs Duty
CDC	Communicable Disease Control
CID	Criminal Investigation Department
CIID	Customs Intelligence and Investigation Directorate
CPD	Centre for Policy Dialogue
EFD	Electronic Fiscal Device
GDP	Gross Domestic Product
G-20	Group of Twenty
iBAS	Integrated Budget and Accounting System
IFF	Illicit Financial Flow
ILO	International Labour Organization
IMED	Implementation Monitoring and Evaluation Division
IMF	International Monetary Fund
IRBD	Independent Review of Bangladesh's Development
MoF	Ministry of Finance
MoHFW	Ministry of Health and Family Welfare
MoInd	Ministry of Industries
MT	Metric Ton
NBR	National Board of Revenue
NDC	Non-Communicable Disease Control
NID	National Identity (card)
NIPORT	National Institute of Population Research and Training
NSD	National Savings Directorate
NSPMLCFT	National Strategy for Prevention of Money Laundering and Combating Financing of Terrorism
NSSS	National Social Security Strategy
OECD	Organisation for Economic Co-operation and Development
OMS	Open Market Sales
PFM	Public Financial Management (Action Plan)
PPE	Personal Protective Equipment
QR	Quick Response (code)
RADP	Revised ADP
RMG	Readymade Garments
SD	Supplementary Duty

SDC	Sales Data Controller
SME	Small and Medium Enterprise
SSNP	Social Safety Net Programme
TDS	Tax Deducted at Source
TIN	Taxpayer’s Identification Number
TPC	Transfer Pricing Cell
TTI	Total Tax Incidence
VAT	Value Added Tax
VGD	Vulnerable Group Development
WHO	World Health Organization
7FYP	Seventh Five Year Plan

1. INTRODUCTION

The national budget for FY2020-21 is going to be formulated at a time, when the Bangladesh economy, like other economies around the world, is suffering from the fallouts of the novel coronavirus (COVID-19) pandemic. Since 8 March 2020, when the first COVID-19 case was identified in the country, number of both cases and deaths due to the pandemic has been on the rise. At the same time, the economy has been worst hit ever in the history of Bangladesh.

While it is well-known that nationwide 'public holiday' (lockdown) has immense cost, both economic and humanitarian, the government's decision to go for it was the right one in view of containing the spread of the pandemic. Given the state of health infrastructure and health-related human and other capacities and prevailing state of behavioural practices, precautionary steps must be given priority. According to indications from global trends and as opined by large section of health experts, Bangladesh is yet to cross the peak phase of the spread of the COVID-19 pandemic. In view of this, opening up of economic activities, other than agriculture and food-chain-related activities (production, wholesale and retail), could result in further spread of the virus at a critical phase of the pandemic. Expert opinions must be given due importance in this regard. Government's decision to revive the economy must be informed by health safety priorities, and the measures to mitigate people's sufferings should be designed by taking into cognisance of this primary objective. Accordingly, as experts are suggesting, opening of economic activities should be synchronised with the trajectory of the pandemic, and mitigation to ameliorate the sufferings of the people. Indeed, international experiences of even developing countries do not support opening of economic activities beyond the essential sectors during the peaking phase, when there is high risk of contamination. The recent guidelines by the World Health Organization (WHO) in this context also takes a cautionary perspective.

Government's fiscal compulsions—lack of adequate resources to underwrite the attendant economic costs of lockdown—should not be the overriding consideration in the context of opening up of the economy. Resources will need to be found by creating fiscal space. Secondly, before opening up, both implementation and capacity of the concerned entities must be examined, be it factories, offices or shopping malls, along with the capacities of the relevant government agencies to enforce the compliance directives. In Bangladesh, it has been seen that, even when readymade garments (RMG) entrepreneurs had set their own safety measures, they were not able to comply with and enforce those. The same is apprehended in case of shopping malls. In view of this, any decision as regards the opening of the economy, must be taken in a planned manner. This should take into due cognisance of lower risk in terms of activities and in consideration of spatial dimension (e.g. zoning, as has been the case in some countries). It ought to be implemented by undertaking a thorough audit of compliance and backed by adequate enforcement measures. If the government is able to extend adequate relief/cash support to the people in need, it will be able to withstand the pressure to open up the economy prematurely.

To tackle the impact of COVID-19, the government has undertaken a number of steps to ensure health safety and address adverse impacts on the economy. Health measures include emergency allocation of resources for the the Ministry of Health and Family Welfare (MoHFW), and incentives and insurance coverage for the healthcare workers. Besides, the government has announced general holidays since

26 March 2020 to check the spread of the pandemic, by maintaining social distancing. The resultant lockdown meant that most offices and businesses are closed, and most economic activities have grounded to a halt. Production and supply chains are disrupted, income opportunities are lost and poverty situation has worsened, with new poor population joining the ranks of the old ones. All these adverse implications will have both immediate-, short- and medium-term impacts on the economy, which will need to be tackled through immediate policy response and by keeping the needs of the recovery phase in consideration.

To mitigate the losses incurred by individuals, enterprises and entrepreneurs, the government had to go for large amount of unforeseen expenditures. These include stimulus packages for export-oriented and domestic-market-oriented enterprises and the agriculture sector, mostly in the form of subsidised credit, and expansion of safety net programmes for the vulnerable groups. The government has also undertaken expansionary monetary policy measures to create liquidity for commercial banks to disburse these supports to the affected sectors. However, there is a demand for more support, particularly for the poor and low-income groups to ensure food security.

