Independent Review of Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

National Budget for FY2019-20
An Analytical Perspective

Dhaka: 14 June 2019

CENTRE FOR POLICY DIALOGUE

www.cpd.org.bd

CPD IRBD 2019 Team

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I. INTRODUCTION

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CPD warmly congratulates the Hon'ble Finance Minister A H M Mustafa Kamal, FCA, MP for presenting his inaugural budget. CPD also wishes his early recovery.

I. INTRODUCTION

- Our objective is to present an analytical perspective on the National Budget FY2019-20 presented yesterday at the National Parliament.

To do that we use the following lenses:

- Delivery of the 7FYP targets in its fiscal year
- Follow up on the election pledges
- Commitments under the SDG framework
- Addressing of the recent macroeconomic tensions

All data used for empirical analysis are sourced from relevant government publications.

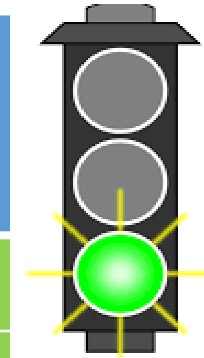
We would structure our presentation under the following heads:

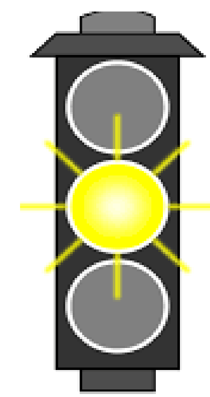
- Macroeconomic scenario
- Fiscal framework
- Annual Development Plan (ADP)
- Fiscal Measures
- Sectoral issues

II. MACROECONOMIC PERSPECTIVES

Performance as against 7FYP

Macroeconomic indicators	Target in 7FYP (2019)	Performance (FY2019)	Difference (%)	Comments
GDP Growth	7.6	8.13	7%	Achieved
CPI inflation	5.7	5.49	(-)4%	Achieved
Investment (% of GDP)	32.7	31.56	(-)3%	Moderately Lagging behind
Private investment (% of GDP)	25.1	23.4	(-)7%	Moderately Lagging behind
Public investment (% of GDP)	7.6	8.17	8%	Achieved
Gross national savings (% of GDP)	30.7	28.41	(-)7%	Moderately Lagging behind

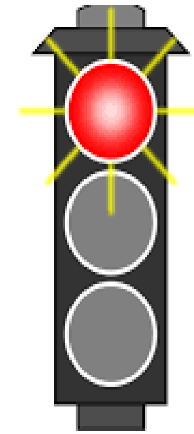




Although the target for public investment (% of GDP) has been met, the total investment scenario is still lagging behind due to low contribution of private investment.

Performance as against 7FYP

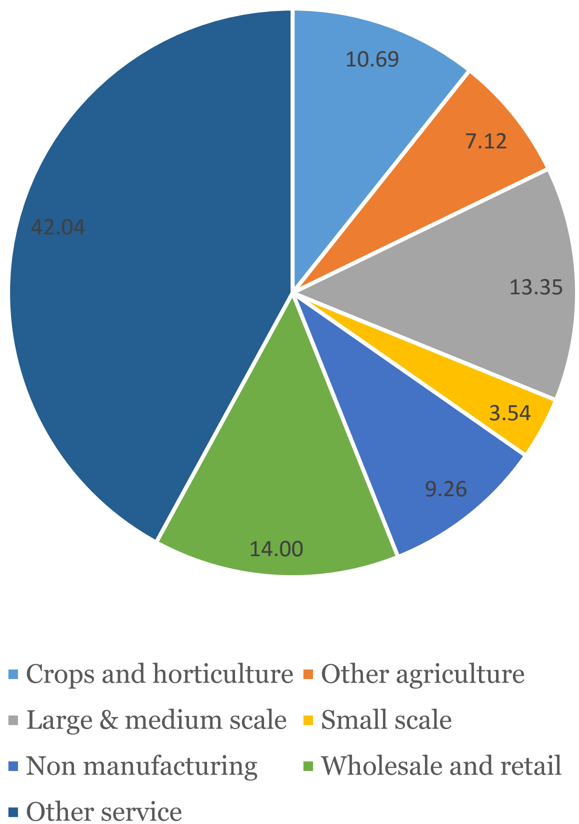
External sector	Target in 7FYP (FY2018)	Performance (FY2018)	Difference (%)	Comments
Remittance (million USD)	20986.4	14978.78	(-)28.63%	Alarmingly Lagging behind
FDI (net million USD)	5871.2	2798	(-)52.34%	Alarmingly Lagging behind
Export f.o.b (including EPZ) (million USD)	42001.6	36668.2	(-)12.7%	Alarmingly Lagging behind



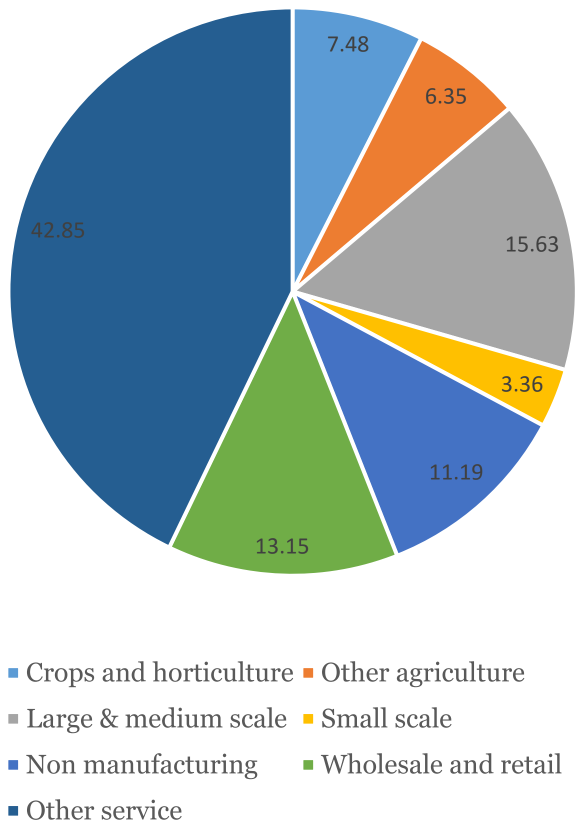
II. MACROECONOMIC PERSPECTIVES

Is structural transformation really happening in Bangladesh??

Sectoral share of GDP at current prices, 2010



Sectoral share of GDP at current prices, 2018



- Services sector contributes to the highest share in GDP (more than 50%) - dominated by wholesale and retail (13.15% in FY18)
- Manufacturing has continuously increased - dominated by large and medium scale industries (13.35% in FY10 and 15.63% in FY18)

II. MACROECONOMIC PERSPECTIVES

❑ Confronting challenges originating in global economy

- Global economic growth - projected to slow down from 3.6% in 2018 to 3.3% in 2019 (IMF, 2019)
- Global economy likely to slow down to 2.9% in 2019 as trade, investment weaken (World Bank, 2019)
- Crude oil prices (barrel)– in 2018 the price was USD 68 which is expected to fall into average USD 66 in 2019 and USD 65 in 2020 (World Bank, 2019).
- Fertiliser prices - to increase further (World Bank, 2019)
- Chinese Yuan, Indian Rupee, Vietnam Dong– are likely to devalue

❑ Confronting opportunities originating from global economy

- US-China trade war, suspension of trade benefits by US to Turkey creates export opportunities for Bangladesh

II. MACROECONOMIC PERSPECTIVES

Growth, investment and inflation

Indicator	FY10 (A)	FY11 (A)	FY12 (A)	FY13 (A)	FY14 (A)	FY15 (A)	FY16 (A)	FY17 (A)	FY18 (A)	FY19 (B)	FY19 (R)	FY20 (p)	FY21 (p)	FY22 (p)
GDP growth (%)	5.57	6.46	6.52	6.01	6.06	6.55	7.11	7.28	**7.86**	**7.80**	**8.13**	**8.20**	**8.40**	**8.60**
Investment (as % of GDP)	26.25	27.42	28.26	28.39	28.58	28.89	29.65	30.51	**31.20**	**33.54**	**31.60**	**32.80**	**33.60**	**34.40**
Private (as % of GDP)	21.57	22.16	22.50	21.75	22.03	22.07	22.99	23.10	23.30	25.15	23.40	24.20	24.70	25.40
Public (as % of GDP)	4.67	5.26	5.76	6.64	6.55	6.82	6.66	7.41	8.00	8.39	8.20	8.60	8.90	9.00
ICOR	4.71	4.24	4.33	4.72	4.71	4.41	4.17	4.19						
CPI inflation (%)	6.82	10.91	8.76	6.77	7.35	6.41	5.92	5.44	**5.80**	**5.60**	**5.50**	**5.50**	**5.50**	**5.50**

- The GDP growth rate shows consistent improvement over the years which already exceeded the target for 7FYP (7.6%).
- The GDP growth target for FY20 has been set at 8.2% compared to 8% target in 7FYP (8.13% in FY19, provisional).
- **The investment (as % of GDP) sluggishly improved mostly due to public investment.**
- **Private investment (as % of GDP) remains the "Achilles Heel"** in macroeconomy. In FY20 the projected private investment (as % of GDP) is even lower than the FY19 budget (25.15%).
- ICOR is expected to rise (decline in capital productivity) in FY20.
- **CPI inflation is expected to remain steady** at 5.5%, as FY19.

II. MACROECONOMIC PERSPECTIVES

Fiscal framework (as % of GDP)

Indicator	FY10 (A)	FY11 (A)	FY12 (A)	FY13 (A)	FY14 (A)	FY15 (A)	FY16 (A)	FY17 (A)	FY18 (A)	FY19 (B)	FY19 (R)	FY20 (p)	FY21 (p)	FY22 (p)
Revenue (% of GDP)	**9.52**	**10.15**	**10.87**	**10.69**	**10.45**	**9.63**	**9.98**	**10.18**	**9.60**	**13.40**	**12.50**	**13.10**	**13.40**	**13.80**
NBR Revenue (% of GDP)	7.49	8.33	8.68	8.62	8.29	8.18	8.44	8.69	8.30	11.70	11.00	11.30	11.60	12.00
Non-NBR Revenue (% of GDP)	0.34	0.36	0.34	0.34	0.34	0.32	0.33	0.33	0.30	0.40	0.40	0.50	0.50	0.50
Non-Tax Revenue (% of GDP)	1.68	1.47	1.84	1.72	1.81	1.13	1.22	1.17	1.00	1.30	1.10	1.30	1.30	1.30
Expenditure (% of GDP)	**12.74**	**14.01**	**14.45**	**14.51**	**14.01**	**13.48**	**13.76**	**13.64**	**14.30**	**18.30**	**17.50**	**18.10**	**18.40**	**18.80**
of which, ADP (% of GDP)	3.20	3.63	3.55	4.13	4.12	3.98	4.58	4.26	5.30	6.80	6.60	7.00	7.10	7.20
Budget Deficit (% of GDP)	2.82	3.63	3.24	3.25	3.09	3.70	3.67	3.42	**4.70**	**4.90**	**5.00**	**5.00**	**5.00**	**5.00**
Domestic Financing (% of GDP)	1.98	3.34	2.89	2.77	2.84	3.38	2.93	2.83	3.50	2.80	3.10	2.70	3.00	3.20
of which, Banking (% of GDP)	-0.26	2.75	2.58	2.29	1.35	0.03	0.61	-0.42	0.50	1.70	1.20	1.60	2.20	2.50
Foreign Financing (% of GDP)	0.76	0.29	0.34	0.48	0.25	0.32	0.74	0.59	1.20	2.10	1.90	2.40	2.00	1.80

- Aspiration for **Revenue (as % of GDP) and NBR revenue (as % of GDP) of FY20 is lower than that of previous year FY19(B).** Similar trend is observed for expenditure (as % of GDP).
- **The revenue (% of GDP) is relatively stabled** over the last 10 years without major improvement, however the **gap between the performance and the target of 7FYP increased** over time.
- Revenue and expenditure targets for FY20 are falling short of 7FYP target by approx. 18% and approx. 14% respectively.
- For domestic financing, there is almost similar level of projected reliance on banking and foreign financing is expected to increase.

II. MACROECONOMIC PERSPECTIVES

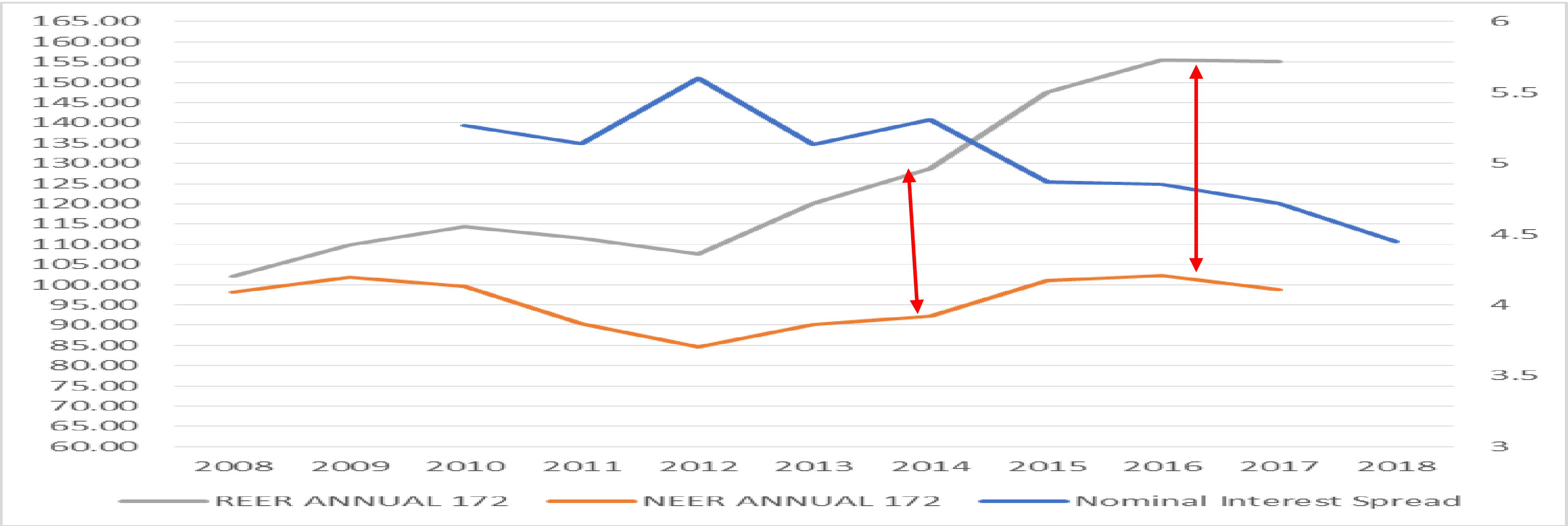
Monetary and external sector

Indicator	FY10 (A)	FY11 (A)	FY12 (A)	FY13 (A)	FY14 (A)	FY15 (A)	FY16 (A)	FY17 (A)	FY18 (A)	FY19 (B)	FY19 (R)	FY20 (p)	FY21 (p)	FY22 (p)
Money Supply (growth in %)	22.44	21.34	17.39	16.71	16.09	12.42	16.35	10.88	9.20	14.60	12.00	12.50	12.80	13.00
Domestic Credit (growth in %)	17.77	27.55	19.51	11.02	11.57	9.97	14.22	11.16	14.70	15.60	15.90	14.50	15.70	16.50
Private Sector Credit (growth in %)	24.24	25.84	19.72	10.85	12.27	13.19	16.78	15.66	16.90	16.50	16.50	16.60	16.70	16.80
Export (growth in %)	4.11	41.49	5.99	11.21	11.69	3.39	9.77	1.16	6.40	10.00	15.00	12.00	12.00	12.00
Import (growth in %)	5.50	41.80	5.50	-4.00	19.30	0.10	5.90	9.00	25.20	12.00	6.00	10.00	10.00	10.00
Remittances (growth in %)	13.40	6.03	10.24	12.60	-1.61	7.65	-2.52	-14.48	17.30	15.00	12.00	13.00	12.00	11.00

- **Money supply projection manifests a subdued outlook.**
- Expected money supply (growth in %) in 2020 is 12.5 where as in 7FYP the target was 15.9%.
- The growth of money supply gradually decreased except for the sudden peak in FY16 (16.35%). **The projected money supply growth in FY20(12.50%) is lower than the budget of FY19(14.60%).**
- **Private sector credit growth is steady and consistent with the subdued projected performance of private investment.**
- After slight increase of remittance in FY20, it is projected to decline by 1 percentage point in each of the next 2 years.
- In FY20 export is expected to decline 3 percentage points, whereas import is expected to increase 4 percentage points.

