Independent Review of
iRBD
Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD's Recommendations for the National Budget FY2022-23

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CENTRE FOR POLICY DIALOGUE

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The CPD IRBD 2022 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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1. Introduction

1. Introduction

- The **budget for FY23** is going to be **placed** before the National Parliament in the **backdrop of a number of unprecedented challenges** that inform Bangladesh's macroeconomic management in the prevailing context
- The **country is still in the phase of recovery** from the **COVID-induced adverse implications** that visited the economy over the past two years
- The **prices of essential items have been on the rise**, both because of imported inflation and various domestic factors
- **All components of the external balances** – trade, current account and overall – **have been experiencing significant pressure**, with rising foreign borrowings and anticipated growing pressure on future debt servicing liabilities

1. Introduction

- The **government** is also having to **take cognisance of its election pledges**, which has been demonstrated in recent times by way of policy statements as regards introduction of universal pension scheme, formulation of draft anti-discrimination law, introduction of child budget and implementation of the national social security strategy adopted earlier
- The budget will also need to **take cognisance** of the **ramifications of Bangladesh's dual graduation:**
  - **LDC graduation** with the need to make transition to skills and productivity-based competitiveness, and **middle-income graduation** with the transition to more stringent, non-grant, non-concessional terms of borrowings
- The budget will also need to be **aligned with the aspirations** expressed in the government's **Vision 2041** with the ambition of **meeting SDG targets by 2030** and **graduating to an upper middle-income country by 2031** and a **high income country by 2041**

1. Introduction

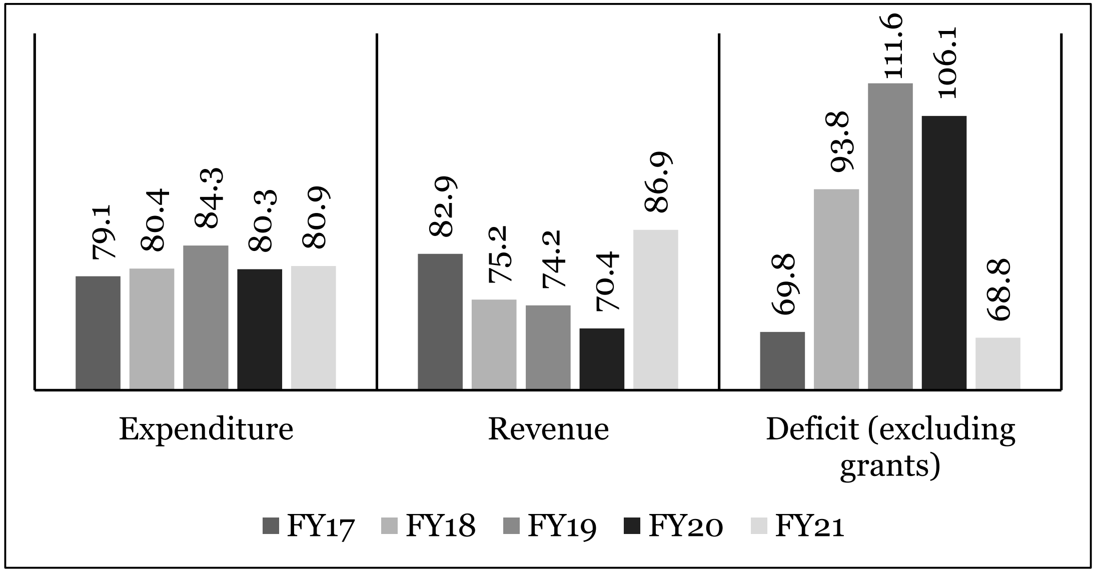
- Taking cognisance of the aforesaid immediate, short and medium-term challenges confronting macroeconomic management, **CPD FY23 budget proposals focus on three areas**:
  I. **Fiscal framework issues** which deal with the stance FY23 budget should take in view of the emerging challenges
  II. **Sectoral and issue-specific budgetary proposals** to deal with rising prices and bloating subsidy bill
  III. **The medium-term issues of** sustainable COVID recovery, enhanced social welfare and sustainable dual transition

2. Credible fiscal framework

2. Credible fiscal framework

- The **budget for FY23** must **break free from its formulaic mould** and should be **adjusted accordingly to tackle the pressure** emanating from **both domestic and external** fronts
  - The **fiscal framework** for FY23 budget **must be accompanied** by **clearly stated assumptions** of the government **related to future trends in international prices**
- Over the last decade, **the budgetary target setting** has emerged **primarily as a numbers game** - with each year's targets surpassing the previous year's – **notwithstanding the extent of actual attainment**

Figure: Implementation rate of budgetary targets (%)



Source: Calculated from MoF data (various years).

2. Credible fiscal framework

- The significant **difference between** programmatic **targets and actual** attainments can be **attributed to**:
  - **Unrealistic target setting** at the time of budget formulation
  - **Lack of institutional capacity**
  - **External factors** (e.g., COVID-19) beyond the control of implementing agencies

- **Taking these factors** as well as **the trade-off between inflation and growth** into cognisance, the national **budget for FY23** should be **formulated** in a way that will be able to **meet the needs of the time**

CPD (2022): CPD's Recommendations for the National Budget FY2022-23

2. Credible fiscal framework

In view of the discussion so far, the following **recommendations** are placed for consideration of policymakers in formulating the FY23 budget:

- **Instead of** setting **lofty targets** that has a high risk of missing the annual marks by the end of the fiscal year by a large margin, **fiscal targets should be set in a realistic manner** that takes into account current macroeconomic trends
  - This is true for all components (and sub-components) of the fiscal framework, including revenue mobilisation, public expenditure, budget deficit and financing
- In the **FY22 budget**, the **personal income tax (PIT) structure** has generally **remained unchanged** from the one introduced in the FY21. CPD had argued that **reducing the highest tax rate** (from 30% to 25%) **was against** the cause of promoting **tax justice**. **The highest tax rate** should be **reinstated at 30% for top earners** in the FY23 budget

2. Credible fiscal framework

- **In the FY22 budget**, **corporate income tax (CIT)** has been **decreased** for publicly traded companies (22.5% from 25%), **non-publicly traded companies (30% from 32.5%), one-person companies (25% from 32.5%)**, association of persons (30% from 32.5%). However, **to ensure uniformity**, the **tax rate for one-person companies should be set at 30%,** in line with the non-publicly traded companies' rates
- In view of the **emerging challenges** of **LDC graduation**, with the need to make a transition to skills and productivity-based competitiveness, **a thorough re-examination of the export incentive structure** should be undertaken
- There should be a **medium-term plan and timeline** as regards **phasing out the various tax exemptions** provided in view of the **pandemic**
  - **Particularly** the **large industries** should be **brought under a planned phasing out process**