Understandably, the Ministry of Finance (MoF) will have to work hard in order to generate the additional resources required for higher government spending to energise and reinvigorate COVID-induced depressed economic activities in FY2020-21. At the same time, these expenditures will have to be made in such a manner, so that it creates employment opportunities and generates income without increasing inflationary pressure in the economy.

In the run-up to the preparation of the budget for FY2020-21, the MoF will have to take a realistic assessment of key macroeconomic performance parameters in FY2019-20. This will allow the MoF to establish reliable benchmarks on objectives and pragmatic approach for the upcoming FY2020-21 budget, to design macro and sectoral proposals for the needed resource generation, and to ensure efficacy in implementation of the budget.

In the context of the emerging scenario due to COVID-19, the Centre for Policy Dialogue (CPD) has prepared a set of concrete recommendations for the upcoming national budget for FY2020-21. These suggestions are preceded by a brief overview of the economy and the macroeconomic stance to be followed in view of COVID-19.

2. MACROECONOMIC POLICY STANCE FOR THE FY2020-21 BUDGET

Brief overview of the economy

Bangladesh economy was already facing challenges prior to the surfacing of the corona pandemic. These include the difficulties concerning the financial sector and those originating from the global headwinds, which have now been further aggravated by the adverse impacts emanating from the outbreak of COVID-19. As may be recalled, excepting remittance, all major performance indicators were south-bound, resulting in weakening of the balance of payments position, subdued domestic resource mobilisation and low utilisation of allocated development expenditure. With export earnings decreasing by 18 per cent in March 2020, remittance flows falling by 32 per cent in April 2020 and the adverse implications of the ongoing lockdown continuing for an uncertain period, the signs as regards economic performance for the fourth quarter of FY2019-20 are truly ominous. Indeed, all these will have cumulative impact on the performance of Bangladesh economy in FY2019-20. Although the MoF had earlier set the target of an 8.2 per cent growth of the gross domestic product (GDP) for FY2019-20, the projections will now need to be revised downward significantly. Various international organisations, including the World Bank and the International Monetary Fund (IMF), have projected a highly reduced growth of between 2–3 per cent for Bangladesh in FY2019-20. Indeed, the growth projections for all countries across the world have been revised downward.

Uncertainties in the global economy in view of COVID-19 and consequent repercussions for the Bangladesh economy are already creating added pressure on the economy both from the demand and supply sides. This, in turn, will have adverse implications for revenue mobilisation during the remainder of FY2019-20, as also beyond. This will originate from lower collection of revenue from customs duties (CD), value added tax (VAT) and supplementary duties (SD) at the import stage due to downturn in trade, particularly due to lower import payments (on account of both price and quantity effects). Closing down of enterprises, job losses and income reduction will lead to lower collection of income tax, both corporate and personal. Adversely affected private and multinational companies incurring revenue losses will be likely to pay lower corporate tax.

Taking cognisance of economic trends prior to when COVID-19 hit the economy, CPD had projected that, the total revenue shortfall in FY2019-20 could be over Tk. 100 thousand crore. These estimations were based on available data from the MoF. Now, the adverse consequences of COVID-19 will need to be added on to this. Consequently, the fiscal deficit as percentage of GDP will be significantly higher than the targetted figure of 5 per cent.

In this context, CPD feels that with the current trends in revenue collection and public expenditure, budget deficit may increase to 5.5 per cent of the GDP in FY2019-20. Depending on the extent of COVID-19 and associated costs and policy measures, this may rise further. Higher demand for cash incentives in the wake of COVID-19 may put additional fiscal pressure on the exchequer.

Macroeconomic stance in view of COVID-19

In view of the emergent scenario, CPD feels that budget for FY2020-21 will need to be informed by an expansionary macroeconomic stance and infusion of adequate liquidity in the economy in order to underwrite the needed additional public spending. Pursuing such an approach will likely increase fiscal deficit in the FY2020-21 budget. However, in view of the emerging scenario, such a stance is conceivably the right one. The MoF will now need to design deficit financing in a prudent way, so that loanable funds for the private sector are not crowded out and inflationary pressure is not created in the economy. CPD thinks that greater recourse to higher foreign aid to underwrite the fiscal deficit is the pragmatic way forward in this backdrop. In doing so, the budget will need to keep in the perspective, both the short-term phase, by addressing tasks of health risk mitigation and ensuring food security through expanded safety nets, and the recovery phase, by helping the entrepreneurs, enterprises, businesses and commerce to help them get on their feet. The FY2020-21 budget proposals will need to be informed by concrete and well-targetted measures, instead of open and general ones.

In order to address the health emergencies, help mitigate the risks and shocks originating from COVID-19, stimulate domestic demand at a time of reduced income and livelihood opportunities, and strengthen the supply-side response, the government will need to pursue an expansionary fiscal policy and go for expanded public expenditure in view of the budget for FY2020-21. The shock absorption capacity of Bangladesh economy will critically hinge on efficacy of how this is done to stimulate demand, generate supply response and create employment opportunities. Increased budget deficit should be managed through prudent reallocation and prioritisation of public expenditure. The COVID-19 situation emphasises the need for higher allocations for the health sector. Sadly, the share of health budget at present is equivalent to only 0.9 per cent of GDP of Bangladesh. This is even lower than the target of 1.12 per cent of GDP set out in Bangladesh's Seventh Five Year Plan (7FYP).