II. MACROECONOMIC PERSPECTIVES

How exchange rate (nominal and real) and Interest Rate have moved overtime



Source: Bruegel Datasets

- ❑ While NEER is fluctuating over the years, REER is manifesting downward trend causing the gap between the REER and NEER to narrow down
- ❑ An increase in REER means that export is becoming more expensive while import is becoming cheaper. Thus, this increase indicates a loss in trade competiveness in Bangladesh.

II. MACROECONOMIC PERSPECTIVES

- Some general conclusions can be made for the macroeconomic performance of the country:
  - **Mobilisation target**

    -Revenue dimension remains weak
  - **Banking sector**

    - new pressure on fragile situation due to government borrowing
  - **External balance**

    - BOP may not improve, exchange rate has not been addressed at all

III. FISCAL FRAMEWORK

III. FISCAL FRAMEWORK

- Revenue-GDP ratio decelerated since FY12 to be 9.6% in FY18
- Public expenditure-GDP ratio also declined since FY13, and reached 13.5% in FY18
- Between FY09 and FY18 –
  - Development expenditure increased faster than non-development expenditure
  - Public expenditure also increased faster than revenue collection
- Regrettably, since FY13 –
  - Implementation of programmed budget has declined considerably in terms of revenue mobilisation, public expenditure and ADP – **bad programming!**
  - Eventually, the 7FYP targets as regards fiscal framework have become **irrelevant!**
  - Gap between growth rates of revenue collection and public expenditure has increased
  - Growth of direct tax collection slowed down, compared to that of indirect tax
  - Almost half of ADP expenditure further concentrated in the last quarter
  - Budget deficit, despite being below the programmed level, increased
  - Incremental budget deficit was financed from domestic borrowing, particularly through sales of NSD certificates, while utilisation rate of foreign funds declined

III. FISCAL FRAMEWORK

Broad fiscal framework for FY20

- **Revenue** (19.3%) projected to grow **faster** than **public expenditure** (18.2%)
  - Total budget expenditure is set at 18.1% of GDP (17.4% in RBFY19)
  - Revenue income will be 13.1% of GDP (12.5% in RBFY19)
- **Development expenditure** (22.0%) programmed to grow **faster** than **operating expenditure** (16.3%)
- **ADP**: 38.7% of total public expenditure (37.7% in the RBFY19)
- **Budget deficit** has been projected at 5.0%of GDP (same as RBFY19)
- Balance in financing the budget deficit is likely to be restored through limited foreign financing and increased bank borrowing
  - NSD sales is programmed to be reduced substantially (by 40%)

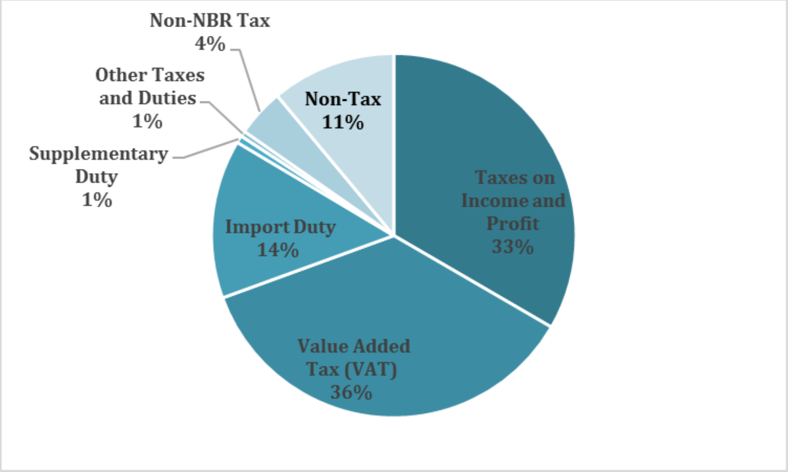
III. FISCAL FRAMEWORK

Revenue mobilisation

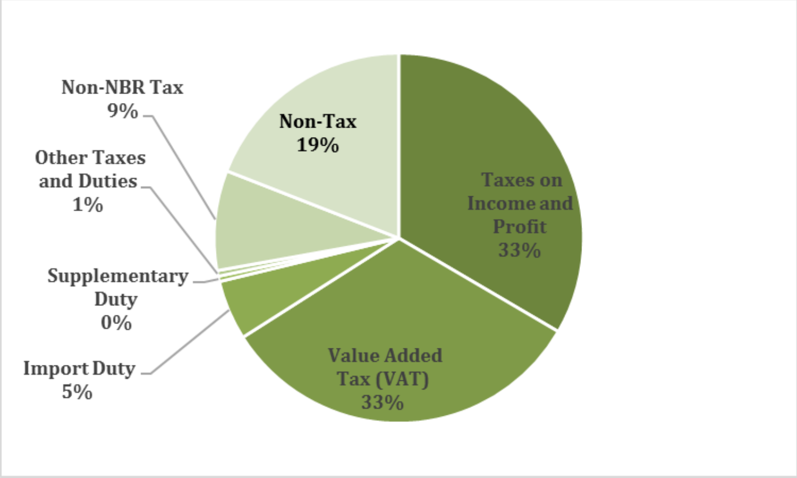
FY20 (Crore Tk.)	377,810
FY19 (Revised Budget) (Crore Tk.)	316,613
FY19 (CPD Projection) (Crore Tk.)	254,280
Target Growth (%) FY20 (Budget)	19.3
Target Growth (%) FY20 (CPD Projection)	48.6

- Budget FY20 targets a 19.3% growth over RBFY19
  - CPD projection: more than 48% - an additional Tk. 146,000 crore may need to mobilised
- NBR to grow by 16.3% (accounting for 74.5% of incremental revenue)
- Non-tax revenue is expected to service 17.5% of the incremental revenue with a robust growth of 39.6%
- SCBs are expected to provide Tk. 2,731 crore in the form of dividends
- Document registration fee an additional Tk. 4,200 crore
- Import duty growth target is only 6.5%

Share of revenue FY20



Incremental share of revenue FY20



III. FISCAL FRAMEWORK

Revenue mobilisation

- Despite implementing long awaited new Act, VAT is expected to grow by 17.4% compared to income tax (19.7%)
- Composition of individual and corporate income tax to remain the same (40:60)
- Revenue collection by the LTUs to grow slower (11.2) due to marginal improvement expected in collection of VAT and SD (4.3%)

III. FISCAL FRAMEWORK

Total Public Expenditure

Sector	Share in BFY20	Share in RBFY19	Change in FY20B over FY19R		Incremental Share
	%		Crore Tk	%	%
Public Service	18.4	15.3	28895.0	42.8	35.8
Education and Technology	15.2	15.0	13213.0	19.9	16.4
Transport and Communication	12.4	11.1	15632.0	31.8	19.4
Interest	10.9	11.0	8325.0	17.1	10.3
LGRD	7.2	7.8	3564.0	10.4	4.4
Defence Services	6.1	6.9	1400.0	4.6	1.7
Social Security and Welfare	5.6	6.0	2821.0	10.6	3.5
Agriculture	5.4	5.7	2997.0	11.8	3.7
Energy and Power	5.4	6.0	1548.0	5.8	1.9
Public Order and Safety	5.3	6.3	-431.0	-1.5	-0.5
Health	4.9	5.0	3393.0	15.2	4.2
Housing	1.3	1.4	458.0	7.5	0.6
Recreation, Culture and Religious Affairs	0.8	1.0	-178.0	-3.9	-0.2
Industrial and Economic Services	0.7	0.8	131.0	3.5	0.2
Others (Memorandum Item)	0.2	0.5	-1119.0	-47.3	-1.4
Total Expenditure	100.0	100.0	80649.0	18.2	100.0

- Public services and interest payments account for 46.2% of total incremental expenditure

III. FISCAL FRAMEWORK

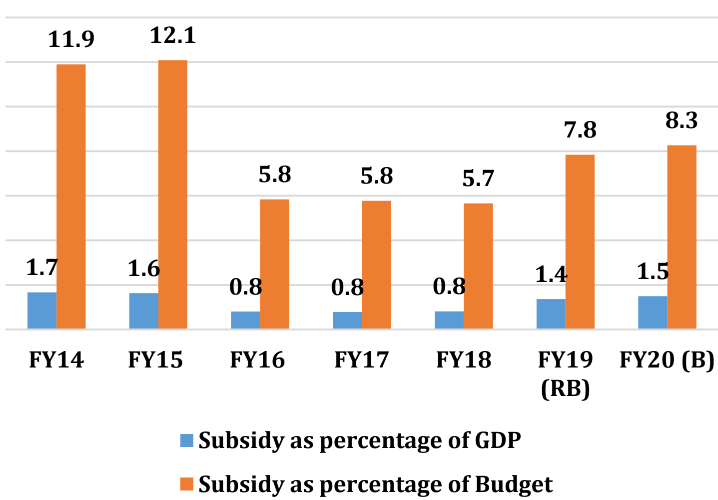
- **Public Services Sector** receives incremental Tk. 28,895 crore of which Tk. 28,108 crore is for Finance Division
- Investments in Equities is expected to almost double to Tk. 25,063 crore in FY20 (Tk. 13,883 crore in RBFY19)
  - Surprisingly, no explanation has been given for keeping such a large amount for investment in equities!
  - It may noted that Tk. 3,516 crore was spent in FY18 on this account against an allocation of Tk. 11,945 crore
- Tk. 20,537 has been kept for providing loan to autonomous bodies
- Total incremental allocation for Interest Payments – Tk. 8,325 crore
  - Of which, domestic - Tk. 7,520 crore
  - Incremental allocation for interest on national savings (NSD) - Tk. 3,000 crore

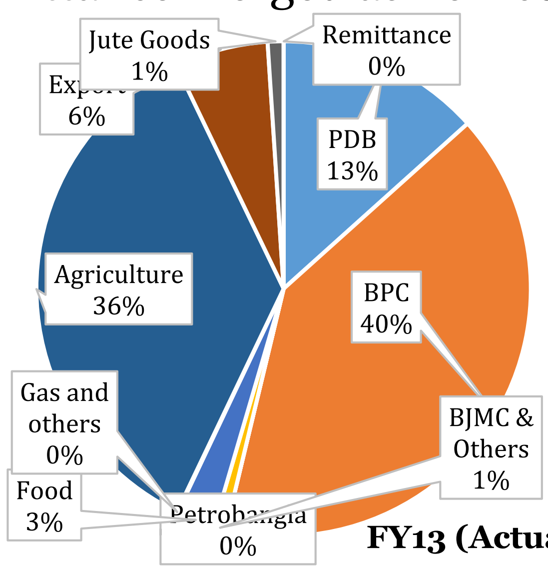
III. FISCAL FRAMEWORK

Subsidy and incentives

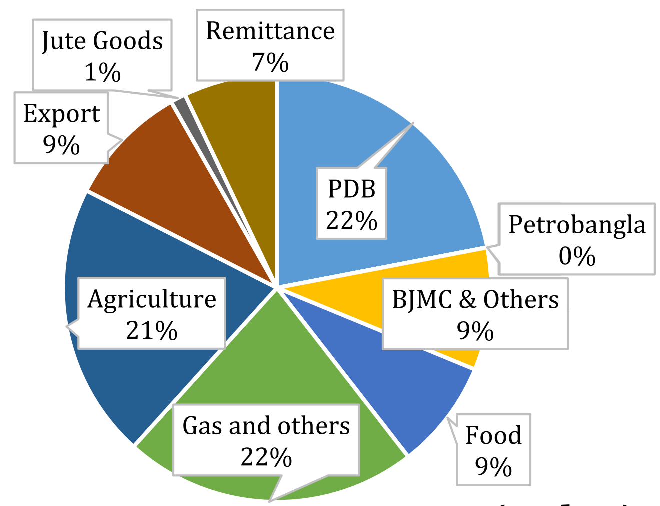
- Total allocation for FY20: Tk. 43,230 crore
  - Accounts to 8.3% of budget and 1.5% of GDP
  - 24.5% increase from RBFY19, the highest in last decade
  - Over the last seven fiscal years, the composition of subsidy has shifted from agriculture and BPC towards Power and Gas
  - Remittance merged as new component (7%)

Subsidy: Share of GDP and total budget





FY13 (Actual)



FY20 (Budget)

III. FISCAL FRAMEWORK

- **Agriculture** received 20.8% of the total allocation (Tk. 9,000 crore) – a similar allocation since FY14
- During the last three fiscal years, it has never been possible to fully spend the agriculture subsidy (Tk. 2,570 crore, Tk. 5,390 crore and Tk. 3,800 crore remained unutilised in FY16, FY17 and FY18)
  - Low price of fertilisers in the world market (fertiliser price index dropped from 98.4 in 2015 to 74.3 in 2017) helped to keep the subsidy demand low during this time
  - Even if we consider the increased rising global price of urea fertiliser into account, Tk. 3,500 crore may remain unutilised in FY19
- Government has proposed that subsidies will be provided towards mechanisation of harvesting. However, no specific on details or allocation was mentioned!

III. FISCAL FRAMEWORK

- **Power and Energy – BPDB received Tk. 9,500** crore due to increased demand (3.3% increase from RBFY19)
  - Power generation with imported LNG and upward trend in global oil price created added demand for subsidy
  - **Subsidy for Gas and others registered a 113.3% growth in FY20 (Tk. 9,600 crore) over RBFY19**
  - **BPC made a profit of Tk. 29,409 crore during FY15-FY19 and repaid all its loans to the government. Since FY16 BPC did not need any subsidy. No allocation is made for FY20**
- **BJMC** received a allocation of Tk. 4,000 crore (Tk. 4,100 crore in RBFY19) which incurred a loss of Tk. 3,055 crore during FY15-FY19.
  - A reform agenda is a must for this sector!

Cash Incentives

- The budget FY20 has proposed new fiscal incentives for **export sector**
  - Cash incentive of 1% for the RMGs export which are not being receiving the prevailing 4% incentive – An allocation of additional 2,825 crore will be provided (CPD estimated that an additional Tk. 3,300 crore may be required in FY20)
- A 2% cash incentive has been proposed- will likely increase the **remittance inflow** via formal channels by effectively acting as means of exchange rate depreciation for remitters – dual exchange rate?
  - Will create a fiscal burden to the tune of around Tk. 3,060 crore
- These cash incentives are equivalent to 65.4% of agricultural subsidy in FY20
- CPD proposed a **gradual depreciation of BDT to also help incentivising export and remittances** – hence, cash incentives would not be required!
- Government could save Tk. 9,385 crore from unutilised agriculture subsidies and if it would depreciate the currency instead of the cash incentives. Thus, it could easily provide **a one-time Tk. 5,000 to each card holding farmer's bank account (proposed by CPD)** which accounts to 9,100 crore to compensate somewhat for their incurred losses during this Boro season

Contingent Liability

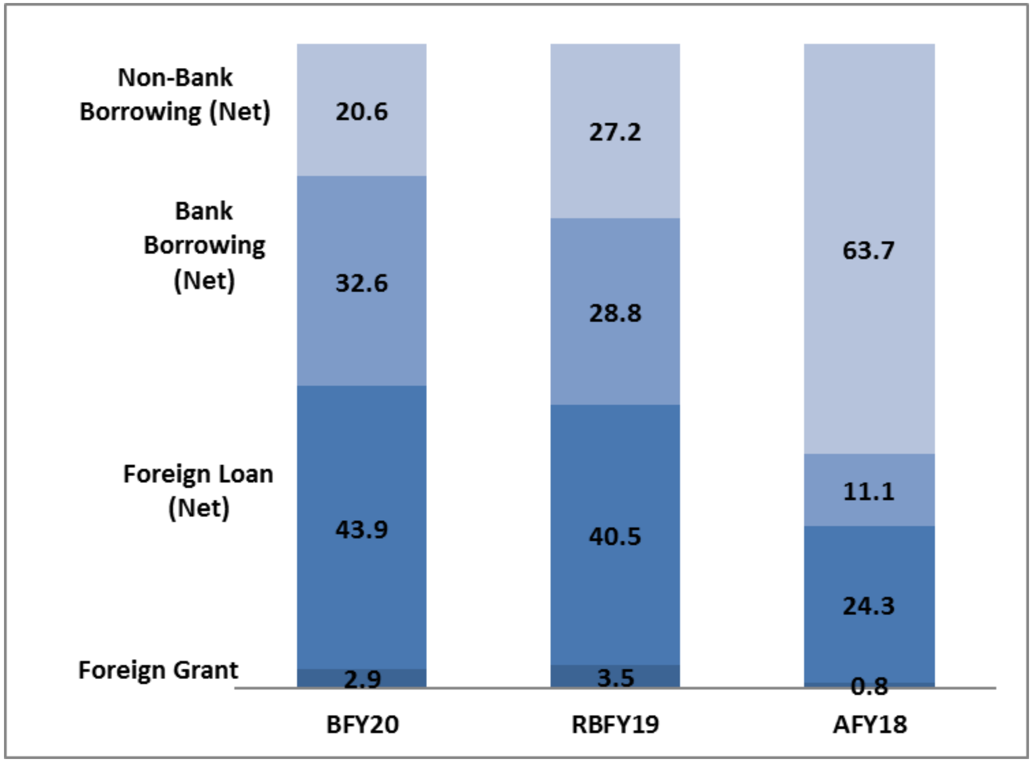
- Government's guarantee (contingent liability) has declined over the last one year – a positive development
- Power and energy sector is now the leading in terms of receiving guarantee for the government