2. Credible fiscal framework

- For the **forthcoming FY23 budget**, a **feasible completion timeline for reforms that are currently in the works** (e.g., the Customs Act and the Direct Tax Act) **should be chalked out** so that the implementation process can begin at the soonest and in earnest
- **In order to increase the number of actual taxpayers**, the **NBR**, **using their e-TIN database**, **should identify and pursue** individuals and business entities that are registered in the system but do not submit tax returns and who are registered and submit returns but do not effectively pay taxes
  - A **mechanism should be set up to contact the relevant entities** via phone calls, SMSs or emails to follow up on their return submissions or tax payments
- **NBR** should **launch a comprehensive online payment system for VAT, income tax and customs together with an interface with iBAS++** and **ensure harmonisation and taxpayer data sharing** across various wings of the NBR as has been envisaged in the PFM Action Plan 2018-23 at the earliest

2. Credible fiscal framework

- **Tax evasion should be curbed** by all means to generate resources for the priority sectors. To this end, the **NBR should promote electronic-based measures, including e-TDS, e-filing and cross-checking transaction data from multiple sources**
  - **Closer interaction** with the **Anti-Corruption Commission** should be ensured
- **Steps** should be **taken for speedy disposal of tax-related cases**, pending with tax tribunals and with the courts
- **The existing provisions** (e.g., clauses related to special tax treatment for investments in building/apartment, BIFF bond and economic zone or hi-tech parks) **for legalising undisclosed income discourages honest taxpayers while the tax evaders are encouraged**. Such provision **should not be continued from the next fiscal year**
  - **To tackle the problem of undisclosed income**, a **Benami Property Bill may be introduced**, as was suggested earlier by the CPD

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2. Credible fiscal framework

- **Transfer Pricing Cell (TPC)** should **work closely** with Bangladesh Financial Intelligence Unit (**BFIU**) and Customs Intelligence and Investigation Directorate (**CIID**) to **curb trade-based money laundering**. To carry out its responsibilities in an effective manner, **TPC should be adequately endowed** with the **required financial, technical and human resource, and forensic investigation capacities** in the upcoming budget
- **CPD reiterates its earlier proposals** to **initiate wealth and property tax in Bangladesh**. Also, an **inheritance tax**, informed by global best practices, **may be introduced**
  - Besides mobilising additional revenue, such initiatives could also **provide** an **opportunity to build a more equitable society**, particularly in view of the **proposed anti-equity law** placed before the parliament

2. Credible fiscal framework

- **In view of** Bangladesh's **LDC graduation** in 2026, the **NBR needs to urgently conceptualise and implement a medium-term strategy**
  - This will be **necessary for increasing revenue collection** from alternative sources that will be able **to substitute for the potential decline in revenue** from import tariffs **in the post-LDC graduation period**
- The government should **lay out the plans** for **finalisation and enforcement of the reforms** in the **area of revenue mobilisation**, including direct tax, customs, and VAT
  - The 'PFM Action Plan 2018-2023 to implement The PFM Reform Strategy 2016-2021' and National Strategy for Preventing Money Laundering and Combating Financing of Terrorism should be **updated** in view of the latest implementation progress

2. Credible fiscal framework

- **Priority for public expenditure should be set clearly. The COVID-19 recovery and rising prices of essentials should guide the design of the fiscal framework**
  - To this end, **food production, SSNPs (including the public works programmes), subsidies for agriculture, energy and power sectors,** and **health and education sectors** should receive **adequate attention**
- **More budgetary allocations** should be earmarked **for rising demands for subsidies and SSNPs**
  - The **subsidies can act as a buffer** to temporarily **halt the pass-through of rising global prices** to the domestic economy
- Earlier government **measures to cut down 'unnecessary and luxury'** public expenditure (e.g., government vehicle purchase, foreign trips) **should be reinstated**

2. Credible fiscal framework

- **To contain budget deficit**, the **ADP for FY23 should be carefully formulated**
  - Whilst **finance for the ongoing projects** should be **made available** in the ADP, **caution should be exercised in considering new projects for inclusion in the ADP of FY23**
- Responsible government agencies should **focus on public infrastructure projects** that are **closer to completion**
- **More emphasis** should be given to the **utilisation of foreign aid**
  - This will **help** the **management** of the **budget deficit** as well as the **balance of payments**

2. Credible fiscal framework

- The government should **set up an independent committee** to evaluate the **increasing financial requirements** for the **public infrastructure projects**
  - **Good governance** for these projects must be **ensured**. To this end, the government should make **all development project proformas (DPPs) publicly available** for independent scrutiny. To this end, the government should also consider conducting a comprehensive public expenditure review at the earliest
- The government will also need to **formulate a medium-term debt management strategy** in view of the changed composition of loans availed by the government
  - The changing scenario of the foreign loan regime in view of Bangladesh's development needs, available resources for the country, payment frequency, and the implication of the dual graduation should be taken into cognisance to this end

3. Addressing the rises in the prices of essentials

3. Addressing the rises in the prices of essentials

- As the low-income and vulnerable population groups in Bangladesh were **struggling to recover** from the **adverse impacts** of the **COVID-19** pandemic, the **unabated rise in the prices of essentials** has put them into **further misery**
- Although the **official data on inflation** paint somewhat of a **tolerable picture**, as has been pointed out by several research findings and media reports, **this does not reflect the ground realities**
  - Indeed, **people** belonging to the **fixed income** earning groups are **grappling to maintain their living standards**
- It will **not** be **far-fetched** to say that the **official information on inflation** does not capture the actual structure of spending of general consumers and **tends to undermine the sufferings of the lower- and middle-income groups**

3. Addressing the rises in the prices of essentials

- **At the global level**, commodity **prices** have been **creeping up** owing to, inter alia, **supply-demand mismatch**, **supply chain interruptions**, such as shortage of shipping containers and vessels, **changes in consumer preferences**, and **higher energy prices**
  - The recent **conflict involving Russia and Ukraine** has **exacerbated** the situation
- In the case of **Bangladesh**, the **hike in domestic diesel and kerosene prices** and **increased money supply through the stimulus packages** can be **connected to the escalating price level**, **besides the rising global prices** (ADB. 2022)
- Curiously, the **extent of the price hike in Bangladesh** was often **greater compared to the global market** (CPD, 2022)