The expansionary fiscal stance of the government will be pursued at a time of weakened fiscal-budgetary scenario and shrinking fiscal space. This calls for better mobilisation of resources through energetic and strengthened steps to curtail tax avoidance and enforcement of anti-illicit financial flow (IFF) laws and regulations. At the same time, efficacy of public expenditure needs to be enhanced. Greater effort will be needed to mobilise foreign aid, taking advantage of opportunities such as Group of Twenty's (G-20) decision to support low-income economies, and putting stress on getting aid in the form of budgetary support. Implementation of ongoing fiscal and administrative reforms should also not be lost sight of in this backdrop. These aspects must be reflected in the budgetary proposals for FY2020-21 and their implementation. The fiscal space to be created due to higher budget deficit should be used efficiently and with inclusivity, so that concerns of rising inequality are not further accentuated in view of COVID-19 response in the FY2020-21 budget.

3. REVENUE MOBILISATION

The fiscal framework for FY2020-21 will need to break free from the traditional mould given the magnitude of the ongoing COVID-19 pandemic, and its short-term impacts and medium-term footprints. Adverse impacts of domestic- and export-oriented activities and likely slow recovery will make resource mobilisation particularly challenging in FY2020-21. On the other hand, there will be pressure on the MoF to provide additional incentives (in terms of both fiscal measures and budgetary allocations) from perhaps across all sectors and segments of the economy. The ministry should pursue fiscal policy in a judicious manner considering the overall welfare of the economy. Taking this into consideration, the revenue mobilisation strategy for the FY2020-21 budget should be pursued by taking the following four approaches: (i) setting the revenue mobilisation targets in a prudent and realistic manner; (ii) designing the tax measures considering both the risk and vulnerability mitigation urgency and the subsequent economic recovery in tandem with revisiting current fiscal incentives; (iii) strengthening of monitoring and enforcement mechanisms; and (iv) prioritising implementation of the medium-term reform plans. In view of this, CPD is putting forward the following recommendations for consideration while formulating the budget for FY2020-21.

a. Keeping food prices low to ensure food security of low-income people should be seen as a strategic objective. Budget proposals for the National Board of Revenue (NBR) in FY2020-21 should be guided by this. Reduction of import-related tariffs (such as advance income tax (AIT) and VAT) on essential food items, such as onion, lentil, garlic, ginger, soybean oil, etc. should be considered on a dynamic basis, based on the evolving market scenario in terms of price, and projections about production and the demand situation.

b. In the FY2020-21 budget, NBR should consider raising the tax-free income threshold levels from Tk. 250,000 to Tk. 350,000. Besides, it may also consider restructuring the first three slabs of income tax from 10, 15 and 20 per cent to 5, 10 and 15 per cent, respectively, at least for the next two years. NBR may consider allowing payment of individual income taxes for FY2019-20, by instalments, by March 2021.
c. NBR must be restrained from all ad-hoc provisions of tax incentives. The Board needs to be selective and careful in the next fiscal year as more demand for incentives will be lined up in the wake of COVID-19. Proper cost–benefit analysis must be conducted before coming up with new provisions. Also, some of the existing provisions should be reviewed and discontinued if deemed as having low priority. The objective of tax incentives should be to directly support the marginalised group in particular. Fiscal incentives provided should take cognisance of other measures in support of particular groups/sectors. For example, corporate tax rate should remain unchanged in view of the fact that a number of measures have already been taken in support of large entrepreneurs.
d. CPD would like to reiterate its earlier proposals urging the NBR to initiate wealth and property taxes in Bangladesh. Also, an inheritance tax, informed by global best practices, may be introduced. Besides helping to mobilise additional revenue, such initiatives will also provide an opportunity to build a more equitable society.
e. All types of tax evasions and IFFs will need to be curbed with a strong hand. As is known, Bangladesh loses a sizable amount of resources as a consequence of IFF. Coordinated efforts by several policy actors will be required to implement the National Strategy for Prevention of Money Laundering and Combating Financing of Terrorism (NSPMLCFT) 2019–21 in all areas related to tax evasion and IFF. These include Anti-Corruption Commission (ACC), Criminal Investigation Department (CID) of Bangladesh Police, Department of Narcotics Control under the Ministry of Home Affairs, Bangladesh Financial Intelligence Unit (BFIU) of the Bangladesh Bank, and Customs Intelligence and Investigation Directorate (CIID), Central Intelligence Cell, VAT Audit and the Intelligence and Investigation Directorate of the NBR. Transfer Pricing Cell (TPC) of the NBR should work closely with BFIU and CIID to curb trade-based money laundering. The TPC should be strengthened with adequate human resources and forensic investigation capacities.
f. The planned procurement and installation of Electronic Fiscal Device (EFD) and Sales Data Controller (SDC) device by NBR must be accelerated in order to ensure effective implementation of the new VAT law and to augment additional revenue at a time of resource constraint. At the same time, unfinished components of the online VAT project must be completed in a comprehensive and timely manner, so that a hassle-free submission of VAT returns can be ensured.
g. The existing black-money-whitening facility through voluntary disclosure of undisclosed income discourages honest taxpayers, while tax-evaders are encouraged. This provision should not be continued from the next fiscal year. There may be increased pressure for this on the ground of mobilising additional money in the backdrop of likely difficulties in resource generation in FY2020-21. As is well known, this measure has failed to register any notable response in the past.
h. Since automation is an integral part of the new VAT regime, NBR should eliminate all hurdles with regard to registration and getting Business Identification Numbers (BINs), updating information, installation of devices and submission of returns. It should also clarify ambiguities concerning the

VAT law, including central registration system, exemption and registration threshold, definitional complexities as regards businesses and stakeholders in line with the Public Financial Management (PFM) Action Plan 2018–23.