List of Government Guarantees (Contingent Liability)

Sector	FY20 (Crore Tk.)	FY19 (Crore Tk.)	Growth (%)	Share FY20 (%)	Share FY19 (%)
Agricultural Credit	3,143	9,155	-65.7	5.4	12.8
Biman	4,937	6,552	-24.6	8.5	9.2
Energy	3,381	1,680	101.3	5.8	2.3
Power	33,777	44,744	-24.5	58.4	62.6
Telecom	1,315	1,344	-2.2	2.3	1.9
Miscellaneous	11,272	8,017	40.6	19.5	11.2
Total	**57,826**	**71,493**	**-19.1**	**100.0**	**100.0**

Budget Deficit and Financing

- Share of domestic financing 53.2% in FY20 (46.8% in RBFY19)
- Tk 47,364 crore (32.6% of total) will come from the bank borrowing – will drastically reduce NSD sale (by Tk. 27,000 crore), but no measure indicated
- Gross foreign aid requirement will be around USD 9.6 bln (USD 6.9 bln in RBFY19) – USD 4.5 bln being received during Jul-Mar FY19



- Much will depend on project aid utilisation of ADP – about 97% of total foreign resources are for ADP projects

IV. ANNUAL DEVELOPMENT PROGRAMME

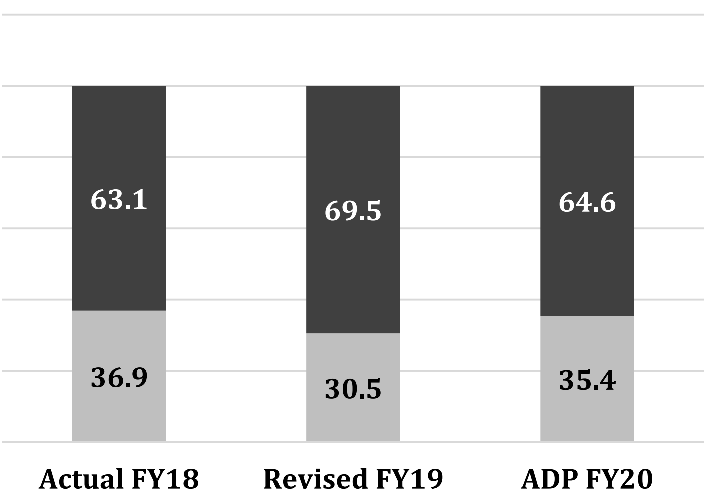
Independent Review of IRBD Bangladesh's Development

IV. ANNUAL DEVELOPMENT PROGRAMME

ADP share (as % GDP) is increasing

- ADP of Tk. 2,02,721 crore has been proposed for FY20
  - **7%** of GDP in FY20 (5.3% in FY18 Actual and 6.6% in FY19 RADP)
  - 17.2% higher than ADP and 21.4% higher than RADP for FY19
  - **The rate of implementation of original ADP in FY18 was 70% (lowest since FY07)**
  - **PA implementation (73.6%) has always been lower than Taka component (94%) on an average in the last 10 fiscal years**
  - Project Aid to finance 35.4% of total ADP in FY20 (30.5% in RADP of FY19)
    - **Rooppur Power Plant** accounts for 16.7% of project aid allocated for overall ADP for FY20

ADP Financing Structure (% of total)



Revenue surplus as a share of financing ADP is increasing in terms of allocation but declining in terms of actual expenditure

- Revenue surplus to finance 25.4% (Tk. 51,457 crore) of total ADP in FY20. 21.1% in RADP of FY19, 7.3 in FY18 (Actual), 13% in FY17 (Actual)

IV. ANNUAL DEVELOPMENT PROGRAMME

❑ Concentration ratio of top 5 sectors has increased

- The **top 5 sectors** have received **70.1%** of total ADP allocation – concentration ratio increased from 67.7% and 66.2% from ADP FY19 and RADP FY19
- Transport Sector once again has received the highest allocation (26% of total) for the highest number of projects (257): 38.6% growth over RADP FY19For FY20, Physical Planning, Water Supply & Housing has received third highest share in ADP allocation: 19.4% growth over RADP FY19 – with the second highest number of projects (253)
- SICT has entered among the top five club for the first time in the place of RDI – Rooppur project accounts for 85.4% of total allocation for SICT sector

❑ If we exclude five mega projects (Padma Bridge, Padma Rail and Metro Rail, Matarbari and Rooppur), the shares of three sectors fell quite sharply

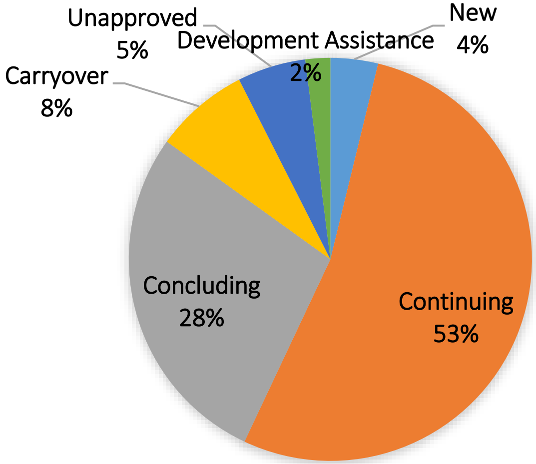
- **Transport**: from 26% to 17.9%; **Power**: from 12.8% to 11.9%, **SICT**: from 8.7% to 1.3%

Top Five Sectors in ADP FY20

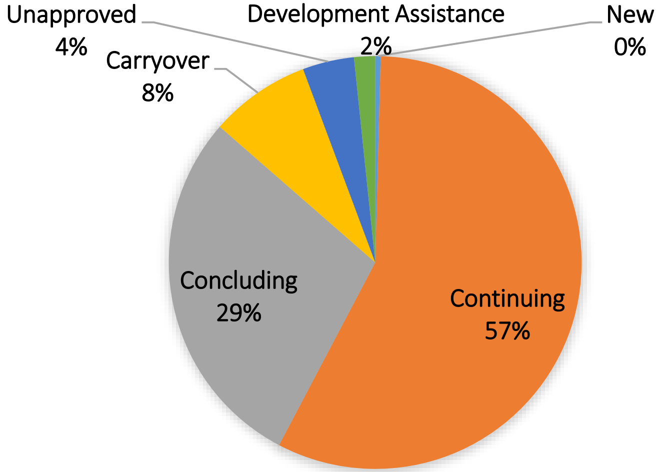
Sector	No of Projects ADP FY20	Share (%) ADP FY20	Share (%) RADP FY19	Share (%) ADP FY19	Share (%) ADP FY18	Growth (%) ADP FY20 over RADP FY19
Total Five Sectors	**784**	**70.1**	**66.2**	**67.7**	**69.1**	**28.5**
Transport	257	26.0	22.8	26.3	26.8	38.6
Power	90	12.8	13.9	13.3	12.3	12.0
Physical Planning, Water Supply &Housing	253	12.0	12.2	10.3	9.7	19.4
Education & Religious Affairs	138	10.5	9.3	9.6	10.9	38.2
Science, Information & communication Technology	46	8.7	8.0	8.2	9.4	31.4
Other 12 Sectors	**689**	**28.2**	**30.7**	**30.3**	**28.7**	**11.7**
Development Assistance	**NA**	**1.7**	**3.1**	**2.0**	**2.2**	**-34.6**
Total	**1,473**	**100.0**	**100.0**	**100.0**	**100.0**	**21.4**

IV. ANNUAL DEVELOPMENT PROGRAMME

- The ADP for FY20 contains **1,475 projects** (1,347 for ADP of FY19)



FY19 Number of Total Projects: 1,347



FY20 Number of Total Projects: 1,475

- **Share of allocation for concluding projects has been increasing marginally while declining for carryover projects**
  - The share increased to 28.7% in FY20 from 22.7% in FY17
- **41 new projects** are included in FY20 (112 in FY19): 0.4% of total ADP allocation (4.1% in FY19) – **positive sign!**
  - 439 new projects were included in the RADP for FY19
- 57% of allocation is provided to 673 projects which will continue to the next ADP (for FY21)

IV. ANNUAL DEVELOPMENT PROGRAMME

- However, a total of 466 projects are scheduled to be concluded in FY20, according to project completion timeline
- **297 carryover projects** consist of **7.9%** of the total allocation (7.5% in FY19, 8.5% in FY18 – **the share has been declining**)
  - Physical Planning, Water Supply & Housing sector has 73 of these projects, followed by Transport (55), Education (28), Power (23), and Industry (20)
  - Thus total number of projects which should be concluded: **763**
- Planning Commission identified **355** projects which may be **completed in FY19**
  - Many of these are unlikely to be completed by FY20
- 62 projects were included in the PPP list in FY20 (78 in FY19) – They are mainly **Transport** (74.2%) and **Physical Planning** (25.8%) sector projects
- Too many projects are listed without allocation – the numbers have declined a little after continuous increase up to FY19

Project Status	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Unapproved projects without Allocation	800	702	720	662	624	857	1,172	1,315	1,338	1,045
Projects listed to seek Foreign Funds	292	259	327	346	338	382	349	360	326	242
Total Number of Projects in the ADP	**916**	**1,039**	**1,037**	**1,046**	**1,034**	**999**	**1,141**	**1,192**	**1,347**	**1,475**
PPP	23	16	13	44	40	40	32	36	78	62
Possible Completion (PC identified)	287	305	330	305	324	324	354	411	446	355

IV. ANNUAL DEVELOPMENT PROGRAMME

- **The share of projects with symbolic allocation (the minimum to keep the project in the ADP list) is increasing**
  - **62 projects (4.2%) under ADP received only Tk. 1 lakh** for FY20; 64 projects received such allocation in FY19
  - Projects under Tk. 1 lakh have been increasing for subsequent years (26 projects in FY18)
  - **52 (90%) of those are carried over from ADP FY19**
  - 14 of the 58 projects are from Physical Planning, Water Supply & Housing sector (19 in FY19)

IV. ANNUAL DEVELOPMENT PROGRAMME

❑ Ageing projects (Zombies!) are increasing

- Out of 1,358 investment projects, 1,237 (91.1%) are at least 2 years old – almost double from FY19 (47.8%)! **Average age** of these 1,237 projects are **4 years**
- **200** (16.2%) of these 1,237 projects are more than 6 years old
- **29** of these 1,237 projects are 10-16.5 years old while **2** of them are more than 16 years old
  - Tannery Industrial Estate, Dhaka (16.5 years), Construction of Third Karnaphuli Bridge (16.5 years) – revised more than once
  - Average implementation rate of these two projects was about 79.1% up to Feb 2019
- 17.6% of such projects have already been revised between 1-3 times
- Number of revisions of projects: 1st (154), 2nd (55), 3rd (9)
- Revised unapproved projects: 49

❑ Foreign aid expectation list both in terms of allocation and number of projects are declining since FY17

- 242 projects has been listed with an expectation to be financed with foreign aid
- The estimated cost for all of the projects were considered as USD 94.5 billion
- Estimated Project Aid to be obtained from different sources are USD 34.2 billion
- Highest share of Project Aid obtained is in Power (39% for 124 projects) and Transport (35.4% for 31 projects) – emphasis on infrastructure to continue!

IV. ANNUAL DEVELOPMENT PROGRAMME

Mega Projects: size has improved, but not the status of implementation

- Tk. 43,919 crore is allocated for 14 projects (all infrastructure including fast-track and based on project size) which is 21.7% of total ADP of FY20 (Tk. 28,992 crore and 17.4% in RADP FY19)
- 5 out of 14 projects are scheduled to be completed by FY20
  - Given the progress of work, it would not be possible to complete none of these 5 projects including the PMB project
  - Shockingly, the 'Installation of Single Point Mooring (SPM) with Double Pipe Line' project will progress by a maximum 23% even if it spends all its allocated funds for FY20
- China is co-financing 4 out of 14 of these projects and progress of all these 4 projects are very poor

Progress of Mega Projects

Project Name	Project Cost (Tk.cr.)	Progress till Feb, 2019	Possible Progress till June, 2020	End date
Construction of Rooppur Nuclear Power Plant	113,093	14.7%	31.3%	30/12/25
Padma Bridge Rail Link	39,247	26.4%	41.7%	30/06/24
Matarbari 2x600 MW Ultra-Super Critical Coal-Fired Power Project	35,984	21.4%	32.6%	30/06/23
Padma multipurpose Bridge project	30,193	59.3%	82.2%	31/12/19
Dhaka Mass Rapid Transit Development Project (Metro Rail)	21,985	26.7%	67.2%	30/06/24
Construction of Single Line Dual Gauge Track from Dohazari-Ramu-Cox's Bazar and Ramu to Ghundum near Myanmar Border	18,034	18.7%	26.8%	30/06/22
Construction of Dhaka-Ashulia Elevated Expressway	16,901	0.4%	1.1%	30/06/22
SASEC Road Connectivity: Improvement of Elenga-Hatikumrul-Rangpur-Highway into 4-Lane Highway	11,899	3.3%	18.9%	31/08/21
Ghorasal Polash Urea Fertilizer Project (GPUFP)	10,461	0.0%	36.2%	30/06/22
Rupsha 800-Megawatt Combined Cycle Power Plant	8,499	2.4%	6.9%	30/06/22
Construction of Multilane Road Tunnel under River Karnaphuli	8,447	28.9%	63.9%	30/06/20
SASEC Road Connectivity: Improvement of Joydebpur-Chandra-Tangail-Elenga Road (N-4) to 4-Lane Highway	5,593	46.3%	73.6%	30/06/20
Installation of Single Point Mooring (SPM) with Double Pipe Line	5,426	15.0%	22.6%	31/12/19
Developing Port Infrastructure/Support Facilities of Payra Port for Commencing Port Operations	3,506	17.4%	47.2%	30/06/20

IV. ANNUAL DEVELOPMENT PROGRAMME

Low reflection of projects set out in the National Action Plan for SDGs in the ADP

- Among 41 new projects in ADP FY20, only 10 projects (24.4%) set out in the NAP was included
- They were distributed among 5 sectors including Transport (4), Agriculture (2), Industry (2), RDI (1) and Education (1)
- The cumulative cost of these projects is approximately Tk. 3,000 crore
- There are few important projects among these including 'Upgradation of Jatrabari (Mayor Hanif Fly over)-Demra (Sultana Kamal Bridge) highway in to a 4 lane highway', 'Upgradation of 2 lane portion of Feni-Noakhali national highway into a 4 lane road' and 'Establishment of Indian Economic Zones in Mongla and Bheramara, Kushtia'

IV. ANNUAL DEVELOPMENT PROGRAMME

Delivery of self-financed projects has been deteriorating

- Self-financed development budget is reported for the sixth time (since FY14)
- Allocation for autonomous bodies and corporations has been increased to 7,082 crore (10% decline over FY19) in FY20
- Lowest number of projects (89) since FY14, falling since FY17 – good initiative since a large part of the allocated resources remain unutilised at the end of fiscal year
- Among the 89 projects, 'Physical Planning, Water Supply & Housing' has the highest number of projects (40), followed by 'Oil, Gas and Natural Resources' (21), and Transport (17)
- Implementation rate has been lower than the average
  - The implementation rate (62.2%) in FY18 was much lower compared to overall ADP implementation (90.7%) in the corresponding period

Self-financed projects of autonomous organisations

	FY14	FY15	FY16	FY17	FY18	FY19	FY20
Number of projects	130	153	125	155	116	105	89
Allocation	8,114	5,685	3,997	12,646	10,754	7,869	7,082
Utilisation	34.9	45.9	67.0	50.5	62.2	62.3 (Jul-Apr)	
Overall ADP implementation	86.4	85.3	86.1	90.7	90.7	53.3 (Jul-Apr)	

V. FISCAL MEASURES

V. FISCAL MEASURES

- Income earners loser and asset holders gainers

Personal Income Tax (PIT)

- **No change** in the tax slabs or tax rates of personal income tax
  - Tax-free income threshold for personal income stays same at Tk. 2.5 lakh
  - The current tax exemption threshold (about USD 3000) is **1.5 times** of the per capita income (USD 1909)
  - *CPD has proposed **lowering the income tax rate for the first slab to 7.5%** from the existing 10% **without** changing the taxable income level*