3. Addressing the rises in the prices of essentials

- A number of media outlets have reported **several reasons behind this phenomenon:**
  - These include **lack of competition at the import stage and syndication**, **intentional stockpiling** of commodities, **deliberate scaling down of supply**, **increased number of intermediaries** in the value chain from producers to consumers and importers to retailers, **illegal toll collection** on the highways **during the transportation**, and **weak monitoring** by the **administration**
- The **current situation** has become **onerous even for the middle-income** segment of the population
- As the **high level of prices** is **expected to continue** for the remainder of FY22 and at least the early months of FY23 (ADB, 2022), **reining in the prices of essentials** should be the **most urgent and critically important macroeconomic policy objective** in Bangladesh

3. Addressing the rises in the prices of essentials

To this end, the **following suggestions are put forward** for consideration of policymakers in the upcoming budget of FY23:

- Government should **carefully examine the duty and tax structures of the essential commodities**, both at import and domestic levels, and **make downward adjustments** with a view to provide some respite to low and limited income-earning consumers
  - The **increased price level of most of the other commodities** should be able to **compensate for the potential revenue loss** to this end
- **Tax-free income threshold** for **personal income should be raised to Tk. 3.50 lakh** in view of the added pressure of the rising food inflation and income erosion induced by the pandemic. The **next slab for personal income tax**, which is 5% for an additional Tk. 1 lakh, **should be increased to Tk. 3 lakh** to provide a cushion for the middle-income earners

3. Addressing the rises in the prices of essentials

- Government should **extend the scope of direct cash/kind assistance programmes** for low-income population groups
- **Volume of essential commodities** sold through **OMS should be increased**. Government should **set higher targets for foodgrains procurement and food distribution programmes.** To this end, adequate resources should be allocated in the FY23 budget
  - Furthermore, the distribution of these commodities must be managed efficiently and without corruption so that only the eligible can obtain the essential items at lower prices
- Government should **provide additional support for subsidised credit** programmes **for the agriculture sector** (both crop and non-crop) to incentivise production during the next fiscal year

3. Addressing the rises in the prices of essentials

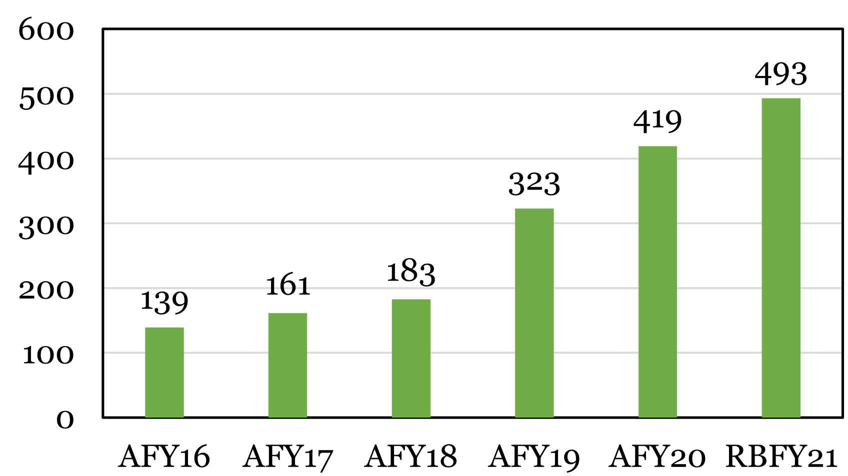
- **Competition Commission's role should be strengthened**. Required **skilled professionals should be hired** to this end, particularly with a view to monitoring markets for essential commodities on a regular basis
  - The Commission should **create a database**, **monitor** the operations of **prominent market players** on a regular basis, **investigate market control and manipulation** (if any), and take appropriate actions. An **adequate budget should be earmarked** for the Commission to perform these duties. To this end, the Ministry of Commerce should also work in tandem with the Commission
- Government **should continue providing stimulus** to the **small and medium enterprises** to help them survive the difficult times

4. Subsidy issues

4. Subsidy issues

- The subsidy management has emerged as a challenging area from the perspective of the broader fiscal management as Bangladesh embarks on the post-COVID 19 recovery phase
  - Over the years, the total subsidy budget has been on the rise, from BDT13,924 crore in FY2016 to BDT49,330 crore in FY21 – an increase of 50.8% per year
  - Various studies have questioned the extent to which the different subsidies have actually been effective in terms of actual contributions, particularly in addressing the prevailing market failure and improving equity in targeted sectors and economic activities (Steenblik, 2008)
  - The proposed budget for FY23 should highlight the rationalisation of subsidy and subsidy management from medium to long-term perspectives

Figure: Total cash loan, subsidy & fiscal incentive (billion Tk)



Source: Ministry of Finance

4. Subsidy issues

- Following recommendations may be considered as regards subsidy allocation in the FY23:

a) Prioritise payment of higher subsidy for fertiliser

- Allocation of subsidy for the agriculture sector needs to be increased, particularly for accommodating the higher import price of fertiliser
- Budget for FY23 should be **informed by the current and anticipated fertiliser price** in the global market

b) Strengthen market monitoring to ensure access to inputs at subsidised price

- It was reported that farmers had to buy fertiliser and other subsidised agro-inputs at a higher than the stipulated subsidised price (Prothom Alo, 2021)
- **Weak market monitoring**, particularly at retailers' and distributors' ends, is perhaps the reason for this situation
- Ministry of Agriculture should be asked to **strengthen monitoring of the supply channel**, from dealers and distributors to farmers, to ensure efficient distribution of fertiliser and other inputs

4. Subsidy issues

c) Maintain the current level of subsidy on inward remittances

- Given the rising fiscal expenditure owing to the rise in cash incentives, the government should prioritise **curbing the migration cost,** lowering the remittance sending cost from selected countries
- CPD had earlier advocated of gradual depreciation of Taka
- However, in view of the current high commodity price, **exchange rate stability** should be given priority and other measures to encourage transfer of remittance through formal channels should be emphasised

d) Allocate more resources for food subsidy

- Given the significantly high level of agricultural commodity prices in the world market and high domestic inflationary pressure, **subsidised food distribution among the targeted group of people** needs to be **increased** in the next fiscal year