i. NBR should, at the earliest, launch a comprehensive online payment system for VAT, income tax and CD together with an interface with iBAS++ (Integrated Budget and Accounting System), and ensure harmonisation and taxpayer data sharing across various wings of the NBR, as has been envisaged in the PFM Action Plan 2018–23.
j. Broader use of technology may bring forth some uptick in revenue mobilisation efficiency. CPD urges NBR to introduce an e-TDS (tax deducted at source) system to this end. Such a system will enable NBR to issue tax certificates against an e-TIN (Taxpayer's Identification Number) linked to the TDS collection system. This will make evasion of TDS difficult.
k. For the upcoming FY2020-21 budget, a viable completion timeline should be chalked out for implementing the reforms which are already under consideration (e.g. Customs Act and Direct Tax Act), so that results could be generated at the earliest—at a time, when this is most-needed.

4. DEFICIT FINANCING

There is a need for increased public expenditure in FY2021 to combat COVID-19 pandemic, while revenue mobilisation is likely to be subdued. In view of the favourable debt situation, pushing the budget deficit beyond the traditional cap of 5 per cent of GDP in the upcoming budget may be considered. However, this increased budget deficit should be managed through prudent use and appropriate diversion of available resources.

a. It is critically important to give heightened attention to seek and utilise new funding opportunities available from external sources; particularly those from multilateral and bilateral sources must be mobilised to combat the COVID-19 pandemic. The government has already approached a number of development partners in this regard. Such efforts should be intensified and every available opportunity should be exploited. To this end, Bangladesh should actively seek budgetary support from potential external sources, as such funds can allow more flexibility in terms of spending.
b. Bangladesh should take advantage of the decision of the G-20 as regards providing low-income countries funds at low interest to combat COVID-19 pandemic. There may also be opportunities for suspension of debt service payments and debt cancellation, not only from the traditional development partners of the Organisation for Economic Co-operation and Development (OECD), but also from Southern countries, which are members of G-20. These should be proactively explored and pursued.
c. Sale of National Savings Directorate (NSD) certificates has already come down by a substantial degree. Given the downturn in economic activities, credit demand of the private sector is expected to remain low. Hence, the government may opt for borrowing from commercial banks to finance the increased deficits considering availability of liquidity in the banking sector.
d. The current regulations pertaining to NSD certificates (e.g. purchasing limit, requirement of e-TIN and National Identity (NID) card while purchasing, interest rate, etc.) should be kept unchanged, and properly enforced.
e. Mobilisation of idle funds lying with state-owned entities could be accelerated to finance the increased deficit in view of the added expenditure required to tackle the ongoing pandemic. For example, windfall gains of the Bangladesh Petroleum Corporation (BPC) in the backdrop of lower

oil prices should be channelled towards resource mobilisation in view of the budget for FY2020-21.

5. PUBLIC EXPENDITURE

The government is set to propose a fiscal budget of about Tk. 560 thousand crore in FY2020-21, which is higher than the original budget of FY2019-20 and the revised budget of FY2019-20 by about 7 per cent and 11.3 per cent, respectively. It is pertinent to have some idea about the benchmark situation based on the latest available data to provide plausible recommendations to the government to pursue its development, non-development and sectoral allocative priorities in view of immediate- and short-term recovery in the context of COVID-19.

According to the MoF, actual expenditure under the non-development head during July–February of FY2019-20 was 44.3 per cent of the originally planned allocation (48.3 per cent in FY2018-19). It was characterised by a growth of 42 per cent in subsidies. For FY2019-20, the government set aside Tk. 2,825 crore and Tk. 3,060 crore as subsidies to provide 1 per cent cash incentive for RMG exports and 2 per cent cash incentive for remittance-senders, respectively. However, this will not be exhausted fully following the decline in both RMG export-earnings and remittance inflows in view of the COVID-19 pandemic. Accordingly, the government should be able to save about Tk. 1,300 crore after April 2020 from its earmarked subsidy amount for the aforementioned sectors. Further, falling oil prices in the international market in the aftermath of COVID-19 and the oil-war between Saudi Arab and Russia have provided an opportunity to the BPC to make significant profits, which was likely to provide some fiscal cushion to the government.[1]

According to the data of the Implementation Monitoring and Evaluation Division (IMED), during the first eight months of FY2019-20 (July–February), actual spending under the Annual Development Programme (ADP) was 38.5 per cent (30.9 per cent as per MoF data) of the originally planned allocation of Tk. 202,721 crore (38.8 per cent in FY2018-19). Lower utilisation (35.5 per cent) of foreign aid (lower than both FY2017-18 and FY2018-19 for the corresponding period) led the reduction of ADP by Tk. 9,800 crore (or 4.8 per cent), downsizing the ADP to Tk. 192,921 crore in the Revised ADP (RADP) for FY2019-20. Government has already identified 330 projects as less priority ones, from which it expects to save about Tk. 10 thousand crore to be spent in priority sectors. This will lead to further reduction of RADP for FY2019-20.[2]

Pursuing an expansionary fiscal approach is aligned with government's four declared strategies which were to be pursued over the next three fiscal years. This approach is critical for boosting domestic demand and providing food security and to ensure livelihood for the marginalised citizens. To this end, MoF should pursue the followings:

[1] BPC is currently making a profit of around Tk. 23 crore per day since late February 2020 (particularly in view of short-term procurement).

[2] Up to April, these projects were able to spend less than 50 per cent of their respective allocations.