Wealth Surcharge

- Minimum net wealth exemption limit has been increased to **Tk. 3 crore** from Tk. 2.25 crore – *leaves a number of rich people out of the surcharge net*
  - This implies that a taxpayer even after owning four 2000 square feet flats in Gulshan area, is still exempted from paying the surcharge (estimated based on government rates)
- Wealthy individual taxpayer having a net wealth of Tk. 50 crore or above shall pay 0.1% of net wealth **or** 30% of annual income tax (whichever is higher) – *promotes equity*

V. FISCAL MEASURES

Corporate Tax

- Corporate tax structure **remains unchanged**
- Minimum tax for mobile companies **raised to 2%** of their turnover from 0.75%
- Provisions of reduced tax rates for RMG **to be continued for one more year**
  - **12%** corporate tax; and **10%** if there is green building certificate
- The reduced tax rate of 15% for income of textile sector will be continued **for three more years** (it was implemented in 2015 and was to be valid till 30 June 2019)
- The corporate tax for publicly traded **banks,** insurance and financial institutions, and Merchant bank continues to be **37.5%; and 40%** for the non-publicly traded

V. FISCAL MEASURES

Tax holiday ***– good rationalisation***

- Tax holiday for existing list of **industrial sectors** are to continue for newly established industrial undertakings whose commercial production start within the period of **01 July 2019 to 30 June 2024**
  - **for additional 5 years** for undertaking set up in Dhaka, Myemensingh and Chattogram divisions (excluding Dhaka, Narayanganj, Gazipur, Chattogram, Rangamati, Bandarban and Khagrachhori districts)
  - **for additional 10 years** for undertaking set up in rest of the divisions (excluding City Corporation area), and Rangamati, Bandarban and Khagrachhori districts ***– balanced regional development***
- Inclusion of **8 more** potential manufacturing sectors (total 26 now) - agricultural machinery, furniture, home appliances, leather and leather goods, LED TV, mobile phone, plastic recycling, and toys – *support for domestic industry*
- Similarly newly established **physical infrastructure facility** are exempted from tax for **ten years** beginning from the day of commencement of commercial operation – mobile phone tower or tower sharing structure is added to the list
- However, the **rate of tax exemption** for the first year (after 2019) has been **reduced to 90%** from 100% in all of the above cases – *10% tax to be paid*

Untaxed or illegal money

- Existing provisions about undisclosed money **to be continued**:
  - opportunities to invest in real estate under Special tax treatment (19BBBBB) **has been made more relaxed by reducing tax rates**

Area	Up to 200 square meter	More than 200 square meter	New category: Up to 200 square meter	New addition: For land purchase
	Decrease in Tax to be paid (in %)		Tax amount in Tk.	
Gulshan model town, Banani, Baridhara, Motijheel Commercial area	-20.0	-28.6	-	15,000
Dhanmondi Residentail Area, DOHS, Mohakhali, Lalmatia, Uttara, Bashundhara, Dhaka Cantonment, Kawran Bazar, Bijoynagar, Segunbagicha and Nikunja, Khulshi, Agrabad and Nasirabad	-25.0	-40.0	-	10,000
City corporation (excl. above-mentioned areas)	-50.0	-50.0	800	5,000
Pourashava or any district headquarters	-16.7	-12.5	300	1,000
Other area	-25.0	-16.7	200	500

V. FISCAL MEASURES

Untaxed or illegal money (contd.)

- Existing provisions about undisclosed money **to be continued**:
  - opportunities to invest in bond under Bangladesh Infrastructure Finance Fund by paying only 10% tax on the sum invested in addition to regular income tax (19C)
  - voluntary disclosure of income through payment of 10% penalty in addition to regular tax (19E)
- **New** opportunity given for setting up **industrial undertaking investment** in economic zone and hi-tech park by paying income tax at 10% on the invested amount along with regular tax (**19DD**)
- Above-mentioned tax rates will be **100% higher** for returns of income for which notice has been issued regarding escaping tax payment, undisclosed income, failure to provide information, failure to comply with obligations, concealment of income, and providing false information
- **CPD's position:**
  - *The new opportunity to invest will not yield much investment but will discourage regular taxpayers – counterproductive*
  - *All the above provisions allow source of fund to remain undisclosed – will encourage immoral/illegal activities*
  - *The existing and new provisions should be discarded to disincentivise tax avoidance/tax evasion*
  - *CPD's demand for a legal framework to deal with benami property has not been addressed yet*
  - *The proposed changes go against the commitment of Election manifesto*

V. FISCAL MEASURES

Tax deduction at source (TDS) - reduced

- ❑ TDS on media buying agency commission has been decreased from 3.5% to 2.5%
- ❑ TDS on import of raw materials for iron products has been reduced to Tk. 500 per ton from Tk. 800 per ton; not applicable for shipbreaking companies
- ❑ TDS on the bill of contractors and suppliers has been rearranged by reducing the number of slabs from **6 to 4** and also the **rates for the highest slab has decreased from 7% to 5%**

Base value in Tk.	TDS rate
Up to Tk. 25 lakh	2%
Above Tk. 25 lakh and below Tk. 50 lakh	3%
Above Tk. 50 lakh but below Tk. 1 crore	4%
Above Tk. 1 crore	5%

  - ➢ However, a flat rate of 3% TDS has been set for cement, and iron products manufacturers

Tax deduction at source (TDS) -rationalised

- Tax exempted yearly turnover limit for SMEs raised to Tk. 50 lakh from Tk. 36 lakh
- Total last assessed income threshold for advance payment of tax has been increased from Tk. 4 lakh to Tk. 6 lakh for payment of advance tax – *lowers hassle for small taxpayers*
- **TDS** on house rent (and some other forms of space e.g. hotel rooms) **to be deducted by the tenant** at the rate of **5%** at the time of payment – problematic

V. FISCAL MEASURES

Tax deduction at source (TDS) - increased

- TDS on interest from savings certificate has been increased from 5% (final settlement) to 10% (final settlement) – *the final settlement part of the new clause will put tax burden in case of low-income people depending on the interests from savings (measures should be taken to protect their welfare)*
- Rate of TDS on export subsidy in every recipient sector has been increased from **3% to 10%**
- Tax rates for renewal of trade license has been increased

Location	New rate	Old rate
Dhaka North, Dhaka South and Chattogram City Corporation	Tk. 3000	Tk. 500
Other city corporations	Tk. 2000	Tk. 300
Paurashava (District Headquarter)	Tk. 1000	Tk. 300
Other paurashavas	Tk. 500	Tk. 100

V. FISCAL MEASURES

Tax exemption

- Tax exemption of export earnings from handicrafts is to continue till 2024
- **New** tax exemption provisioned for income of institutions earned by educating or training physically challenged persons

Tax rebate

- **5% rebate on total tax** introduced for taxpayers who employs physically challenged persons for at least 10% of the workforce – *welcome move to promote inclusivity in the workforce*
  - **Additional 5% tax** imposed on schools, colleges, universities and NGOs who fail to ensure special accessibility facilities for physically challenged persons **from FY21** (this was applicable for medical service providers only since FY19) – *great step to enhance inclusivity*

V. FISCAL MEASURES

Tax exemption

- Tax exemption of export earnings from handicrafts is to continue till 2024
- **New** tax exemption provisioned for income of institutions earned by educating or training physically challenged persons

Tax credit on investment

- Rate of tax credit on investment has been changed **flat rate 15%** if total income does not exceed Tk. 15 lakh; and **flat rate 10%** otherwise
- Tax liability will be **higher** for the richer tax payers with total taxable income is more than Tk. 15 lakh – *progressive taxation*

Total Taxable Income	Change in Tax Liability	
When an assessee's income will be Tk. 10 lakh	0%	unaffected
When an assessee's income will be Tk. 11.5 lakh	-2%	benefitted
When an assessee's income will be Tk. 15 lakh	-3%	
When an assessee's income will be Tk. 17.5 lakh	9%	higher tax burden
When an assessee's income will be Tk. 47.5 lakh	3%	

V. FISCAL MEASURES

Tax measures to boost capital market

- Tax exempted threshold of dividend earnings has been increased from Tk. 25 thousand to Tk. 50 thousand for individual taxpayers – *more number of small investors may be encouraged now*
- **Tax exemption on dividend income** of the non-resident company –*may encourage non-resident companies to invest in the Bangladeshi stock market*
- **15% tax imposed** on stock dividend distributed by any listed company – *will encourage companies to distribute cash dividends, consequently benefiting the shareholders*
- **15% tax imposed** on listed company's retained earnings and reserves (in excess of 50% of the paid up capital) –*more revenue collection, and companies encouraged to distribute cash dividends which will benefit investors*
- ***Will these measures address the structural weaknesses of the capital market? – NO***

V. FISCAL MEASURES

To expand income tax net a number of institutional measures have been mentioned in the budget:

- With a view to increase income tax collection
  - Tax offices will be set up in every upazilla in Bangladesh
  - At the field level, number of Tax Zones will be increased to 63 from current 31
  - To make the tax administration more goal-oriented, job-oriented and taxpayers-friendly, seven units *viz*. tax intelligence, investigation and enforcement unit; digital tax management unit; tax deduction management unit; tax information unit; international tax unit; taxpayer service, public relations and infrastructure unit; and tax dispute resolution will be set up
- Bangladesh has the right to tax the business income of a non-resident taxpayer earned through a permanent establishment in Bangladesh. At present most of the non-resident taxpayers are not submitting their return of income even though they are earning business income through permanent establishments. It was proposed to insert a provision of submitting the return of income for the non-resident taxpayers who are doing business in Bangladesh through permanent establishments

V. FISCAL MEASURES

- In city corporations, cantonment boards and municipalities, TIN was made mandatory to get new electricity connections as well as for existing users in case of both commercial and domestic use
- In city corporations, cantonment boards and municipalities in district sadar, use of TIN has been made mandatory in case of transferring immovable assets worth more than Tk. 1 lakh. In such cases, TIN of both buyer and seller must be mentioned clearly in the transfer deed
- A large number of taxpayers will be brought under the tax net by conducting survey, bringing administrative reforms, making TIN compulsory for receiving different utility services, encouraging TIN holders to submit their tax returns. It has been mentioned that the expected number of income taxpayers will be more than 1 crore by the next few years
  - However, any time bound action plan is missing in this regard
- ***Impact of these proposals will depend on enforcement and timely implementation***

Comparative scenario of VAT and SD Act across structural indicators

	VAT Act, 1991	Amended VAT Act, 1991 (Prevailing)	Earlier proposed VAT and SD Act, 2012	New VAT and SD Act, 2012
Coverage	Narrow	Narrow	Wider	Wider
Basis	Price declared by the VAT-payers and approved by the VAT authorities	Price declared by the VAT-payers and approved by the VAT authorities	Current price and input-output coefficient	Market price
Rate system	Multiple rates	Multiple rates	Single/Uniform rate	Multiple rates
Rates	9 rates (2%, 3%, 4%, 4.5%, 5%, 7%, 7.5%, 10%, 15%)	9 rates (2%, 3%, 4%, 4.5%, 5%, 7%, 7.5%, 10%, 15%)	1 rate (15%)	6 rates (5%, 7.5%, 10%, 15%; selectively 2% and 2.4%)
VAT exemption threshold	None except few types of establishments those enjoy cottage industry benefits under some conditions	Tk. 30 lakh	Tk. 24 lakh	Tk. 50 lakh
Package VAT provision	Existed	Continued	Discontinued	Discontinued
Truncated value base	Existed	Continued	Discontinued	Discontinued with multiple rates

V. FISCAL MEASURES

Comparative scenario of VAT and SD Act across structural indicators

	VAT Act, 1991	Amended Value Added Tax Act, 1991	Earlier proposed VAT and SD Act, 2012	New VAT and SD Act, 2012
Tariff value	Existed	Continued	Discontinued	Continued selectively (12 products)
Turnover tax rate	3% if annual turnover is below Tk. 70 lakh	3% if annual turnover is below Tk. 80 lakh	3% if annual turnover is between Tk. 24 lakh to Tk. 80 lakh	4% for Tk. 50 lakh to Tk. 3 crore annual turnover
Discount price selling provisions	3 provisions regarding advertisement, discount percentage and period of discount	3 provisions regarding advertisement, discount percentage and period of discount	No provisions	Not specifically mentioned
Return submission	Manual	Mix of automated and manual	Mix of automated and manual	Mix of automated and manual
Installment facilities	No	No	Yes upon permission from the Commissioner	Not mentioned
Input tax credit	Land, building, office-equipments, vehicles and labor are not considered as inputs; so, credit is not allowed on these elements.	Land, building, office-equipments, vehicles and labor are not considered as inputs; so, credit is not allowed on these elements.	Can be availled by all products	Only applied for 15% VAT payers

V. FISCAL MEASURES

Introduction of new VAT law- new developments

- **Coverage** of VAT had been widened
- VAT will be based on **market price**
- Online service for VAT and Turnover Tax registration, tax payment, return submission, refund
- **VAT registration threshold** has been increased from Tk. 80 lakh to Tk. 3 crore
- **Turnover tax rate** increased to 4% for traders with turnover threshold between Tk. 50 lakh to Tk. 3 crore
- Along with the **standard VAT rate of 15%**, there will be **reduced rates** of 5% (on 91 goods and services), 7.5% (on 12 goods and services) and 10% (on 20 goods and services) for specific goods and services
- **Tariff value provisions** have been kept for some products
- **VAT exempted for small and marginal traders** with an annual turnover up to Tk. 50 lakh
- Since the new VAT law is online-based, it will be mandatory for the shop owners and business entity to keep records of VAT challan/invoice during sales/supply through **Electronic Fiscal Device (EFD)** and Sales Data Controller (SDC)
  - The NBR is working to set up Electronic Fiscal Device (EFD) in every business organization to make VAT collection more transparent. NBR is now in the process of procuring these EFD machines
- *Timely actions in these areas are critical for successful implementation of the new VAT and SD Act*

V. FISCAL MEASURES

Welcome initiatives

- **VAT exemption threshold** raised from 30 lakh to 50 lakh- *will protect small and medium traders*
- VAT exemption on the rent of a business **showroom run by women entrepreneurs**- *will incentivise women entrepreneurs*
- VAT exemption on the **production and supply of bread, hand-made biscuits and hand-made cakes** up to the value of Tk. 150 per kg- *marginal groups friendly steps*
- VAT exemption on **watches specially designed for the use of the blind** at import stage- *will aid the persons with visual disability*
- VAT exemption on **non-mechanical carriage for disabled persons** (wheel chair) and hearing aids- *will incentivise assistance to disabled groups*
- VAT exemption on **pacemaker, heart valve, Haemodialyser (Artificial Kidney), cancer medicines**, etc.- *will reduce the health cost*
- Price of **health hazardous tobacco products** is set higher keeping the supplementary duties unchanged- *will reduce the direct and indirect health risks*
- VAT exemption on **sandals and slippers** made of rubber and plastic below the price of Tk. 150 per pair- *low income groups will be benefitted*

V. FISCAL MEASURES

Welcome initiatives

- 5% VAT on **powder milk, spices, juices, rapeseeds oil, colza seeds oil, canola oil, mustard oil, LP gas**- *price of the mentioned items might decrease*
- VAT exemptions on the **local supply of agricultural machineries** such as Power ripper, Power tiller operated seeder, Combined harvester, Low lift pump, Rotary tiller- *will incentivise agricultural sector*
- Continuation of the existing VAT and supplementary duty exemptions given to the **heavy industries like automobiles, refrigerators, freezers, air conditioners, motorcycles, mobile industries,** etc.- *will support the development of local industries and export sector*
- VAT exemption on **Jute based products**- *will incentivise jute industry*
- VAT exemption on **suppliers and electricity in Bangladesh Hi-Tech Park**- *expected to attract investment*
- 10% supplementary duty on **issuance or renewal of all kinds of vehicles registration, route permit, fitness certificates, ownership certificate** etc. except for passenger buses, trucks, lorries, three wheeler, ambulances and school buses- *will discourage private vehicle ownership*
- VAT on **English Medium Schools** is to be reduced to 5% from 7.5%- *will reduce the cost of education*

V. FISCAL MEASURES

Measures those need further clarification

- 5% VAT on **plastic based** tableware, kitchenware, household accessories, stationaries (except tiffin box and water bottle) and **aluminium based** kitchen and household accessories, sanitary ware, machineries, coir based mattress- *to protect domestic industry?*
- The **input tax credit** can be obtained through the VAT return only by those who provides 15% VAT- *will this discrimination discourage small and medium enterprises?*
- VAT exemption for supply of natural gas, suppliers and electricity government's priority and fast track projects, such as the Bangladesh Economic Zone **(BEZA)** and the Public-Private Partnership **(PPP)** projects- *expected to attract investment but will it create discrimination?*
- **Tariff value** appears to prevail on **construction** raw materials despite abolished for many other goods and services- *why?*
- VAT on **social media** based virtual business increased from 5% to 7.5%- *will support the revenue target achievement*
  - *Definition of virtual business is yet to be clarified!*
  - *Will it include internet based ride sharing services and social media based businesses?*