4. Subsidy issues

e) Restructure subsidy in view of LDC graduation

- Bangladesh should consider **innovative incentive schemes** similar to the ones in India, China, and Vietnam to support the export industry
- At the same time, government should design **a mid-term strategy** to decide to what extent such subsidies will be fiscally sustainable
- The government should consider providing **in-kind benefits** for industry and workers (e.g., active labour market programmes, social safety net programmes, health insurance and support for ease of doing business)

f) Undertake comprehensive reforms of the SoEs

- Government should undertake **a comprehensive review of SoEs**, consider liquidation of losing SoEs and handing over of SoEs assets to the SEZ and EPZs for the development of special economic zones for SMEs and other industries

4. Subsidy issues

g) Renegotiate contractual arrangements for paying capacity payment to independent power producers

- In order to reduce the subsidy pressure in the power sector, government should instruct the Ministry of Power Energy and Mineral Resources (MoPEMR) to **renegotiate the contracts** as regards capacity payment negotiated earlier with the independent power producers
- The GoB should instruct the MoPEMR not to sign any new contracts or renew contract in the power sector with provisions for capacity payment

h) Gradually phase out fossil-fuel based energy

- The power and energy sectors will need to be provided significant subsidies in FY 2023 as short-term measure so that the loss incurred by power and energy sector is not passed on to consumers and producers
- Government may consider **withdrawing VAT and other duties at the import stage** to lessen the import price of petroleum and LNG
- Government could think of **borrowing short term loans from multilateral agencies** (IDB, World Bank) or bilateral sources (KSA, Qatar) to pay the import bill for energy (i.e., petroleum)

4. Subsidy issues

h) Gradually phase out fossil-fuel based energy (contd.)

- In the medium to long term government should put focus on exploring natural gas by exploring off-shore and on-shore potential sources; **adequate resources** should be allocated in FY 2023 budget towards this.
- The budget should have provisions for subsidising and incentivising **investment in renewable energy**-based power generation

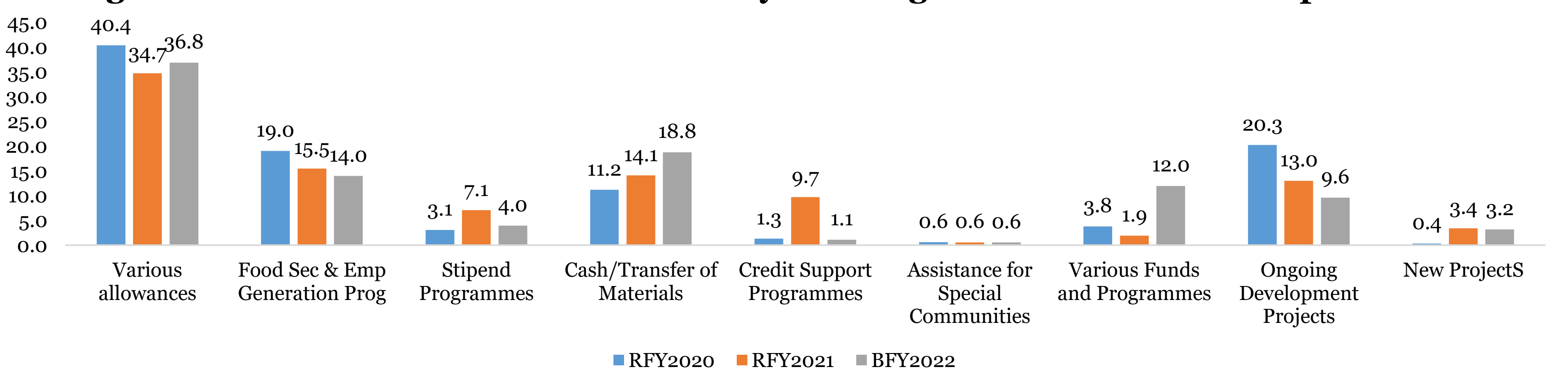
5. Budget for COVID-19 recovery

Social safety net programme (SSNP) and stimulus packages

5.1 Social safety net programme

- Current structure and composition of the social safety net programmes are not adequate in view of government's policies and pledges
  - Its SSNPs do not align with post-LDC developing countries
  - In view of these, current programme needs significant restructuring and upgradation to match those of upper-middle/high-income countries
- During FY2022 total allocation for social safety net programmes was BDT 107614 crore which was 17.8% of total budget and 3.1% of GDP
  - Major share of SSNPs is allocated for various allowances (36.8%) followed by cash transfers (18.8%) and food security and employment creation (14.0%)
- It is to be noted that pension to government employees accounts for 67. 3% of total allowances and 24.9% of total SSNPs

Figure 1: Allocation Pattern of Social Safety-net Programmes and Social Empowerment



5.1 Social safety net programme

The National Budget for FY2023 may take into consideration of the following recommendations

- ***Bring the SSNP under a single window***
  - Government should bring the 143 SSNPs under a single, consolidated and integrated umbrella in order to move from social safety network to social security
    - These programmes can be categorised under three areas for– (a) Child and family; (b) women and men of working age; and (c) older women and men: pensions and non-health benefits
- ***Raise the amount of allowance***
  - Given the high level food price inflation and rise in the living cost, the government should increase the amount of allowance, particularly for the elderly, widows and marginalised women
    - The government should raise the allocation to BDT1000 and coverage by 20 lakh people. The programme should cover eligible beneficiaries of all upazilla (currently covered 162 upazilla)

5.1 Social safety net programme

- ***Expand coverage of urban poor***
  - Government should consider increasing the coverage of urban based destitute people by raising the allocation targeting slum dwellers, floating people, pregnant women, and similar marginalised groups
- ***Digitalise the beneficiary list***
  - Digitalisation of the database with national identification number or other national documents for proper targeting of the beneficiaries will reduce mistargeting and corruption and complexities
- ***Introduce and restructure various child protection programme***
  - Universalise Mother and Child Benefit Programme (MCBP) for early childhood development
    - The programme will require a monthly allocation of Tk. 800 for the 14.0 million children (0-4 years) where the GoB will need to allocate an additional amount of Tk. 9.50 thousand crore by consolidating the existing six relevant programmes

5.1 Social safety net programme

- ***Introduce and restructure various child protection programme***
  - The programme can be launched in the upcoming FY2023 budget with an increased monthly allocation
  - Establish a separate child directorate for monitoring and implementing child-related programmes
  - Allocate resources to develop a comprehensive database on children with interoperability of the existing platforms maintained by relevant ministries and other entities
  - Introduce universal mid-day meal programme for primary school students based on the experience of the already mentioned pilot programmes
- ***Introduce social protection for workers***
  - Maternity protection, and paternity and parental leave benefits which includes income security (through cash benefits), leave policies and effective access to good-quality maternal healthcare for pregnant women and mothers of newborns