Development expenditures

a. The ADP for FY2020-21 should be designed with due caution to ensure that required allocative priorities are followed and inclusivity is maintained in view to responding to the ongoing COVID-19 pandemic (e.g. adequate and priority allocation for health, agriculture, social protection, and labour and employment sectors). Additionally, efficient utilisation of the allocated funds needs to be ensured, so that no major revisions are required towards the end of the fiscal year.
b. MoF should identify which projects need additional funds for completion in FY2020-21 that are critical to support the causes of health and economic emergencies. This additional allocation needs to be made available from other projects where activities could be deferred without incurring high costs and debt burden. Identification of such projects could be based on a number of criteria, including: (i) projects which do not involve commitment of foreign aid, and those, whose completion rate was less than 30 per cent in financial terms in FY2019-20; (ii) projects in case of which targetted project aid may be disbursed at a lesser amount against the disbursement schedule; (iii) projects where economic costs for delayed implementation could be accommodated (compensated) through economic gains of some other priority projects. It is to be noted in this connection that approximately 1,192 (81 per cent of total) projects in FY2019-20 ADP do not have project aid component.
c. Inclusion of projects with 'symbolic' allocations (for example, Tk. 1 lakh to 1 crore) should be avoided in the ADP for FY2020-21 considering the requirement of funds for priority projects. For example, there were a total of 100 projects in ADP for FY2019-20 which received allocation of less than or equal to Tk. 1 crore.

Non-development expenditures

a. To reduce public expenditure pressure, the government needs to identify non-development expenditures which may be deferred. Some of these are expenditures on foreign travel, acquisition of assets, investment in shares and equities, and recapitalisation of state-owned enterprises. These should be deprioritised.
b. Expected fiscal cushion emanating from non-utilisation of cash incentives, following the declining trend in the RMG export growth and the expected significant decline in remittance flows over the coming months due to COVID-19, may be channelled as 'minimum income support' for the returnee migrants and the RMG workers (if needed in addition to the government-announced support for working capital (wages) provided under the credit line).
c. Expected savings from lower oil prices at the global level need to be channelled to selected sectors, particularly health, agriculture and social safety net programmes (SSNPs).

6. SELECTED SECTORAL MEASURES

Social safety net

The national budget for FY2020-21 should give special focus on SSNPs and related activities in view of COVID-19. It is true, that budgetary allocations for SSNPs have grown in absolute terms, as well as a share of GDP over the years; however, majority of the vulnerable groups are still not adequately protected under the programmes. According to the World Social Protection Report 2017–19 of the

International Labour Organization (ILO), about 66 per cent of the elderly population, 70.6 per cent of children, 79.1 per cent of women with newborns and 81.5 per cent of people with disabilities in Bangladesh were not covered under any social protection benefit. The COVID-19 pandemic is likely to worsen the situation of the above mentioned vulnerable groups, reinforcing the need for additional public investment in the SSNPs. In this connection, government's strategy to expand SSNPs as one of the four strategic priorities for the next three fiscal years needs to be proactively pursued.

In view of COVID-19, the Bangladesh Government has taken a number of steps within its existing SSNP framework, which includes relief (both in cash and in kind), assistance under the *Ghore Fera* programme, open market sales (OMS) in selective areas and others.[3]

The current approach to deal with COVID-19 by the government has a number of inadequacies, some of which are: (i) possibility of lack of reflection of the spatial dimensions of the demand for assistance/security (e.g. geographically backward regions) under the existing 'supply-driven' approach; (ii) leaving a significant share of urban and peri-urban vulnerable groups because of the primarily rural-focused approach of existing programmes; (iii) inadequate amount of assistance provided to the targetted beneficiaries; (iv) lack of coverage of sections of population who are deserving, but gets excluded; and (v) problems of 'inclusion' and 'exclusion' bias in selection (of beneficiaries) process.

These deficits and gaps will need to be addressed in the redesigned SSNPs in view of the FY2020-21 budget.

a. SSNP budget excluding pension has been increased.[4] However, it is still much lower than the FY2019-20 target of 2.3 per cent of the GDP outlined in the 7FYP. The government should allocate at least 3 per cent of the GDP for SSNPs as outlined in the National Social Security Strategy (NSSS).
b. CPD has proposed that a total of 1 crore 70 lakh (under lower case scenario) and 1 crore 90 lakh (under upper case scenario) low-income households should be provided with Tk. 8,000 per month for two months.[5] These will cover a total of 6.84 crore and 7.57 crore citizens, respectively. Total financial requirement for the proposed cash transfer programme is estimated to be Tk. 26,962 crore (about 0.9 per cent of GDP) under the lower case scenario, and Tk. 29,852 crore (about 1 per cent of GDP) under the higher case scenario.[6] The proposed programme will not be a replacement of the ongoing general SSNPs, but will be a time-bound additional support measure in view of adverse pandemic impacts.

---

[3] Specifically: (a) Tk. 760 crore assistance for informal sector workers (Tk. 2,000 in cash to each of about 40 lakh families) in months of May and June. It was later extended to Tk. 1,200 crore (Tk. 2,400 in cash to each of about 50 lakh families). Also, the government plans to allocate Tk. 4,000 crore (maximum of Tk. 2,000 in cash per month to each family) in FY2020-21 to continue supporting these vulnerable groups. A list is being prepared in this regard of those who will receive a quick response (QR) code-integrated card; (b) Food assistance to 50 lakh households; (c) Vulnerable Group Development (VGD) to 10.4 lakh households.

[4] From 9.5 per cent of the revised budget for FY2018-19 (1.7 per cent of GDP) to 9.8 per cent of the budget for FY2019-20 (1.8 per cent of GDP).