V. FISCAL MEASURES

Measure those might have adverse impacts

- VAT on **clothing outlets** both branded and non branded will increase from 5% to 7.5%- *will raise price of clothing*
- VAT on **manufacturing of furniture** raised from 7% to 7.5%- *discourage local industry?*
- 5% VAT on both **reading glass and frame** (plastic frame and metal frame)- *will increase health support cost*
- Supplementary duty increased from 5% to 10% of the **services provided through mobile phone SIM** / RIM card- *might increase the cost of communication and internet usage*
- In many cases **VAT exemption at import stage** appears to be given on **ad-hoc basis** without any justifiable rationale!
  - For example, VAT exemption facilities had been provided for live-horses, asses, mules and hinnies, live swine, whales, dolphin, sea lion, camels, seed potatoes, fresh tomatoes, etc.
  - Despite *being net exporter of shrimp, it appears that, VAT has been exempted for shrimp and prawns imports!*

V. FISCAL MEASURES

Duties at import stages

- Duty to be changed on a large number of products (1921)
- Advanced tax rate has been introduced (5% flat rate) and advance trade VAT was discarded (If these two are compared, increase is observed in 672)- *will generate additional revenue at import stage*
- Existing (six) slabs of Customs Duty (0%, 1%, 5%, 10%, 15%, and 25%) will remain unchanged
- Attempt to provide protection to selected domestic industries, incentivise export, and to rationalise tariff structure by reducing prevailing discrepancies [number of newly added HS codes 90]

Types of duty	Increase	Decrease	Newly imposed	Waived	Total number of changed items
Custom duty	19	43	0	7	69
Supplementary duty	15	14	9	94	132
VAT on import	29	45	29	33	136
Advanced income tax	2	34	2	18	56
Regulatory duty	30	28	17	64	139
Advanced Tax	672	31	590 (5% rate)	1	1294
Excise duty	1	1	0	93	95
Total (FY 19 figures in parenthesis)	767 (24)	195 (45)	647 (145)	310 (56)	1921 (270)

Note: while carrying out this exercise, tariff schedules of FY19 and FY20 were compared. However, the SROs that came in between were not considered. Also, no distinction was made between AT and ATV

V. FISCAL MEASURES

Welcome changes in duties on selected items:

- Duty on a number of raw materials of **cancer medicine** reduced to zero from existing 5-10% - *will reduce cost of production and encourage domestic production of medicine for cancer treatment*
- Specific duty on commercial **gold import** was decreased (from Tk. 3000/11.664 gm to Tk. 2000/11.664 gm). At the same time duty of gold under Passenger (non-tourist) and Baggage (import) Rules-2016 was reduced.– *a welcome initiative since it will encourage import of gold through formal channel*
- Duty and taxes on several ingredients used in **poultry, dairy and fish feed** are decreased (*viz*. Ammonia Bidder (from 5% to 0%); liver protector, renal protector, respiratory protector (from 5% to 0%); vaccine stabilizer (from 10% to 0%)) – *will encourage domestic producers and livestock, poultry and fish farmers*
- Duty was decreased for a number of components/parts of **firefighting equipment** (from up to 25% to 5%) – *good initiative in view of public safety*

V. FISCAL MEASURES

Uncertain change in duties on selected items:

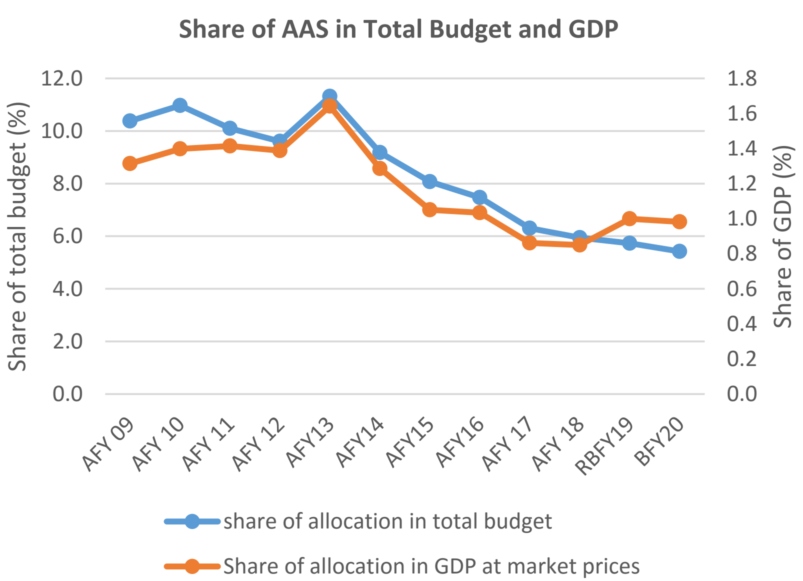
- Duty is reduced for a number of parts used for producing mobile phones while CD for **smartphones** is increased from 10% to 25% - *providing incentives to domestic handset assembling and manufacturing industry*
- Additional 5% CD on **milk powder** – *will provide protection to domestic industries* but *will entail higher costs to consumers particularly low and middle income families with children*
- Export duty for **building bricks** decreased from 25% to 15% - *measures need to be taken to reduce environmental risks*
- Export duty on **unmanufactured tobacco and tobacco refuse** was decreased from 10% to 0% - *incentivising the production of a harmful product!*

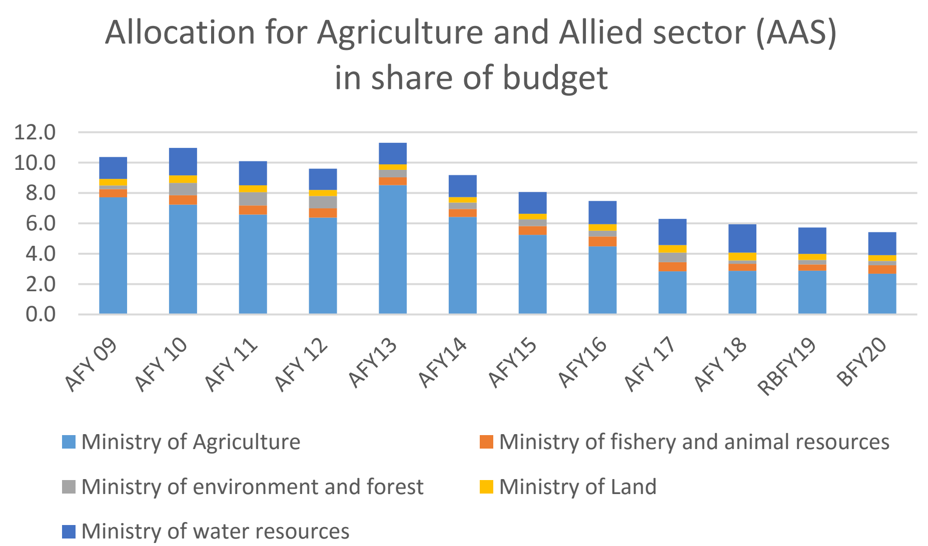
VI. SELECTED SECTORAL ISSUES

Agriculture

6.1 Agriculture

- Allocation for Agriculture and Allied Sectors (AAS) is projected to raise by 11.8% in BFY20 compared to that of RBFY19. Allied sectors include: 1) Ministry of fishery and animal resources
2) Ministry of environment and forest 3) Ministry of Land 4) Ministry of Water resources
    - Ministry of Agriculture received the highest share of allocation in the AAS; however, allocation for water resources has been increasing.
    - The share of AAS in total budget has continued to decrease over time (5.4 per cent in BFY20)
    - Share of Ministry of Agriculture in total budget slightly falling from 2.9% in RBFY19 to 2.7% in BFY20.





CPD (2019): National Budget for FY2019-20: An Analytical Perspective

6.1 Agriculture

- Mechanisation of agriculture should get more priority
- Selected ADP projects which are expected to be completed within due time include
  - National Agricultural technology program NATP2 (within Sept FY21)
  - Transfer of technology for agricultural production under blue gold program. (within Dec FY20)
  - Improvement of water management at farm level for higher production (within June FY20)
  - Modern food storage program (within June 2020)
- Some selected projects would not be completed within due time
  - Modernization and digitalization of AIS (within FY 20)
  - Farmer's training for transfer of technology at Upazila level (within FY22)

- No change in total allocation of subsidy in FY20 (Tk. 9000 cr.). Given the lower rate of utilisaiton of subsidy (Tk. 3500 crore in FY19), government may use a part of this for promoting mechanisation of harvesting.

Procurement and production of Rice by Government in FY2020

	BFY19	RBFY19	BFY20	Comments
Procurement (in thousand m.t)	1525	2131	2120	Not increasing
Procurement (in crore taka)	5939	8107	8024	Not increasing
Production (in million m.t)	-	34.9	35.3	Increasing

6.1 Agriculture

- The proposed budget has announced to introduce a 'crop insurance' in order to save farmers from the financial loss caused by natural calamities -> very much needed
  - The government is planning to introduce livestock insurance
  - Those are welcome initiatives which need to be implemented immediately
- Agricultural crop insurance was first introduced into Bangladesh on a pilot basis in 1977 by the state-owned insurance company, Sadharan Bima Corporation (SBC). SBC offered an individual- grower multiple peril crop insurance.
  - In India, a number of insurance schemes are in operation such as Pradhan Mantri Fasal Bima Yojana (PMFBY) and yield-based National Agriculture Insurance Scheme (NAIS). The average sum insured per hectare is now Rs 40,00

6.1 Agriculture

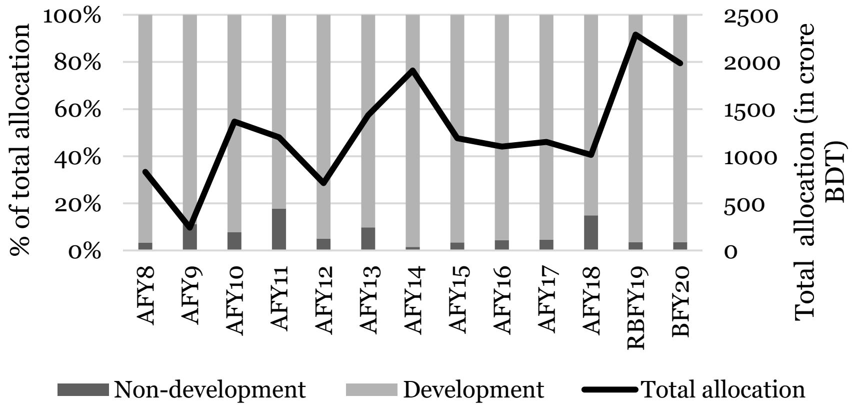
- A number of projects identified as important for implementation of SDGs are yet to be initiated
  - Rehabilitation of Dilapidated Godowns and Ancillary Facilities across the country Period: July 2017-June 2020 (SDG 2.3).
  - Establishment of National Cattle Breeding Station and Modernization of Dairy Farm Project (01/07/2017 – 30/06/2023) (SDG 2.a)
  - Re-excavation of Connecting River, Development of Irrigation Facilities and Fish Culture Project of Gazner Beel Area under Sujanagar Upazila in Pabna District (SDG 2.4)
  - Integrated Agriculture Interventions for Improved Food and Nutrition Security in Selected Districts of Southern Bangladesh.
  - Strengthening and Capacity Building of Entomological Research Facilities to Reduce Rice Yield Loss due to Insects and Pests in Bangladesh (Jul 2017 to Jun 2022) (BRRI)
- Election manifesto mentioned a number of commitments: continuation of subsidy, agril. tools at minimum cost, mortgage free loans for tenant farmers, increasing allocation for R&D and better facilities for fisheries sector.
  - Continuation of subsidy, better facilities for fisheries are highlighted in the budget document
  - No mention about mortgage free loans for tenants

Power and Energy

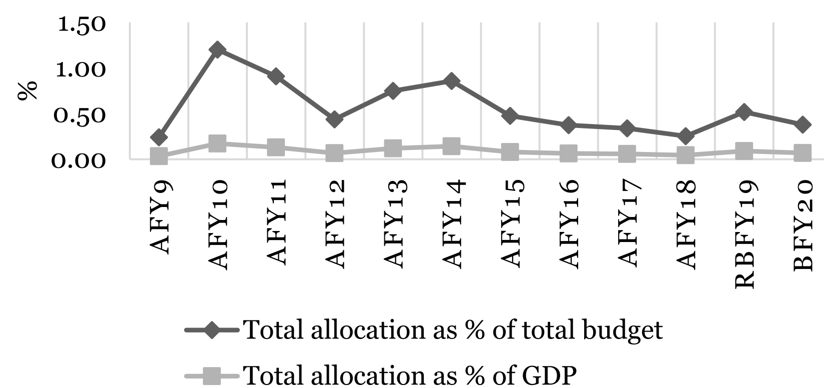
6.2 Power and Energy

- Power sector is confronting a number of challenges:
  - Concerns on the demand side; deviation from the Power Sector Master Plan in case of power generation
  - Concerns of selected power generation projects; low level of efficiency in power generation
  - Lack of transparency regarding country's gas reserve; challenges in gas exploration
  - Poor direction in energy mix and the issue of LNG import; regulating the LPG market
  - Energy tariff beyond administered system; lack of transparency, corruption and irregularities
- The proposed budget is expected to address a number of these challenges through budgetary measures and to undertake necessary institutional measures in other cases
- Total allocation for the energy and mineral resources division has been increased from BDT 1,985 crore in BFY2018-19 to BDT 1,986 crore in BFY2019-20, which is only a 0.05% increase
  - Its allocation has been hovering at an average of 0.56% of the total budget or 0.09% of GDP

Non-development, development and total allocation for energy and mineral resources division

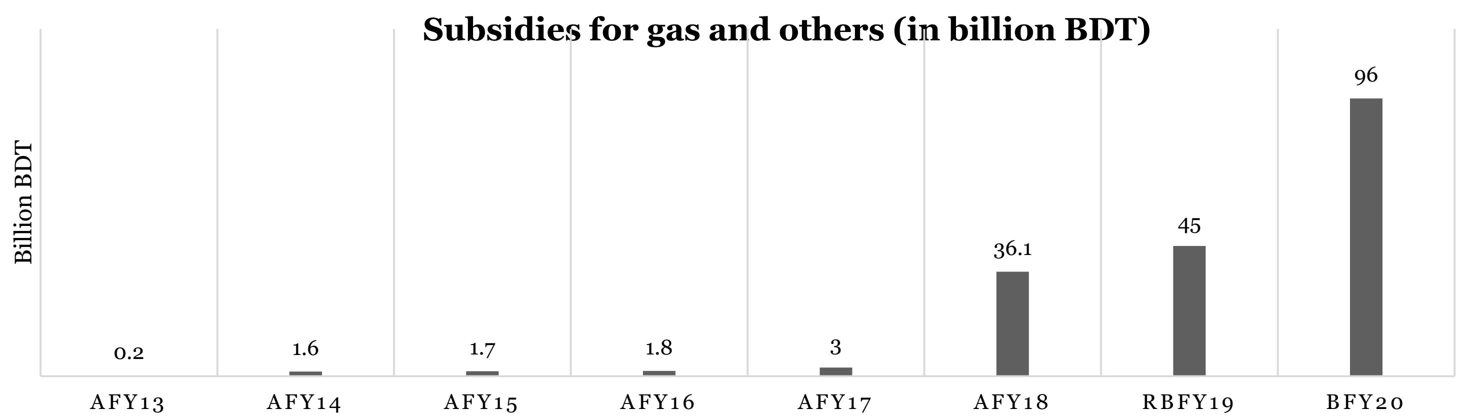


Total allocation for energy and mineral resources division as a % of total budget and GDP