5.1 Social safety net programme

❑ *Introduce social protection for workers*

- Employment and labour market interventions such as employment protection and non-discrimination, childcare solutions after woman's return to work and good occupational health and safety measures and breastfeeding facilities at the workplace are important to give adequate protection to pregnant women and new mothers

➢ Sickness benefits aim at ensuring income security during sickness, quarantine, or sickness of a dependent relative

➢ Employment injury protection includes providing support to workers through prevention, treatment and rehabilitation

➢ Unemployment protection schemes provide income support for involuntarily unemployed and underemployed people and offer assistance for return to work, in line with international labour standards

❑ *Take initiative to implement UPS*

➢ Universal pension scheme (UPS) which has been announced recently and is to be introduced from the next fiscal year is a welcome initiative

➢ It is expected that strong institutional and operational structure will be developed in order to properly manage such an important scheme

5.2 Stimulus packages

- The government has declared 28 stimulus packages worth BDT 1919.19 billion, of which the Bangladesh Bank is overseeing ten (10) packages directly
  - By February, 2022 overall disbursement progress was about 70%. However, disbursement among the low-income or marginalised businesses is lower than the average level - only 60%
- A number of stimulus packages has made hardly any progress
  - These include working capital loans for A, B and C types of industries (1.7-2.7%), and credit guarantee schemes (3.2%)
  - Sluggish progress is observed in case of pre-shipment credit refinancing (11.3%), low-interest working capital loans to micro, small and medium enterprises, including cottage industries (34.2%), working capital loans for adversely affected large industry and service sector (33.4%), agricultural refinance scheme (40.2%)
- Credit-based stimulus packages were difficult to reach marginal groups and CMSMEs due to poor bank-client relationships

5.2 Stimulus packages

- ***Give priority to disbursing support under stimulus packages***
  - It is found that new phase of the stimulus package for certain target economic activities has been introduced and loan disbursement has been continued although the earlier phase has not yet been fully implemented
  - The Bangladesh Bank should be asked to not allow new stimulus packages until the earlier packages are fully disbursed
- ***Meet loan disbursement targets***
  - Bangladesh Bank should be asked to put pressure on the commercial banks to meet their loan disbursement targets particularly those that are earmarked for agriculture, CMSMEs, and other economic activities which have wide ranging welfare implications
  - Banks should be asked to encourage their branches to disburse loans by exploring the need of potential clients
- ***Promote agri-refinance scheme***
  - Agriculture refinance scheme needs to be promoted by the Bangladesh government to incentivise introduction of new technology for planting and harvesting taking into account of the high demand for subsidised credit in order to ensure adequate supply of agricultural crops in the market

5.2 Stimulus packages

❑ *Implement Basel III*

- Bangladesh Bank should be asked to implement the Basel III in the banking sector in order to mitigate the risks facing financial sector and improve financial sector governance
- Whilst the BB has relaxed capital adequacy ratio in view of the pandemic, banks should be required to ensure that risk factors are properly dealt with

❑ *Ensure repayment of loans*

- Repayment of loans distributed under the package needs to be given due importance
- Bangladesh Bank should be asked to closely monitor the state of repayment of the loan and ensure compliance with BB regulations

❑ *Set up an independent banking reforms commission*

- In view of the state of the banking sector, the government should set up an independent banking reforms commission

6. Fiscal policy for maximising social welfare

Budget allocation in health sector

- **Actual expenditure** in the health sector **decreased by 6%** from BDT 18,677 in FY19 to BDT 17,532 crore in FY20
- Bangladesh's **budget allocation for the health sector** has been **less than 1% of GDP for the past 13 years**
- On the contrary, *in 2017 at least 30 Least Developed Countries (LDCs) spent more than 1% of GDP on health*
- **The out-of-pocket expenditure on health in Bangladesh is the highest in South Asia**
- It is necessary to increase the budget allocation and budget utilisation of the health sector, and also implement a number of fiscal measures to promote improved public health and in turn maximise welfare for society

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A single and specific tax on cigarettes: BDT 10 per stick

- The government should **eliminate the tiers of cigarette taxation and replace them with a single universal system**
- Additionally, **a specific excise duty, which is fixed per stick and per pack, should be implemented** instead of an ad valorem tax

Proposed tax structure for cigarettes (per pack of 10 cigarettes)

<table>
<tr><th colspan="6">Current tax structure in FY 2021-2022</th><th colspan="5">Proposed tax structure for FY2022-2023</th></tr>
<tr><th></th><th colspan="2">Retail price</th><th colspan="3">SD</th><th></th><th colspan="2">Retail price</th><th colspan="2">Specific excise duty</th></tr>
<tr><td>Tier</td><td>Pack of 10 (in BDT)</td><td>Per stick (in BDT)</td><td>Per pack of 10 (in %)</td><td>Per pack of 10 (in BDT)</td><td>Per stick (in BDT)</td><td>Tier</td><td>Per pack of 10 (in BDT)</td><td>Per stick (in BDT)</td><td>Per pack of 10 (in BDT)</td><td>Per stick (in BDT)</td></tr>
<tr><td>Low</td><td>39+</td><td>3.9</td><td>57</td><td>22.23</td><td>2.22</td><td rowspan="4">All</td><td rowspan="4">Market based</td><td rowspan="4">Market based</td><td rowspan="4">100</td><td rowspan="4">10</td></tr>
<tr><td>Medium</td><td>63+</td><td>6.3</td><td>65</td><td>40.95</td><td>4.10</td></tr>
<tr><td>High</td><td>102+</td><td>10.2</td><td>65</td><td>66.30</td><td>6.63</td></tr>
<tr><td>Premium</td><td>135+</td><td>13.5</td><td>65</td><td>87.75</td><td>8.78</td></tr>
</table>

CPD (2022): CPD's Recommendations for the National Budget FY2022-23

A single and specific tax on Bidi: BDT 3 per stick

CPD proposes a specific excise tax of BDT 3 per stick for all Bidi to be implemented in FY23