[5] This is close to the lower poverty line, for a family of four members in today's current prices.

[6] These cash transfers will generate Tk. 168,514 crore and Tk. 186,573 crore worth of demand for goods and services in the economy, respectively.

c. The government is preparing a list of beneficiaries to be covered under the support programme for 50 lakh households. This listing should put emphasis on urban and peri-urban vulnerable groups along with those of rural ones. It is important to ensure that transparency is maintained in implementation, and that preparation of lists and distribution of cash and kind support is free from political influence. Government should take support of NGOs and local-level social organisations in identifying, selecting and distributing the support, and to address 'inclusion' and 'exclusion' bias in selection process.
d. Since it is the final year of the NSSS and the government lags far behind (both in terms of allocation and coverage) as regards implementation of the targetted life-cycle-based programmes, it should take this opportunity to revisit the strategy and make necessary revisions.
e. The government, following its earlier commitment, should consider introducing the Universal Pension Scheme with the help of a limited-scale pilot project. It would also allow the government to redesign the non-contributory old age allowance programme and provide beneficiaries the much-needed support to cope with COVID-19-induced health and economic vulnerabilities, in the immediate and also in the recovery phases. CPD estimate suggests that the government would require an allocation equivalent to 0.19 per cent to 0.85 per cent of the GDP based on different scenarios.[7] FY2020-21 budget will be a good opportunity to start the initial work in view of the government's commitment.

Health

The health sector should get priority in the national budget for FY2020-21 for obvious reasons. The scale of the pandemic has proved that there is no way to contain the spread of COVID-19 without the necessary investment in the health sector. Unfortunately, the health sector in Bangladesh has always been neglected. Apart from the lack of infrastructure and equipment, healthcare facilities in Bangladesh are also not staffed with adequate numbers of service-providers. As of 2018, there was only one registered physician for every 1,581 individuals in the country.[8] The level of awareness about healthcare among the general population was also found to be very low in Bangladesh. The health sector of Bangladesh has been plagued by many longstanding problems, such as low budget allocation for health, high out-of-pocket healthcare expenditure and poor utilisation of health budget. The allocation for health as share of total budget has also fallen (from 5.1 per cent in the budget of FY2018-19 to 4.9 per cent in the budget of FY2019-20).[9] Since 2017, the share of health budget as percentage of GDP has remained stagnant at about 0.9 per cent. According to the World Bank data for 2017, out-

[7] CPD estimate suggests that the government would require an allocation equivalent to 0.19 per cent of GDP based on Tk. 579 per month (inflation adjusted current old age allowance), 0.7 per cent of GDP based on Tk. 2,145 per month (inflation adjusted national weighted lower poverty line) and 0.85 per cent of GDP based on Tk. 2,621 per month (inflation adjusted national weighted upper poverty line) to cover all its elderly citizens (65+), excluding government employees, to introduce a non-contributory pension scheme in FY2020-21.

[8] Among the healthcare facilities in Bangladesh, 28 per cent had access to specialists, 59.1 per cent had access to general practitioners and 79.7 per cent had access to nurses, as of 2017 (according to Bangladesh Health Facility Survey 2017 by the National Institute of Population Research and Training (NIPORT), Associates for Community and Population Research (ACPR) and ICF).

[9] Total allocation of the budget for health sector in FY2019-20 was Tk. 25,733 crore, which was a rise by 15.2 per cent over the revised budget of FY2018-19.

of-pocket expenditure on healthcare in Bangladesh was the second highest in South Asia after Afghanistan.

Since the outbreak of COVID-19, the government has undertaken a number of budgetary measures targetting the health sector, health professionals and healthcare service-providers. A total of Tk. 250 crore has been allocated to the MoHFW to procure coronavirus test kits, medical equipment and personal protective equipment (PPEs). Government has announced an incentive package for health professionals for their active engagement in dealing with corona patients. Apart from this, the government has announced health insurance ranging from Tk. 5 lakh to Tk. 10 lakh for the physicians and others dealing with corona patients and related facilities.[10] Government has recruited 2,000 doctors and 6,000 nurses on an emergency basis to deal with corona patients. However, investment in the health sector ought to balance the expenditure for short-term emergencies for coronavirus and the long-term needs of the health sector. Thus, the additional allocation for the health sector in FY2020-21 should not be a 'one-time' one, rather should continue in the coming years in order to address the longstanding demands of the health sector.

The government should take into consideration of following issues related to the health sector in preparing budget for FY2020-21:

a. Enhanced budgetary allocation for the health sector, particularly for: (i) production and distribution of medicine; (ii) improvement of health services; (iii) availability of medical instruments; and (iv) support to health professionals. In this connection, annual allocation for a number of specific projects in the ADP needs to be increased. These relate to allocation for projects on communicable disease control (CDC), non-communicable disease control (NDC), community-based healthcare system development and nursing and midwifery education facilities.
b. Necessary fund should be allocated for establishment of emergency facilities and procurement of health-related equipment and facilities. In this context, terms and conditions for procurement of emergency health-related equipment may be made flexible and may be exempted from the taxes.
c. The MoF may consider a reduced rate of corporate taxes against the earnings of certain categories of taxpayers during fourth quarter (April–June) of the FY2019-20 and first quarter (July–September) of FY2020-21. These could include pharmaceutical companies, hospitals, clinics and other health facilities, which are involved in the production of medicines and in prevention, diagnosis, control, attention and treatment of COVID-19. Besides, it may also consider introduction of tax credits for amounts paid by businesses to sanitise work premises.
d. Doctors, nurses and other support staffs working in private hospitals/clinics with corona patients and related matters may be incentivised through offer of special financial package, such as reduced rate of taxes on their income (in private entities), for the first half of FY2020-21. Hospitals, clinics, diagnostic centres and laboratories involved in corona-related treatment and research should get a waiver as regards AITs for the period of first quarter of FY2020-21. As may be recalled, the government has already given some incentives to public sector health workers.