6.2 Power and Energy

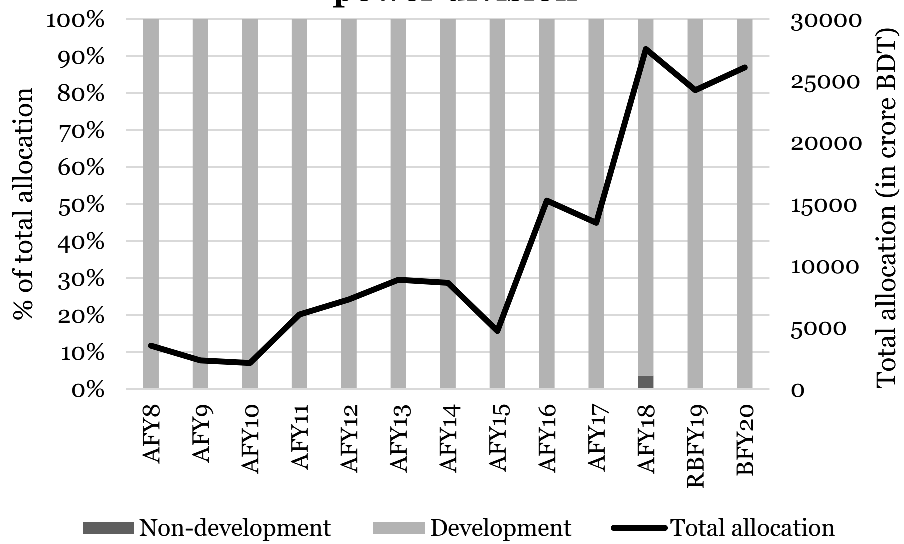
- The budget for FY2019-20 has allocated BDT 96 billion in subsidies for gas and other related sectors
  - This amount is more than double the amount allocated in the revised budget for FY2018-19
- Such rise in subsidy portrays two things in case of energy market:
  - Energy mix through imported LNG would significantly raise per unit cost of energy which may need to be accommodated by the consumers
  - The rise in subsidy is still lower compared to the demand for subsidy (Tk.14000 crore) for full transfer of cost burden to the government
  - This indicates that a part of the rising cost due to change in energy-mix may be passed on to the consumers through higher tariff on retail use of gas
- There is no mention about possible gas price hike in the budget statement.
- Nonetheless, such subsidies may be necessary, since increase in gas prices are likely to have adverse effects on trade and economic growth



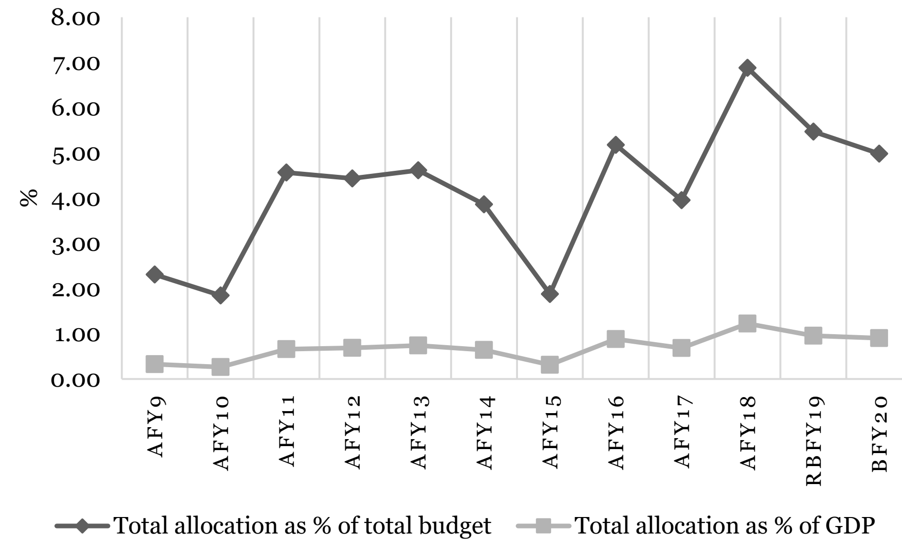
6.2 Power and Energy

- Total allocation for the power division has been increased from BDT 22,936 crore in budget FY2018-19 to BDT 26,064 crore in budget FY2019-20, which is a 13.64% increase.
  - The allocation for the power division has declined both in terms of total budget (4.16% of the total budget) as well as in terms of GDP (0.69% of GDP)

Non-development, development and total allocation for power division



Total allocation for power division as a % of total budget and GDP

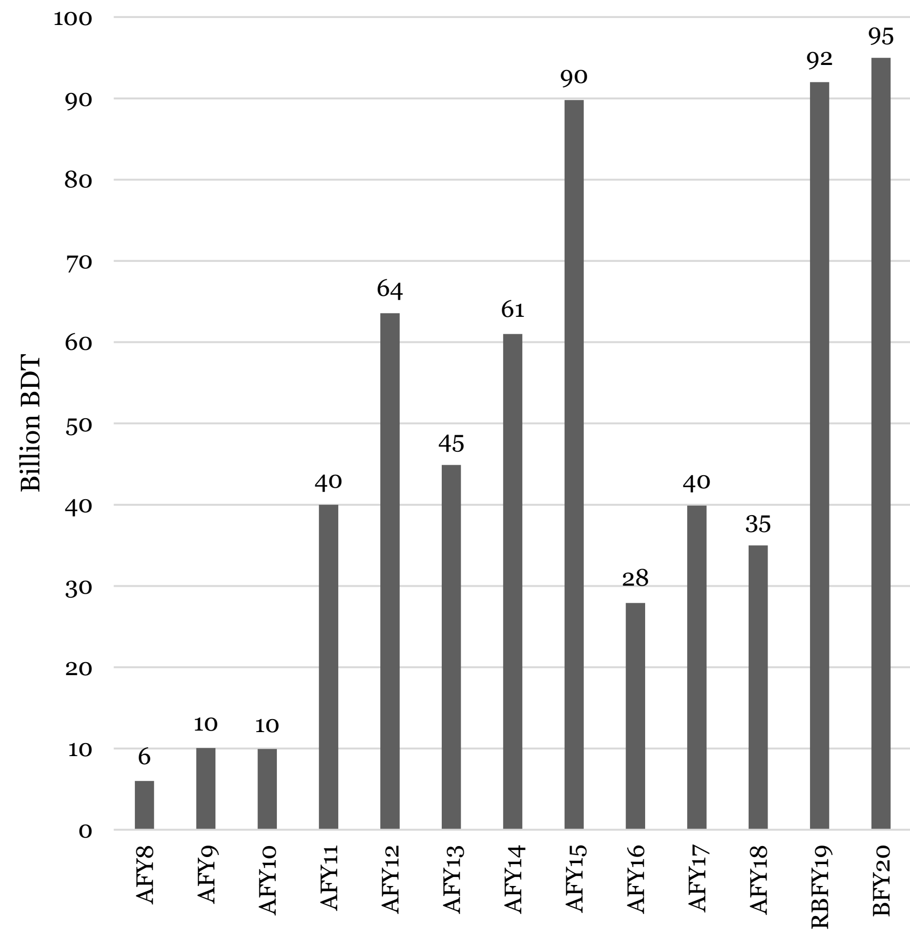


- However, it is worth noting that the allocation for the energy and mineral resources division in the budget FY2019-20 was only 7.62% of the allocation for the power division.
  - Therefore, there is a need to reconsider the disproportionately low allocation for the energy and mineral resources division, since energy exploration and diversification are critically important for the country at this juncture.

6.2 Power and Energy

- The budget for FY2019-20 has allocated BDT 95 billion as subsidy for the Power Development Board (PDB).
  - The rise in subsidy is about BDT 300 crore compared to the subsidy given in the revised budget for FY2018-19
  - In other words, government may plan to pass on a large share of the rising cost of power generation (due to upward adjustment of gas tariff) to the consumers through higher electricity tariff.
- There is no mention about electricity price hike in the budget statement.
- However, without these subsidies, the production and consumption in various sectors of the economy may be negatively affected.

Subsidies given to Power Development Board (PDB) (in billion BDT)



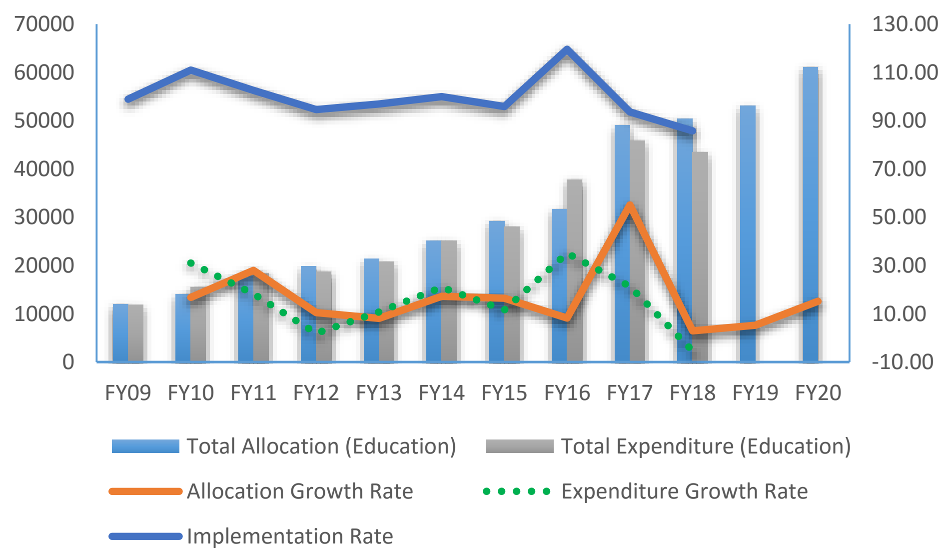
Education

6.3 Education

- Total allocation for the education sector in BFY2020 is **Tk. 5,23,190** cr. which is **18.2%** higher than that of RBFY2019.
- Education budget **decreased** as a **share of total budget** from 12% in FY09 to 11.7% in FY20.
- Government budget for education as a share of GDP remained at **2.1%** in **FY20** which is considerably **lower** than the respective **7FYP** targets of **2.8%** and **UNESCO** target of **6%**.
- **Implementation of education budget** in **FY18 (85.8%)** is **lowest** in the last decade! Overall budget implementation rate was **80%** (FY18).

- **Figures remain below the standards set by 7FYP and Education 2030 Framework for Action of UNESCO**
  - 7FYP requires spending on education of **3%** of GDP in BFY20.
  - The Education 2030 Framework for Action set 4-6% of GDP.
  - Allocation as **share of GDP** remains **stagnant** in BFY20 and BFY19 (2.1%).

Discrepancy between Budget Allocation and Expenditure

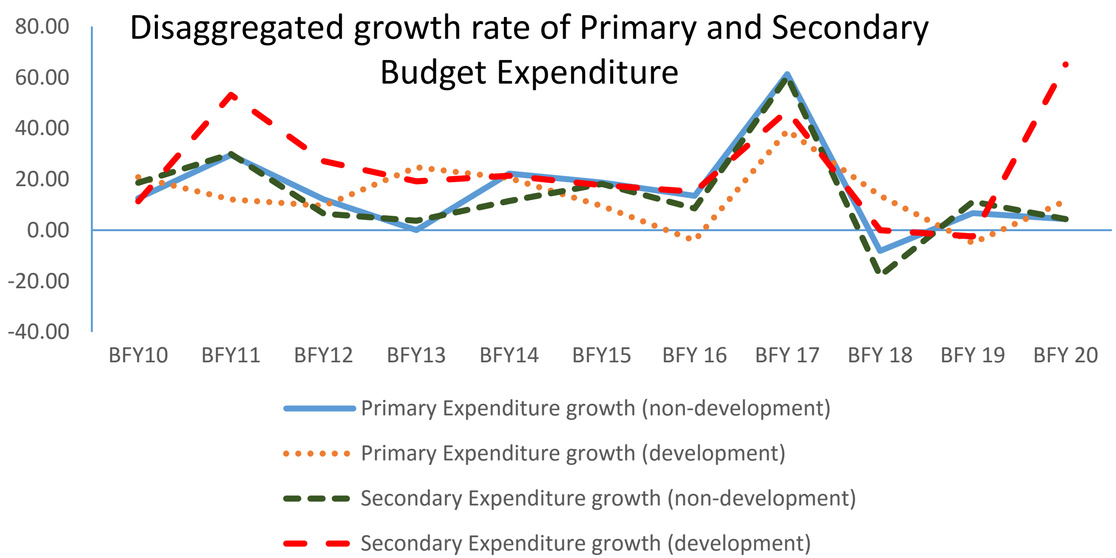


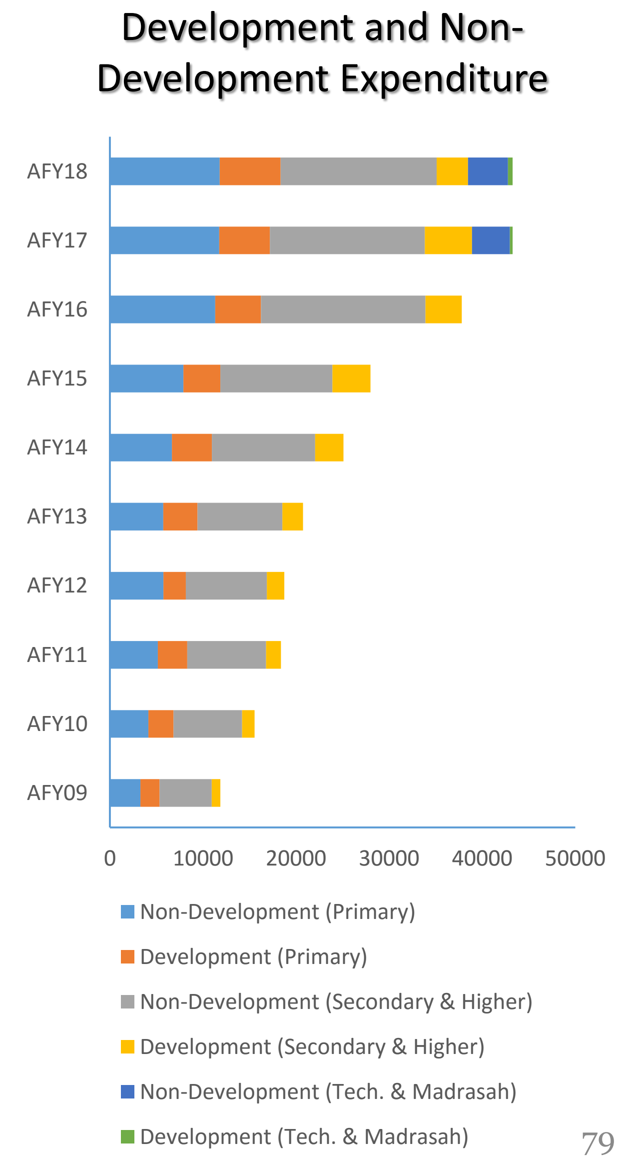
6.3 Education

Election Manifesto 2018	Budget FY2019-20
Highest allocations for education will be given	❑ Education budget **decreased** as a **share of total budget.** ❑ Allocation as **share of GDP** remains **stagnant (2.1%).** ❑ Figures are remained **below** the standards set by **7FYP (3%)** and **Education 2030 Framework for Action** of **UNESCO (4-6%).**
Proper utilization of the education fund will be ensured	**Implementation of overall education budget** in **FY18 (85.8%)** is **lowest** in the last decade!
School feeding will be made universal among all schools in the villages and suburban areas and in the schools in low income urban areas.	❑ Stipends and school-feeding programmes will continue so as to ensure that education of primary school students is not hampered ❑ The National School Feeding Policy will be formulated in FY2019-20
Opportunities will be created for the ethnic groups to get education in their own languages and textbooks will be distributed to them free of cost. They will be educated in modern education also.	❑ Textbooks are being distributed free of cost among the students at first day in every year.
Initiatives will be taken to print books for all visually impaired students from primary to university levels. The disabled will be trained into human resources.	5,857 copies of Braille textbooks have been printed and distributed to students free of cost at the beginning of the year, as per decision of the government for the Academic Year 2019.

6.3 Education

- **Primary Education:** There is **decrease** in **growth rate** of **development** (20.81% to 11.53%) and **non-development** (12.55% to 4.36%) **expenditure** from FY10 to FY20.
- **Secondary Education:** The growth rate of **non-development expenditure** of **decreased** from **18.60** (FY10) to 4.36 (FY20), however, development growth **increased** from 11.32% (FY10) to 65.08% (FY20).





6.3 Education

- Of selected large ADP projects currently being implemented, possible maximum completion by 2020 will be within the range of **67% - 105%.**
- A number of projects are **behind** targeted timeline.

Completion status of selected projects

Ministry	Name of the project	Tenure	ADP Allocation for FY 2019-20	Maximum possible completion in FY20 (%)
Directorate of Primary Education	School feeding programme in poverty ridden area (3rd revised)	01/07/2010-31/12/2020	499,197	81.3
Directorate of Primary Education	Reaching out of school children (RoSC) project (2nd phase)	01/01/2013-31/12/2020	108,526	104.8
Directorate of Primary Education	Primary education stipend project (Phase-III)	01/07/2015-31/12/2019	692,306	93.7
Directorate of Secondary and Higher Education	Development of Post Graduate Govt. Colleges at the District Head Quarters for Improving Quality of Education (1st revised)	01/08/2010-31/12/2019	169,045	67.2
Directorate of Secondary and Higher Education	Development of selected private colleges for improving the quality of education with the help of Information Technology (1st revised)	01/07/2012-31/12/2019	554,774	70.1
Directorate of Secondary and Higher Education	Secondary education investment program (SECIP) (2nd revised)	01/01/2014-31/12/2019	382,692	84.5

Observations

A fifth or more of the non-government schools, ebtedayee madrasas and the ebtedayee-attached to dakhil madrasas were in **hard to reach areas**.