Proposed tax structure for Bidi

<table>
<tr><th colspan="6">Current tax structure in FY2021-2022</th><th colspan="5">Proposed tax structure in FY2022-2023</th></tr>
<tr><th></th><th colspan="2">Retail price</th><th colspan="3">SD</th><th></th><th colspan="2">Retail price</th><th colspan="2">Specific excise duty</th></tr>
<tr><th>Type of bidi</th><th>Per pack (in BDT)</th><th>Per stick (in BDT)</th><th>Per pack (in %)</th><th>Per pack (in BDT)</th><th>Per stick (in BDT)</th><th>Type of bidi</th><th>Per pack (in BDT)</th><th>Per stick</th><th>Per pack (in BDT)</th><th>Per stick (in BDT)</th></tr>
<tr><td>Non-filtered 25 stick handmade bidi</td><td>18</td><td>0.72</td><td>30</td><td>5.40</td><td>0.22</td><td rowspan="5">All</td><td rowspan="5">Market based</td><td rowspan="5">Market based</td><td>75</td><td rowspan="5">3</td></tr>
<tr><td>Non-filtered 12 stick handmade bidi</td><td>9</td><td>1.33</td><td>30</td><td>2.70</td><td>0.23</td><td>36</td></tr>
<tr><td>Non-filtered 8 stick handmade bidi</td><td>6</td><td>1.33</td><td>30</td><td>1.80</td><td>0.23</td><td>24</td></tr>
<tr><td>Filtered 20 stick handmade bidi</td><td>19</td><td>1.05</td><td>40</td><td>7.60</td><td>0.38</td><td>60</td></tr>
<tr><td>Filtered 10 stick handmade bidi</td><td>10</td><td>1.00</td><td>40</td><td>4.00</td><td>0.40</td><td>30</td></tr>
</table>

CPD (2022): CPD's Recommendations for the National Budget FY2022-23

A single and specific tax on Jarda and Gul: BDT 6 per gram

Proposed tax structure for Jarda and Gul

Current tax structure in FY2021-2022						Proposed tax structure in FY2022-2023				
	Retail price		SD				Retail price		Specific excise duty	
Type of product	Per 10gm (in BDT)	Per gm (in BDT)	Per 10 gm (in %)	Per 10 gm (in BDT)	Per gm (in BDT)	Type of product	Per 10gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)
10gm Jarda	40	4	55	22	2.2	10gm jarda	Market based	Market based	60	6
10gm Gul	20	2	55	11	1.1	10gm gul				

- CPD proposes a **specific excise duty of BDT 6 on per gram of Jarda and Gul** to be implemented in FY23
- Such a specific tax on Jarda and Gul should be increased by at least BDT 1 each year, to account for annual inflation and income growth

Corporate tax on tobacco product manufacturing companies

Proposed corporate tax on tobacco product manufacturing companies

	Current tax structure in FY22		Proposed tax structure for FY23		Proposed tax structure for FY26	
Type of company	**Corporate tax (in %)**	**Surcharge (in %)**	**Corporate tax (in %)**	**Surcharge (in %)**	**Corporate tax (in %)**	**Surcharge (in %)**
All companies manufacturing tobacco products	45	2.5	50	5	55	7.5

- CPD proposes that the **corporate tax on all companies manufacturing tobacco products**, such as cigarette, bidi, chewing tobacco, jarda, and gul, to be **increased** from 45% in FY22 to **50% in FY23**, and the associated **surcharge** to be increased from 2.5% in FY22 to **5% in FY23**
  - *It is also proposed that the corporate tax on all companies manufacturing tobacco products to be increased to 55%, and the associated surcharge to be increased to 7.5%, in 2026 when Bangladesh graduates from the LDC group*

A hard tax on soft drinks and energy drinks

- Carbonated soft drink and energy drinks contain a substantial amount of sugar which is a major cause for obesity, diabetes, and tooth decay
- Typically, **a single can of a soft drink** which is around 355 millilitres, contains **39 grams of sugar** is equivalent to roughly about **10 teaspoons of sugar**, while the World Health Organisation (WHO) recommends that adults **should not consume more than 6 teaspoons of sugar daily to lead a healthy lifestyle**
  - Currently, the beverage and carbonated industry is subjected to a 25% SD for carbonated soft drinks, 35% SD for energy drinks, and 15% VAT applicable for both

A hard tax on soft drinks and energy drinks

Proposed Tax Structure for Soft Drinks and Energy Drinks

Current Tax Structure for FY 2021-2022			Proposed Tax Structure for FY 2022-2023			
Beverage	**SD (%)**	**VAT (%)**	**Beverage**	**Specific excise duty (BDT per ml)**	**Specific excise duty (BDT per litre)**	**VAT (%)**
Soft drinks	25	15	Soft drinks	0.10	100	15
Energy drinks	35	15	Energy drinks	0.10	100	15

- For soft drinks and energy drinks, **CPD recommends that the government should put a specific excise duty of BDT 0.10 per ml or BDT 100 per litre**
- Placing a specific excise duty on soft drinks and energy drinks **will provide the government with substantial revenue** and also minimise the risks of related diseases and health expenditures of the general people
- This will also allow the economy to achieve SDG target 3.4 which aims to **reduce non-communicable diseases** by one-third by 2030

Tax on sanitary napkins: a gender tax harming women and girls

- **Menstrual hygiene is a fundamental right for women and girls which is violated when menstrual hygiene products are subjected to all kinds of tax**
- Locally produced **sanitary napkins and similar sanitary products** are subjected to **high prices** because of **high total tax incidence (TTI) on imports of raw materials** required for their manufacture
- According to Bangladesh Customs, SD on imported raw materials required for manufacturing sanitary napkins, such as air laid paper was 20%, VAT and advance income tax (AIT) on other necessary raw materials were 15% and 5%, respectively in FY22

CPD (2022): CPD's Recommendations for the National Budget FY2022-23

Tax on sanitary napkins: a gender tax harming women and girls

- **CPD proposes that:**
  - **TTI on imported raw materials required to produce sanitary napkins should be zero by exempting all form of VAT, CD, SD AIT, RD, AT and AIT**
  - Raw materials used to produce sanitary napkins fall under 12 HS codes, including 48239094, 35052000, 35069110, 39069000, 39199020, 39201020 and 40021100
  - TTI of all these raw materials **should be made zero** to ensure affordable sanitary napkins for women and girls from all levels of income
  - The **TTI on imported sanitary napkins** in FY22 was **127.72%**, which is recommended to **be reduced to 31.93% in FY23** so that the product remains low-priced, but at the same time the domestic manufacturers of sanitary napkins receive some level of tariff protection