[10] In cases of health professionals' death because of engagement in COVID-related activities, the amount of health insurance was to be five times higher.

e. Grants or donations in cash for the prevention, diagnosis, control, attention and treatment of the COVID-19 in favour of authorised public and private hospitals and clinics, should not be considered taxable for FY2020-21.

Agriculture

The agriculture sector should get special priority in the national budget for FY2020-21. The economic adversity caused by COVID-19 has reemphasised the importance of food security through food production, and also the need for increased public food stock holding. FY2020-21 will be a crucial period from the perspective of ensuring food security both in COVID and post-COVID periods. Agriculture sector would be one of the vital sectors for providing a cushion for the 'new poor' emerging from the COVID-19 pandemic. A vibrant agriculture sector will also support the cause of creating additional employment opportunities for people who are likely to lose jobs and livelihood opportunities in urban and peri-urban informal sectors, and for migrant workers who have been forced to return home. Keeping in view the four strategies set by the government for implementing national budgets over the next three years, following steps should inform the design of FY2020-21 budget.

a. Budget allocation for agriculture sector has been declining over the years—from 4.48 per cent of total budget in FY2015-16 to 2.69 per cent in FY2019-20. Given the demand for additional funds, particularly for implementing important priority projects associated with providing food security and creating employment opportunities, the allocation for the agriculture sector needs to be raised at least to 3 per cent of total budget in FY2020-21.
b. The additional budget should be used to fast track some of the ongoing projects in the agriculture sector with a view to complete those in FY2020-21. These include, among others, construction of new food warehouses with a storage capacity of 1.05 lakh metric tonnes (MT); repairing old food warehouses; production of lentil and oilseeds for strengthening food security; production and distribution of certified seeds to farmers and provision of relevant trainings; strengthening flower supply chain by developing market infrastructure, storage and transport facilities; development of livestock and dairy sectors; upgrading of livestock breeding through progeny test; beef fattening through modern technologies; extension of technology support at union levels for fish production; establishment of brood bank; renovation of water bodies for enhancing fish production; and enhancing production of black bengal goats and others.
c. Agriculture sector needs to ensure proper utilisation of subsidy during FY2020-21. Despite an allocation of Tk. 9,000 crore over the last three years, a significant part of the allocated amount remained unutilised. For example, Tk. 2,570 crore, Tk. 5,390 crore and Tk. 3,800 crore remained unutilised in FY2015-16, FY2016-17 and FY2017-18, respectively. Similarly, allocation for food subsidy needs to be increased from Tk. 3,570 crore in FY2019-20 in order to accommodate the additional expenditure for food support required to cover the additional households planned for bringing under the SSNPs. Listing of targetted beneficiaries and distribution of food to those should be transparent and free from political influence and interference.
d. Government needs to allocate about Tk. 6,373 crore in the FY2020-21 for the procurement of rice, paddy and wheat during April–August 2020. Besides, more funds will be needed for procurement during the following aus season. Hence, necessary financial resources should be earmarked in the national budget for FY2020-21 taking into consideration the overriding needs of maintaining food

security during the pandemic period and afterwards. It is to be noted that the government has decided to procure 8 lakh MT of paddy (at Tk. 26 per kg), 11.5 lakh MT of rice (at Tk. 36 per kg) and 75 thousand MT of wheat (at Tk. 28 per kg) for FY2020-21.

e. Given the limited success in procurement of paddy in earlier years (less than 10 per cent of the targetted amount of paddy had been procured), government should give priority to procurement of paddy as it benefits the farmers directly. Farmers' list, which is prepared for procurement of rice, should be publicly disclosed, and procurement should be done in open places, such as in local haats and bazars.
f. The stimulus package for the agriculture sector and agro-based industries (Tk. 5,000 crore credit line at the subsidised interest rate of 4 per cent) should give priority to those farmers who are most-affected, such as vegetable farmers, poultry and chicken and egg-producing farms. Local-level agriculture and livestock offices should send a list of affected farmers to their concerned ministries for necessary action.
g. The MoF may consider a number of fiscal measures for the affected agro-based industries, which could include waiver of VAT at the domestic stage for the period March–June 2020, deferred payment of quarterly AITs till June 2020, and payment of corporate taxes for FY2019-20 by instalments till March 2021. These waivers could be continued in the FY2020-21 budget. Besides, companies which are incurring losses during FY2019-20 may be allowed to 'carry back losses' against the taxable profits for the two previous years—FY2017-18 and FY2018-19.
h. In view of urban to rural migration and lower number of workers going abroad for overseas jobs, it is likely that there will be increased pressure on the rural labour market. MoF may consider following a 'go slow' policy as regards incentivising labour-displacing mechanisation. Further reduction of duties at import stage for agricultural machineries (total tax incidence (TTI): 12.4–27.5 per cent) should be stalled, preferably till FY2021-22. Similarly, disbursement of credit at subsidised rate to farmers for agricultural mechanisation should be slowed down during the FY2020-21 period.