- The proportion was 16.4% in case of the **non-formal primary schools**.
- There are **13 indigenous tribes** residing in the **three hill districts** of Chittagong Division.
- A similar case was found in **Moulvibazar, Sylhet** (from field observations) where a significant number of children belonged to **families of tea garden workers**.
- High drop-out is also evident among children from **poor families.**

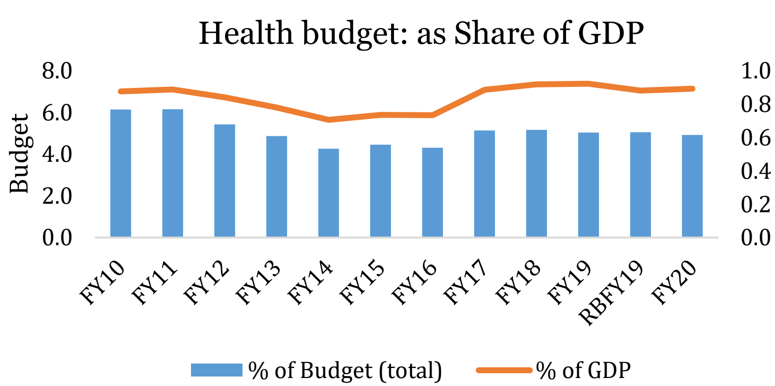
6.3 Education

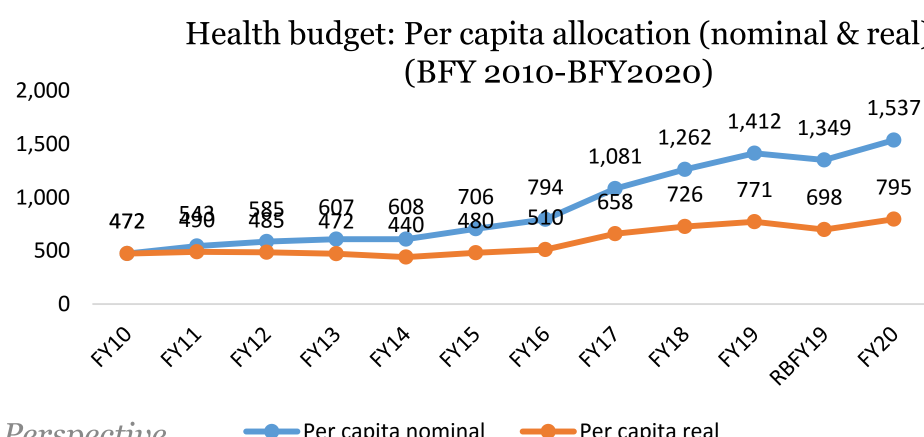
- Education budget **decreased** as a **share of total budget.**
- Allocation as **share of GDP** remains **stagnant (2.1%).**
- Figures are remained **below** the standards set by **7FYP (3%)** and **Education 2030 Framework for Action** of **UNESCO (4-6%).**
- **Implementation of overall education budget** in **FY18 (85.8%)** is **lowest** in the last decade!
- The growth rate of **non-development expenditure** of Secondary Education gradually **decreasing** in last few years.
- In **hard to reach areas**, instead of formal primary education, madrasah education is made more available.
- Inclusivity of the marginalized people have not been clearly reflected in the Education budget at a **disaggregated level** (e.g. by gender).

Health

6.4 Health

- ❑ The health system of Bangladesh relies heavily on the government for financing and setting overall policies and service delivery mechanisms.
- ❑ Although the health system is faced with many intractable challenges, it seems to receive little priority in terms of national resource allocation.
  - ➢ Government expenditure on health is only about 34% of the total health expenditure, the rest (66%) being out-of-pocket (OOP) expenses.
- ❑ The health system faces multifaceted challenges
  - ➢ Lack of public health facilities, scarcity of skilled workforce, inadequate financial resource allocation and political instability
- Total allocation of the budget for health sector in FY20 was Tk.25733 crore which has increased by 15.2% over that of RBFY19
  - **Allocation for health as share of total budget has fallen** (from 5.1% in BFY19 to 4.9% in BFY20)
  - Since 2017, share of health budget as percent of GDP remain at 0.9% level
- Government budget for health (as a share of GDP) is considerably lower than the targets stipulated in the 7FYP and WHO benchmark
  - 7FYP target: 1.12% of GDP: WHO target: 5% of GDP
- ❑ Per capita allocation for health sector (in nominal terms) has slightly increased (from Tk.1349 in RBFY19 to Tk.1537 in FY20) but the rise is much lower in real terms (less than Tk.100).





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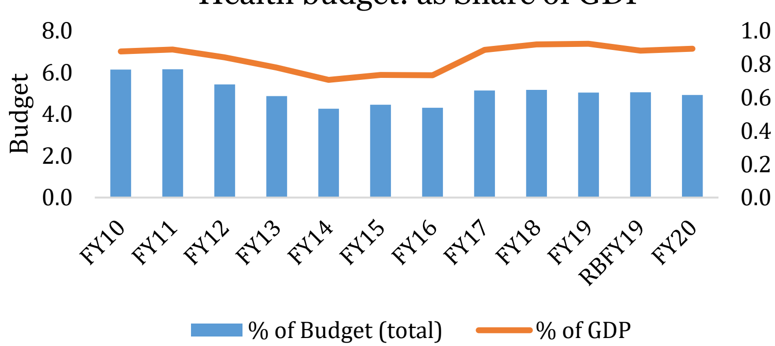
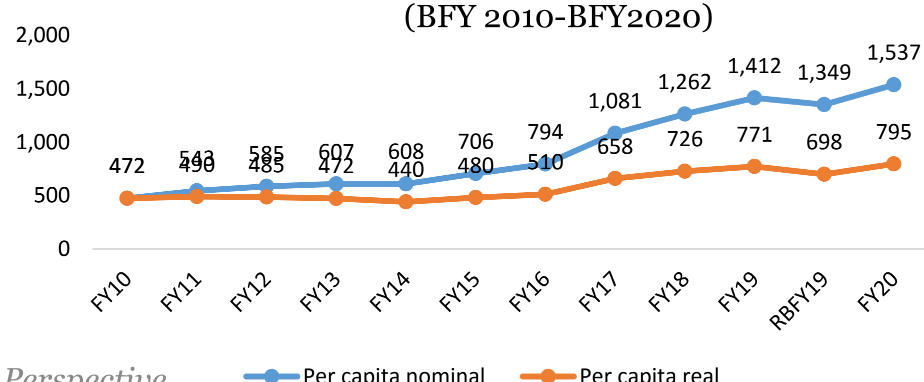
Health budget: as Share of GDP



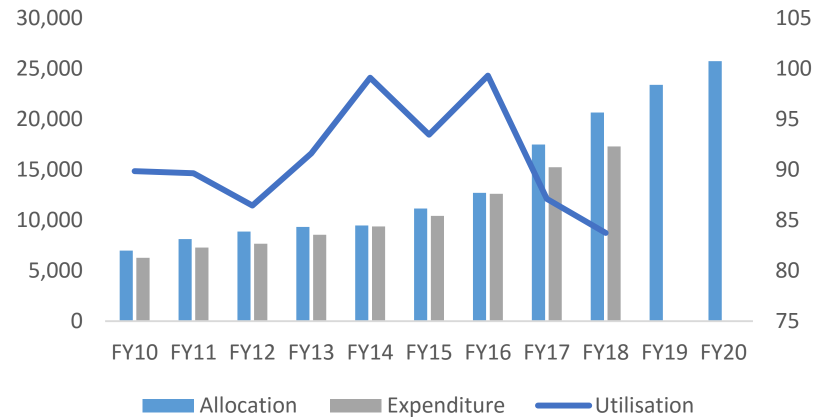
Health budget: Per capita allocation (nominal & real) (BFY 2010-BFY2020)



6.4 Health

- Utilisation of the overall health budget has been decelerating in recent years and it was lowest in FY18 (83.7%) during the last ten fiscal years.
- A detailed description on different activities of the health sector has been mentioned in the budget document
  - Most of those are either ongoing or completed projects
  - New projects include: Three nursing colleges and five nursing hostels for boys will be established in FY2019-20; Institutes of Nuclear Medicine and Allied Sciences (INMAS) will be established at the campuses of 8 medical college hospitals.
- From ADP projects, 14 projects are selected on the basis of Tk.100 crore and projects to be finished by FY19-21 .
- Most of the projects are behind schedule in terms of level of implementation.

Level of Budget Utilisaiton



Election Manifesto of the current government says-

- Every person below one year and above 65 will be given **health services free of cost**.
  - Shashthay Shuroksha Karmashuchi (SSK) has been introduced to give free treatment to the people living below poverty line.
- Making the health and nutrition services available to every citizen of the country will be ensured.
- Medical universities at each divisional city.
- At least one 100-bed self-contained cancer and kidney treatment system will be set up in each divisional city.
- Services of specialized medical practitioners from home and abroad will be made available online.
- The facilities of community clinics including the building will be modernized.

Status of Completion of ADP Projects

Name of the Project	Tenure	ADP Allocation for 2019-2020 (In Crore Tk.)	Maximum possible completion by FY20 (%)
3rd EDCL Industrial branch establishment at Gopalganj	12/31/2020	173	93.7
Establishment of Sheikh Sayera Khatun Medical College & Nursing Institute (1st Revised)	6/30/2020	137	100.0
Establishment of patuakhali Medical College & Hospital	6/30/2020	150	43.9
Urban Public & Environmental Health Sector Development Project (Revised)	6/30/2020	104	31.1
Expansion of National Institute of Neurosciences & hospital	12/31/2020	115	34.8

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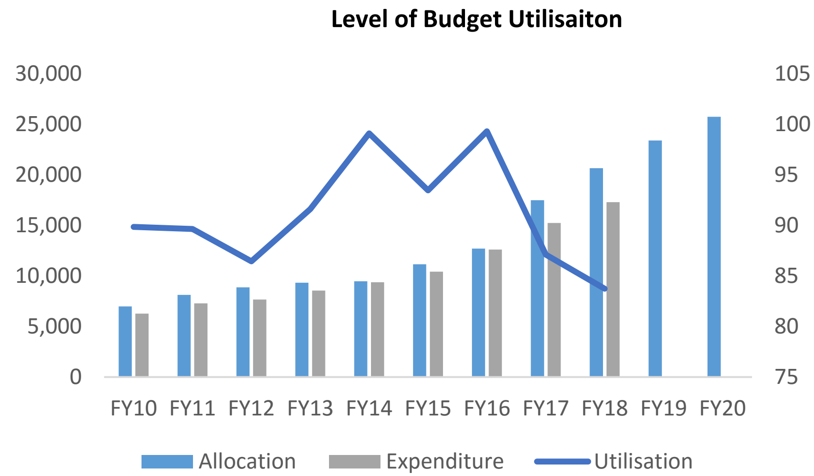
  - Most of those are either ongoing or completed projects
  - New projects include: Three nursing colleges and five nursing hostels for boys will be established in FY2019-20; Institutes of Nuclear Medicine and Allied Sciences (INMAS) will be established at the campuses of 8 medical college hospitals.
- From ADP projects, 14 projects are selected on the basis of Tk.100 crore and projects to be finished by FY19-21 .
- Most of the projects are behind schedule in terms of level of implementation.

Election Manifesto of the current government says-

- Every person below one year and above 65 will be given **health services free of cost.**
- Making the health and nutrition services available to every citizen of the country will be ensured.
- Medical universities at each divisional city.
- At least one 100-bed self-contained cancer and kidney treatment system will be set up in each divisional city.
- Services of specialized medical practitioners from home and abroad will be made available online.
- The facilities of community clinics including the building will be modernized.



Status of Completion of ADP Projects

Name of the Project	Tenure	ADP Allocation for 2019-2020 (In Crore Tk.)	Maximum possible completion by FY20 (%)
3rd EDCL Industrial branch establishment at Gopalganj	12/31/2020	173	93.7
Establishment of Sheikh Sayera Khatun Medical College & Nursing Institute (1st Revised)	6/30/2020	137	100.0
Establishment of patuakhali Medical College & Hospital	6/30/2020	150	43.9
Urban Public & Environmental Health Sector Development Project (Revised)	6/30/2020	104	31.1
Expansion of National Institute of Neurosciences & hospital	12/31/2020	115	34.8

Climate Change

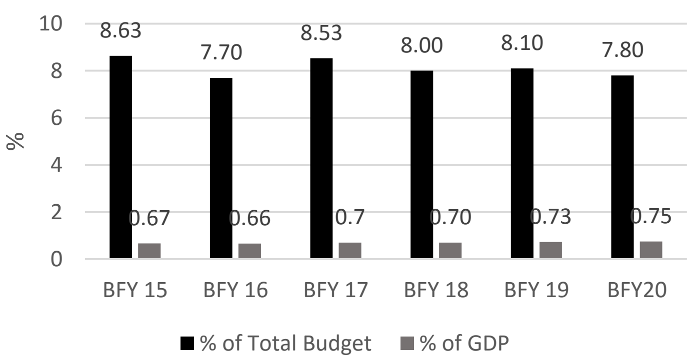
6.5 Climate Change

Climate Challenges faced by Bangladesh

- **Augmenting** agricultural production and livelihoods in the **adverse** weather areas, affected by climate change.
- **17%** people of the country will need to be **relocated** if the rate of **global warming persists** as at present.
- **81%** migrants in Dhaka's **slums** reported **a climate-related** cause for displacement
- According to **IPCC**, in a low crop productivity scenario, Bangladesh would experience a net **increase** in **poverty** of **15%** by 2030
- Maintaining a **steady increase in temperature**

- Climate allocation as % of Total budget is **decreased to 7.8% in FY20 (8.1% in FY19)**
  - **37.89%** of total CC relevant budget allocated to **Food security, social protection and health** thematic

Climate budget as % of total budget and GDP



CPD (2019): National Budget for FY2019-20: An Analytical Perspective

6.5 Climate Change

Climate Change Relevant Projects

- '**Bangladesh Climate Change Strategy and Action Plan**': **145** work plans in **44** programmes were taken up addressing issues regarding **food security**, **disaster management**, **infrastructure**, research works, curbing emissions of **greenhouse gases** and **capacity building**.
- In reference to Bangladesh Delta Plan 2100 **(BDP2100)**, present budget reflects only a **0.8%** allocation of total **GDP** on **delta management projects and programs**
- This figure will need to be more than **tripled** to **2.5** percent of GDP - if **80** projects of the plan are to be implemented, in accordance with **SDGs NAP**, **7FYP**, and election manifesto
- **7FYP key objective:** "To achieve tree cover over **20% of the land surface** (with tree density **> 70%**) and ecologically healthy native forests **restored** and **protected** in all public forest lands (about **16%** of land)" **target not achieved**.
  - Under "Allocation for NDC Mitigation Programmes", 217.69 crore BDT allotted for **Forestation and Reforestation program**.
  - **69%** of total CC germane budget relevant to **Forestation** and **Reforestation** program
- **Bangladesh Climate Change Trust Fund (BCCTF)** allocated **35.18%** of its **3197.91 crore** BDT budget for Ministry of Water Resources.
  - Allocation for **Infrastructure** stood at **67%** of total BCCTF budget
  - **16%** of total budget allocated to **Mitigation** and **Low Carbon** Development

6.5 Climate Change

❑ SDGs NAP Implication

- A **pro-poor** Climate Change Management strategy has been adopted which **prioritizes adaptation** and **disaster risk reduction** and also addresses low carbon development, mitigation financing
- **Requirement of New Project up to 2020:**
  - "Community-based Climate Resilient Fisheries & Aquaculture Development in Bangladesh" **COST: 443774.40 M BDT**

❑ Reflection on Election Manifesto

- Government has, **by its own resources**, established **a USD 400 million** Bangladesh Climate Change Trust Fund under which **440 projects** are being implemented.
- **Green growth** strategy will be applied in **all** development works

❑ Remarks

- Spending on **decarbonisation** and minimal **GHG** emission needs to **increase**
- Bangladesh should seek **financial** and **technological** assistance from **UNFCCC** by undertaking ambitious efforts for **mitigation**
- Imposition of specific **Carbon Tax** or adopting an **Emission Trading System (ETS)** instrument to minimize emissions
- **52.4%** of total Climate relevant budget allocated for **Development expenditure**, compared to **49.78%** in FY19 **revised** budget
- **2** of the top **6** CC relevant **ADP** Projects are very unlikely to be completed in time
  - "Planning for flood management in Bangladesh (Ganges and Brahmaputra Basin)": **47.4% probability**
  - "Climate victim rehabilitation (2nd phase) revised": **45% probability**