Tax on medicines in view of LDC graduation

- Under the VAT and Supplementary Duty Act 2012, the government imposed 2.4% VAT on pharmaceuticals including medicines at local trading stage and 15% VAT on import of pharmaceutical ingredients and raw materials for production
- As an LDC, Bangladesh's pharmaceutical industry is currently enjoying facilities under WTO's Trade Related Property Rights (TRIPS) pharmaceutical waiver
- The TRIPS pharmaceuticals waiver will be withdrawn starting from 2026, so Bangladesh will lose the LDC-specific support measures under this agreement.
- CPD recommends that the **VAT on medicines should be exempted starting from FY26** to ensure that medicines continue to be affordable to all even after the loss of TRIPS waiver in 2026

Budget allocation in the education sector

- Education budget as a *share of total budget* **decreased from 14% in FY10 to 11.92% in FY22**
- The revised education budget as a *share of GDP* **decreased to 2.08% in FY22 from 2.14% in the revised budget for FY21**
  - Education budget utilisation has been decreasing over the years, in particular for development expenditure
  - Therefore, it is necessary to not only **increase the budget allocation and budget utilisation of the education sector**, but also to undertake a variety of fiscal policies to encourage better education and, as a result, maximise social welfare
  - In the following exposition, fiscal measures for a few selected items are suggested

Removal of existing taxes on education

- While the government has exempted Bengali medium schools, and later private universities from paying VAT on tuition fees, the **VAT on English medium schools continues to be at 5%**
  - The existing VAT puts an additional burden on the parents of middle-income households
  - **Therefore, the VAT on tuition fees for English medium schools should be exempted in FY23**
- English medium schools follow international curriculum and their students are assigned to read imported foreign books. At present the **total tax incidence on imported books is 73.96%**
  - This puts further strain on families from middle-income households and impedes the efforts made in order to achieve SDG 4, which aims for inclusive and quality education for all
  - **Therefore, all taxes on imported foreign books should also be exempted in FY23**

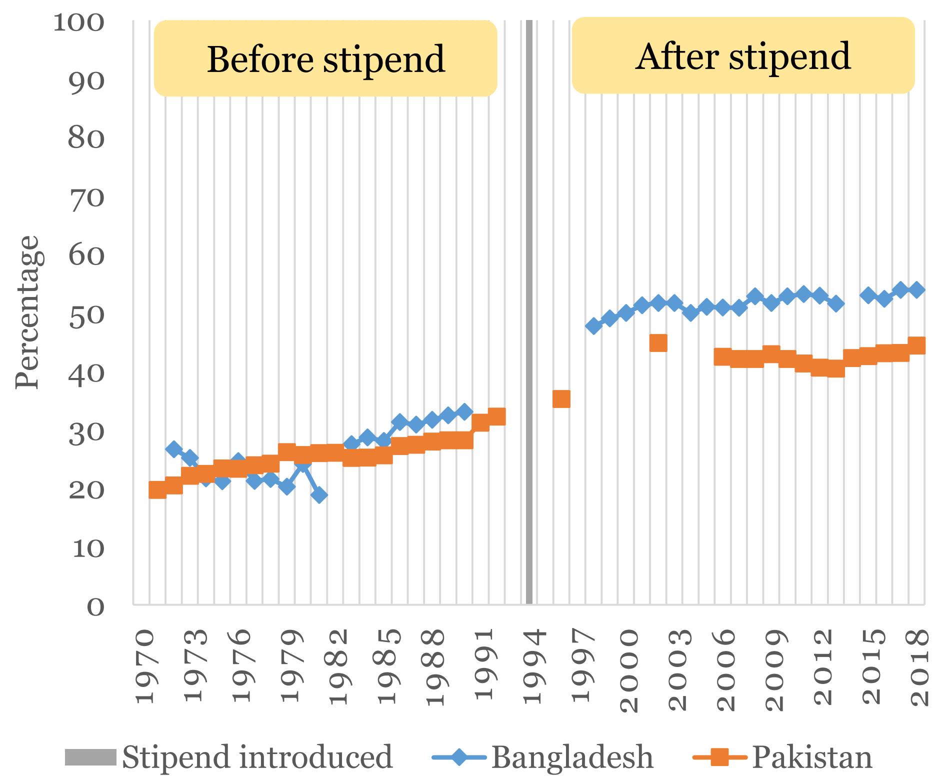
The female education stipend: a Bangladeshi success story

❑ *Allocation for 3 kinds of education stipends were reduced in FY22*

Description	RBFY21 (BDT in crore)	FY22 (BDT in crore)	Change (in %)
Primary School Stipend	3712	1900	-49
Secondary & Higher Secondary Stipend	2832	1841	-35
Stipends for Undergraduate and Postgraduate Level Students	96	80	-17

- ❑ In **1981**, only **19% secondary school pupils in Bangladesh were female**, compared to 26% in Pakistan
- ❑ In 1982, the government of Bangladesh initiated the female secondary education stipend
- ❑ Results from a pilot project showed that girls' **secondary enrolments increased from an average of 7.9% to 14%**
- ❑ In 1994, the highly successful programme was launched nationwide
- ❑ In **2018**, girls comprised of **54% secondary school pupils in Bangladesh** compared to only 44% in Pakistan

Secondary education, general pupils (% female)



Proposal for increased budget allocation for all education stipends

- **CPD proposes an increase in the allocation for all education stipends to be implemented in the budget for FY23**

	Current stipend structure in FY2021-22			Proposed stipend structure in FY2022-23	
Name of stipend	**Number of beneficiaries (in crore)**	**Total budget allocation (in crore BDT)**	**Allocation per beneficiary per year (in BDT)**	**Total budget allocation (in crore BDT)**	**Allocation per beneficiary per year (in BDT)**
Student stipend for primary education level	1.400	1,900	1,357	8,400	6,000
Stipends for secondary, higher secondary and madrasah education level students	0.523	1,841	3,524	5,225	10,000
Stipends for undergraduate and postgraduate level students	0.013	80	6,142	195	15,000
Stipends for students of technical education institutions	0.056	330	5,935	834	15,000
Stipends for physically challenged students	0.010	96	9,564	200	20,000
Stipend for improving the livelihood of transgender, Bede and disadvantaged community	0.003	26	9,759	54	20,000
Total for stipend programmes	2.004	4,273		14,908	

7. Fiscal measures to support green transition

Budget for a breath of fresh air

- As of 31 December 2021, *the particulate matter (PM) 2.5 concentration* in Bangladesh's air was **15.4 times above the safe air quality guideline** of the World Health Organisation (WHO)
- Bangladesh is committed to reduce greenhouse gas (GHG) emissions by 6.73% in five sectors namely, power, transport, industry, waste and land use by 2030 as per its Nationally Determined Contribution (NDC) document
- According to the updated NDC of Bangladesh, USD 14.9 billion and USD 21.6 billion are required to deliver unconditional and conditional commitment respectively
- **To achieve these GHG emission reduction targets, Bangladesh needs to implement a variety of tax and regulatory measures**