Small and medium enterprises (SMEs)

Domestic SMEs were particularly hard-hit in view of the corona pandemic. As is known, these account for majority of economic enterprises—about 87.5 per cent of these enterprises are cottage and 11 per cent are small-scale enterprises. Moreover, majority of these enterprises operate informally: 51 per cent of enterprises have no formal registration and 90.2 per cent enterprises have no VAT registration. The businesses of these enterprises are overwhelmingly dependent on a few important religious and cultural events. In that context, cancellation of the *Pohela Baishakh* (Bangla *Nababrasha*—New Year) festival as part of government's COVID-19-related restrictive measures has resulted in significant losses to these SMEs. These losses are expected to rise further with the duration of public holiday having been extended till 15 May 2020, which will significantly affect businesses that take advantage of the Ramadan and Eid-ul-Fitr. To compensate for these losses, the national budget for FY2020-21 should target fiscal policy and sectoral measures (along with monetary policy support measures) with a view to increasing cash flows to the SMEs in the form of working capital and raising their investment capacity. ADP projects that support SME development should be given priority.

In view of the above, following measures should inform the foundation of FY2020-21 budget proposals:

a. Considering the adverse financial situation facing particularly the cottage, micro and SMEs, MoF should consider raising tax-exempted yearly turnover limit for SMEs from Tk. 50 lakh to Tk. 1 crore for FY2020-21.
b. The MoF may consider several fiscal measures for the affected SMEs, which could include waiver of VAT at the domestic stage for the period July–September 2020, deferred payment of quarterly AITs for July–September quarter of FY2020-21 and payment of corporate taxes for FY2019-20 by instalments till March 2021. Besides, companies which are incurring losses in FY2019-20 may be allowed to 'carry back losses' against taxable profits for the two previous years (FY2017-18 and FY2018-19).
c. ADP projects related to the development of SME sector need to get priority in the budgetary allocations and timely implementation of those in view of FY2020-21 budget need to be ensured. Ministry of Industries (MoInd), which is in charge of implementing SME-related projects, was not accorded priority in the budget allocations over the past years; indeed, its share in total budget allocation has been declining over the years—from 0.48 per cent of total budget in FY2015-16 to 0.29 per cent in FY2019-20. Given the demand for quick implementation of important SME projects during FY2020-21, allocations for SME-related projects will need to be increased beyond business as usual trends.
d. MoInd should give priority to those SME-related projects which are planned to be completed in FY2020-21, and which could contribute to setting up SMEs by the private sector and/or enhancing SME-related activities over the near-term future. Some of these projects include completion of Bangladesh Small and Cottage Industries Corporation (BSCIC) industrial estates by FY2020-21 in Borguna, Bhairab, Dhamrai, Chuadanga and Narsingdi, and also BSCIC industrial park in Tangail and economic zone in Jamalpur, to name a few.
e. Government has announced a stimulus package of Tk. 20 thousand crore, of which Tk. 10 thousand crore is exclusively allocated for SMEs as credit line facility at subsidised interest rate of 2 per cent. Of the total amount under the package, the share of micro and small industries would be 70 per cent, and the remaining 30 per cent would go to medium-sized industries. Besides, 15 per cent of the credit would be distributed to rural SMEs and 5 per cent to women entrepreneurs. Cottage and micro enterprises which remained outside of the banking channel can also take out loans under the package, subject to submission of written financial statement as regards their businesses. Proper selection of affected enterprises and timely delivery of credit to the deserving enterprises, are highly important from the point of view of delivery of the expected results. In this connection, the central bank may take support from the business bodies/associations, chambers, local business associations and specialised commercial banks. Database on SMEs maintained by these entities could help proper identification and selection of the affected enterprises.

Recent CPD Working Papers

Paper 133	Corona Pandemic and Bangladesh: Health and Economic Risks and Recommendations
Paper 132	Challenges for the Marginalised Youth in Accessing Jobs: How Effective is Public Service Delivery?
Paper 131	Role of Media in Delivering the SDGs: A Mapping Exercise on Bangladesh
Paper 130	Prospects and Risks for the Global Economy in 2019
Paper 129	New Minimum Wage of the RMG Sector: Addressing the Issues of Non-Compliance in Implementation
Paper 128	Financial Sector in Bangladesh: Recent Trends and Benchmarking for the Government
Paper 126	Potential of Personal Income Tax in Bangladesh: An Examination of Survey Data
Paper 125	Finance for SDGs: Addressing Governance Challenge of Aid Utilisation in Bangladesh
Paper 124	Women in Bangladesh Labour Market: Determinants of Participation, Gender Wage Gap and Returns to Schooling
Paper 123	'Data Universe' of Bangladesh's RMG Enterprises: Key Features and Limitations
Paper 122	Livelihood Challenges of RMG Workers: Exploring Scopes within the Structure of Minimum Wages and Beyond
Paper 121	BREXIT and Bangladesh: An Exploratory Study on Likely Economic Implications
Paper 120	Fiscal Implications of Rohingya Crisis for Bangladesh
Paper 119	Exploring the State of Youth in the SDG Context: How is Bangladesh Doing?

cpd.org.bd cpd.org.bd cpdbd CPDBangladesh

CENTRE FOR POLICY DIALOGUE

House - 6/2 (7th & 8th floors), Block - F
Kazi Nazrul Islam Road, Lalmatia Housing Estate
Dhaka - 1207, Bangladesh
Telephone: (+88 02) 58152779, 9141734, 9141703, 9126402, 9133530
Fax: (+88 02) 48110414
E-mail: info@cpd.org.bd
Website: www.cpd.org.bd