Fiscal measures to reduce air pollution

- An extensive policy that considers **VAT exemption on all types of equipment in a renewable power plant**, especially solar power plants, should be considered from FY23
- An **incentive tariff can be considered for electricity generated from renewables** according to the Renewable Energy Policy 2008, which allows *electricity generated from renewable sources to be priced 10% higher than the highest purchase price of electricity generated from fossil fuel sources*
- A **1% surcharge on the goods produced by industries polluting the environment** should be implemented completely in FY23
- Bangladesh can **implement a carbon tax as low as USD 1 (BDT 86) per tonne of carbon dioxide starting from FY26**, in order to gradually meet the government's target set out in the Eighth Five Year Plan (8FYP) which aims to implement a 5% carbon tax on the price of fossil fuels by 2025 and 15% carbon tax on the price of fossil fuels by 2041

Fiscal measures to reduce air pollution

- The government should **gradually phase out fossil fuel subsidies starting from FY26** when Bangladesh will graduate from the LDC group
- A **formal feed-in tariff policy exclusively for renewable energy needs to be implemented in FY23** so a clear incentive package reaches all types of potential renewable energy producers, regardless of their generation capacity
- In order to reduce air polluting originating from the transport sector, the government should reform the advance income tax (AIT) structure on private motor vehicles so that the **AIT on fossil fuel driven motor vehicles** is **20% to 45% higher than the AIT on hybrid and fully electric vehicles**, depending on the size the vehicle's engine and electric motor

Plastic pollution getting out of hand

- Every year, between 24,032 to 36,047 tons of plastic garbage are discarded in 1,212 hot spots near canals and water bodies that are all connected to the river system in Bangladesh
- Alarmingly, **87% of the plastic waste generated in Bangladesh was inadequately managed**, which led to the country becoming the tenth largest contributor of mismanaged plastic waste in the world in 2010
- *Between 26 March 2020 and 25 April 2020, around 14,165 tonnes of single use plastic waste was generated in Bangladesh*, which included 455 million surgical masks, 1,216 million polyethene hand gloves, 189 million surgical hand gloves and 49 million bottles of hand sanitizer
- The **Ganges River**, which runs through Bangladesh and into the Bay of Bengal, was estimated to be the **second largest river source of plastic inputs into the ocean worldwide** in 2015

Fiscal measures to reduce plastic pollution

- With the goal of reducing plastic pollution, the government should **consider bringing single-use plastic products under taxation in FY23**
  - Such single-use plastic products may include: cutlery such as forks, knives, spoons, and chopsticks; plates; straws; beverage stirrers; sticks to be attached to and to support balloons; food containers made of expanded polystyrene; beverage containers made of expanded polystyrene; and cups for beverages made of expanded polystyrene
- The budget for FY23 should **allocate additional funding for the Joint Rivers Commission to establish a bilateral plastic waste reduction initiative with India**
  - The Government of India should also contribute to this initiative with funding, as well as technical and logistical support, in order to ensure the reduction of plastic waste in the 54 transboundary rivers shared between Bangladesh and India

8. Concluding remarks

8. Concluding remarks

Budget FY23 ought to be informed by a number of hard policy choices

- In order **to contain the budget deficit**, CPD has proposed measures to **enhance domestic resource mobilisation** and **raise both capacity and efficacy of public expenditure**
  - These will call for an **undertaking of new reforms** and **implementation of reform initiatives already taken**
  - **Targeted investment** in **institutional strengthening**, **inter-agency coordination** and **interoperability of systems for digital interface**, and **adequate resource allocation for human resource** building will be required
- **To ease the burden of rising prices** and shrinking purchasing power of low- and fixed-income earning people, CPD has proposed that measures be taken to **selectively reduce taxes at import and domestic stages and stabilise the exchange rate**

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8. Concluding remarks

- CPD's budget proposals are informed by an **anticipation of significantly increased subsidy requirement** in view of rising global prices
- CPD's argument has been that **people's welfare and purchasing capacity rather than the extent of budget deficit** should inform the budgetary stance for FY23
- The **interests of consumers, farmers and producers** should remain the **major concern** of policymakers
- CPD has argued **favouring restructuring of incentives** towards **export and market diversification** and **continuation of support** to **incentivise inward remittance** flows
- **Restructuring of the subsidies** should entail both **reduction** (e.g., subsidies for capacity payment in energy), **continuation** (e.g., remittance) and **enhancement** (e.g., food and fertiliser)
- A key **strategical anticipation** in this regard is that the **high prices are of transitory in nature** and that the **price levels would revert back** to the historical trends if the **current scenario involving Russia and Ukraine changes for the better** in the near-term future

8. Concluding remarks

- To raise well-being of the people, **expansion and scaling up of social safety net programmes** have been proposed by the CPD, particularly in view of the adverse footprints of the pandemic
  - The proposals have taken cognisance of the impact of the COVID on health and education sectors and on the country's children
- CPD has argued for **consolidation of SSNPs** and **introduction of universal coverage for children** through the proposed MCBP under the ambit of a separate Child Directorate mandated to integrate and implement all child-focused programmes
- CPD has proposed **separate programme for workers** including **provision for comprehensive health insurance**

8. Concluding remarks

- The **government should set up an independent oversight mechanism** to examine feasibility and assess economic and financial returns, financing modality, debt-servicing liability and ensure overall good governance in **implementation of the infrastructure projects**
- CPD has stressed the **need to implement the long-overdue reform measures** including the direct income tax act and **reforms of the SOEs** and has reiterated the need to **undertake a comprehensive public expenditure review** and **set up an independent banking reforms commission**
- From a **medium-term perspective**, concrete steps and allocations have been urged in view of the **transition from fossil-fuel based energy** to renewable energy and the **urgency of embedding green growth** in development strategy

8. Concluding remarks

- The **philosophy embedded in budgetary proposals** in developing country context is **redistribution of income favouring the marginalised groups and communities**

- In the context of Bangladesh, this is even **more urgent** in view of the **rising income and wealth inequalities** which have been **further accentuated by COVID-19** and the **rising pressure on purchasing power** of the common people leading to erosion of real income

- CPD hopes that the government will look at **FY23 budget** as **an opportunity** to **secure the well-being of the marginalised people, revive the COVID-impacted economy and stimulate private sector investment**

Independent Review of Bangladesh's Development

Thank You

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