Local Government

6.6 Local Government

- Allocation in BFY20 for
  - LGD in BFY20 has increased **by 11.56% from RBFY19**
  - RDCD increased from both BFY19 and RBFY19 by 10.9% and 8.1% respectively
  - **MCHTA has decreased from both BFY19 and RBFY19 by 9% and 12.2% respectively**

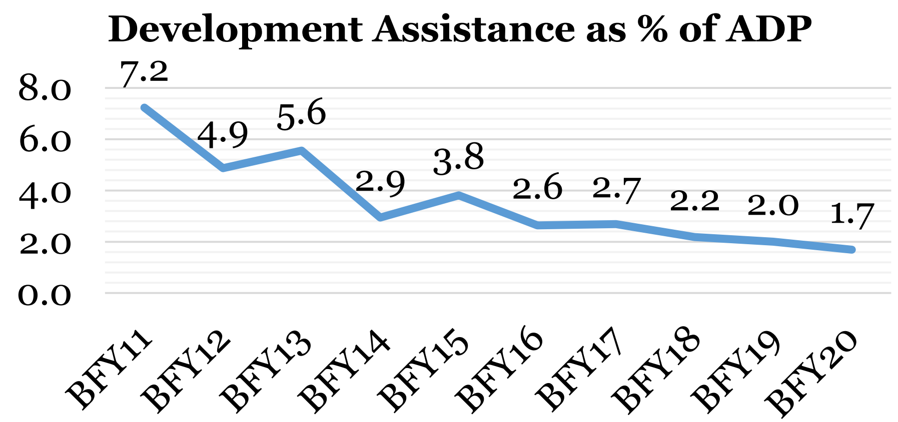
Ministry/ Division	Growth of Total Expenditure	Budget Allocation as % of GDP	Budget Utilisation (%)	Average Non dev: Dev
	AFY12-AFY18, RBFY19, BFY20	Average (BFY11-BFY20)	Average (BFY11-BFY18)	Average (BFY11-BFY20)
LGD	Fluctuating	1.1	88.8	13:87
RDCD	Fluctuating	0.1	118.2	26:74
Ministry of CHTA	Fluctuating	0.0	90.6	34:66

- Budget allocations as percent of GDP for LGD, RDCD, and MCHTA **have remained very meagre** over the years

- Budget **utilisation remains systematically underspent in LGD and MCHTA**, overspending found in RDCD

6.6 Local Government

- Development assistance (intra-government) **have not increased** in comparison to the increase in total outlay of the budget
- In general, marginal share of development assistance in ADP is falling over the years (BFY11-BFY20) including **in the areas of special needs, hill tracts etc**.
- Allocation in ADP for LGD, RDCD, and MCHTA **does not match with the 7FYP ADP ambition level**, rather the divergence has widened over time
- **No specific allocation has been found regarding the** 'My village My town'-one of the flagship pledge of the election manifesto 2018. However, o**ne project has been found under unapproved and unallocated list of ADP** in BFY20.



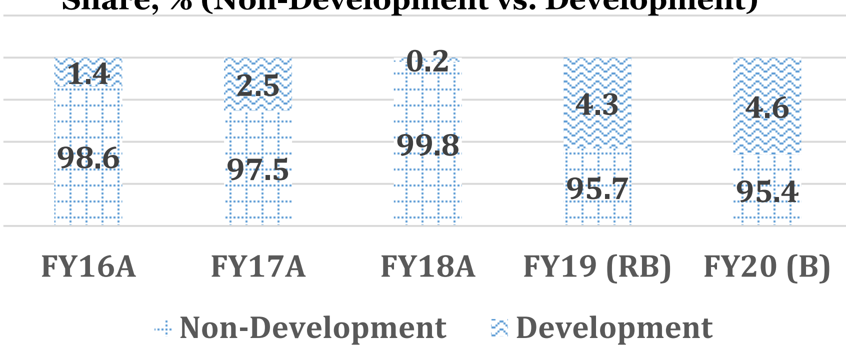
Ministry/ Division	Deficit from 7FYP ADP target	
	BFY16	BFY19
LGD	3.1%	15.4%
RDCD	5.4%	17.5%
MCHTA	12.3%	12.8%

Defence

6.7 Defence

- The budget allocation for Defence for FY20 is Tk. 32,101 crore, which is 10.4% higher than the allocation for the previous year
  - Overall, share of defence in the budget has decreased (from 8.8 % in FY 17 to 6.1 % in FY20)
  - The growth (10.4%) in defence budget is lower than the total budget growth in FY20
  - The share of non-development component in the overall defence budget has always been more than 95%
  - The share of development component has increased to 4.6% in FY20 which has been the highest since FY06
  - MoD has received an allocation of Tk. 395 crore for 10 projects in ADP FY20 under the Education sector
  - Majority of these projects are expected to be completed within the scheduled time

Share, % (Non-Development vs. Development)



Defence Allocation and Expenditure in Recent Years (In crore Tk.)

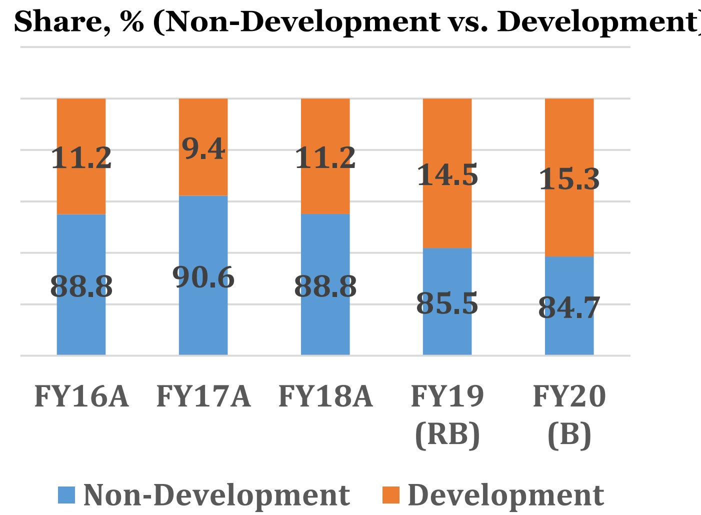
	FY17 (A)	FY18 (A)	FY19 (RB)	FY20 (B)
Ministry of Defence-Defence Services				
Non-Development	22,138	20,253	28,140	29,285
Development	596	42	1,327	1,480
Total	22,734	20,295	29,467	30,765
Ministry of Defence-Other Services				
Non-Development	857	827	1,200	1,298
Total	857	827	1,200	1,298
Armed Forces Division				
Non-Development	30	24	34	38
Total	30	24	34	38
Total-Defence Services	23,621	21,146	30,701	32,101
Growth	16.3	-10.5	16.2	10.4
% of Total Budget Allocation	8.8	6.6	6.9	6.1

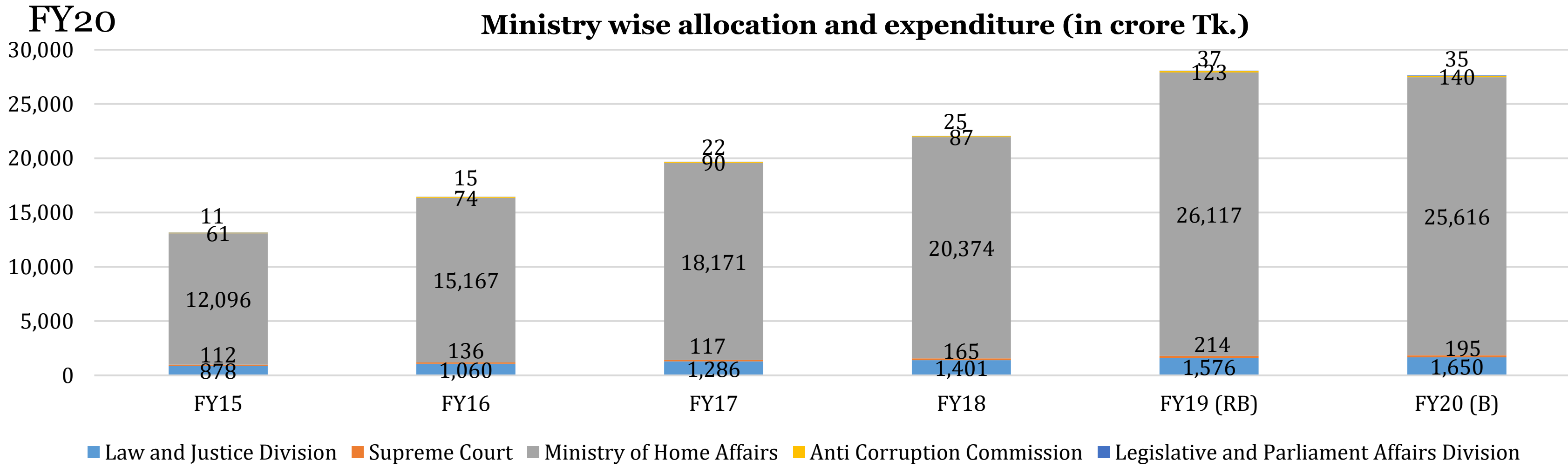
Public Order and Safety

Independent Review of Bangladesh's Development

6.8 Public Order and Safety

- The budget allocation for POS for FY20 is Tk. 27,636 crore, which is 3.9% higher than the allocation for the previous year
  - Overall, share of POS in the budget has increased (from 4.6 % in FY16 to 5.3% in FY20)
  - The average growth (15.5%) in POS budget was higher than the average growth of defence budget (9.7%) during FY16-FY20
  - The share of non-development component in the overall defence budget has always been higher, though development share in also increasing since FY18
  - MoHA always accounts to more than 90% of the share and is equivalent to the total health sector budget in FY20



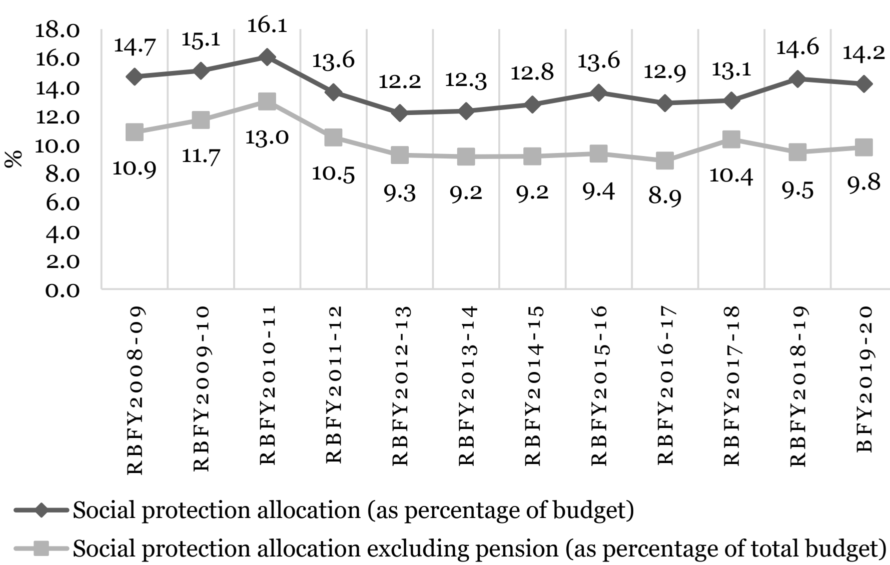


Social Safety Net

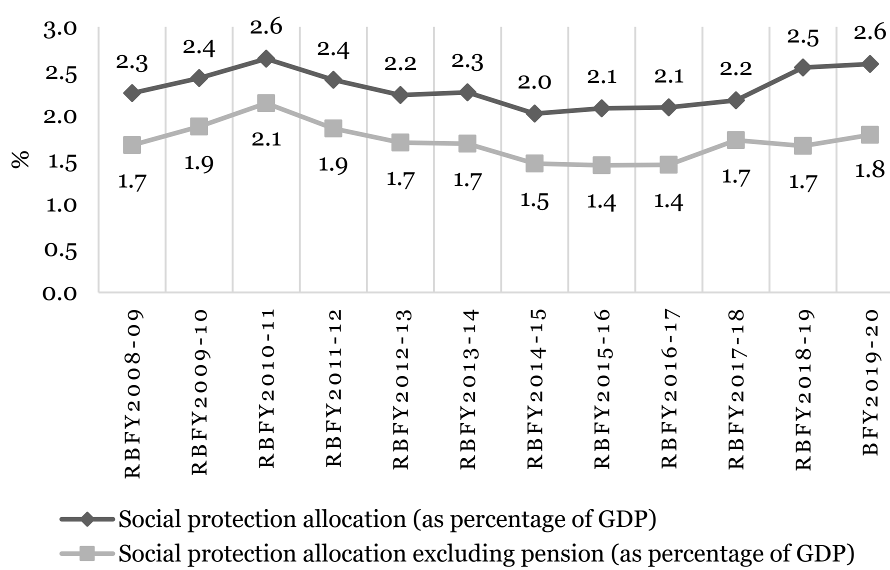
6.9 Social Safety Net

- Allocation for social safety net has been increased by 15.5% from BDT 64404 crore in budget FY2018-19 to BDT 74367 crore in budget FY2019-20
  - The allocation has increased by 33%, which is a higher rate in the previous year
  - Overall social safety net budget has decreased as a % of budget, but increased as a % of GDP.
- Social safety net budget excluding pension has increased, from 9.5% of budget in RBFY2018-19 to 9.8% of budget in BFY2019-20 and from 1.7% of GDP in RBFY2018-19 to 1.8% of GDP in BFY2019-20.
  - Nevertheless, in FY2019-20 **the social safety net allocation excluding pension is only 1.8% of GDP which is much lower than the target of 2.3% of GDP outlined in the 7FYP.**

Social safety net allocation and pension allocation (as % of budget)

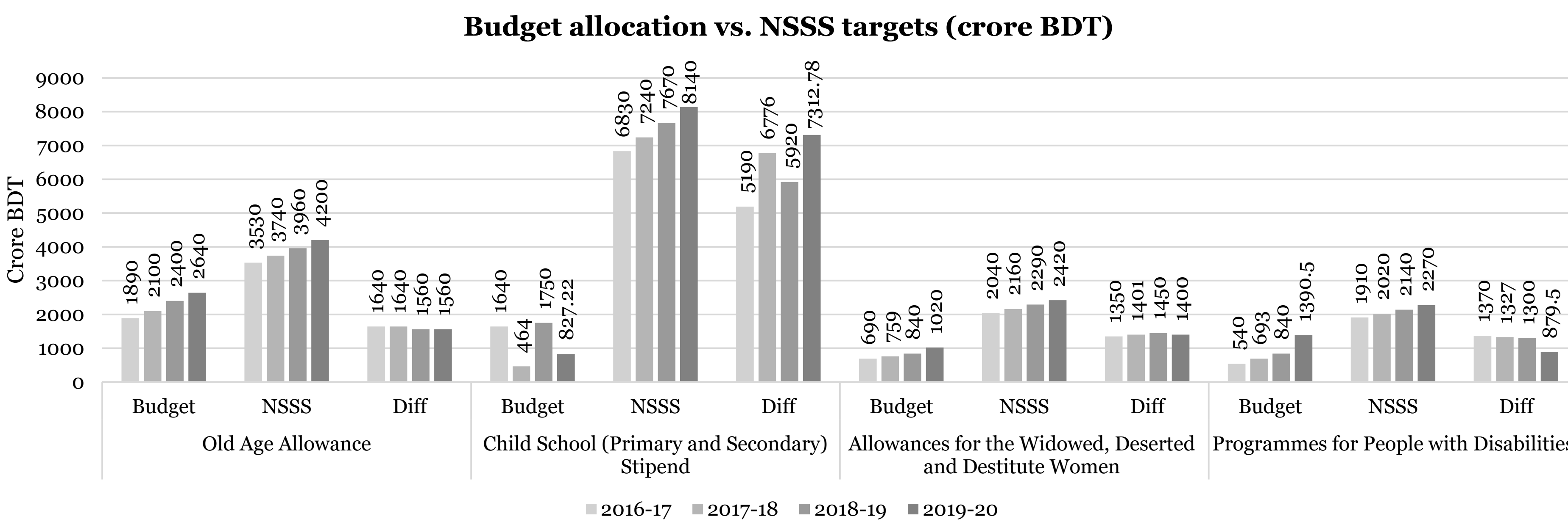


Social safety net allocation and pension allocation (as % of GDP)



6.9 Social Safety Net

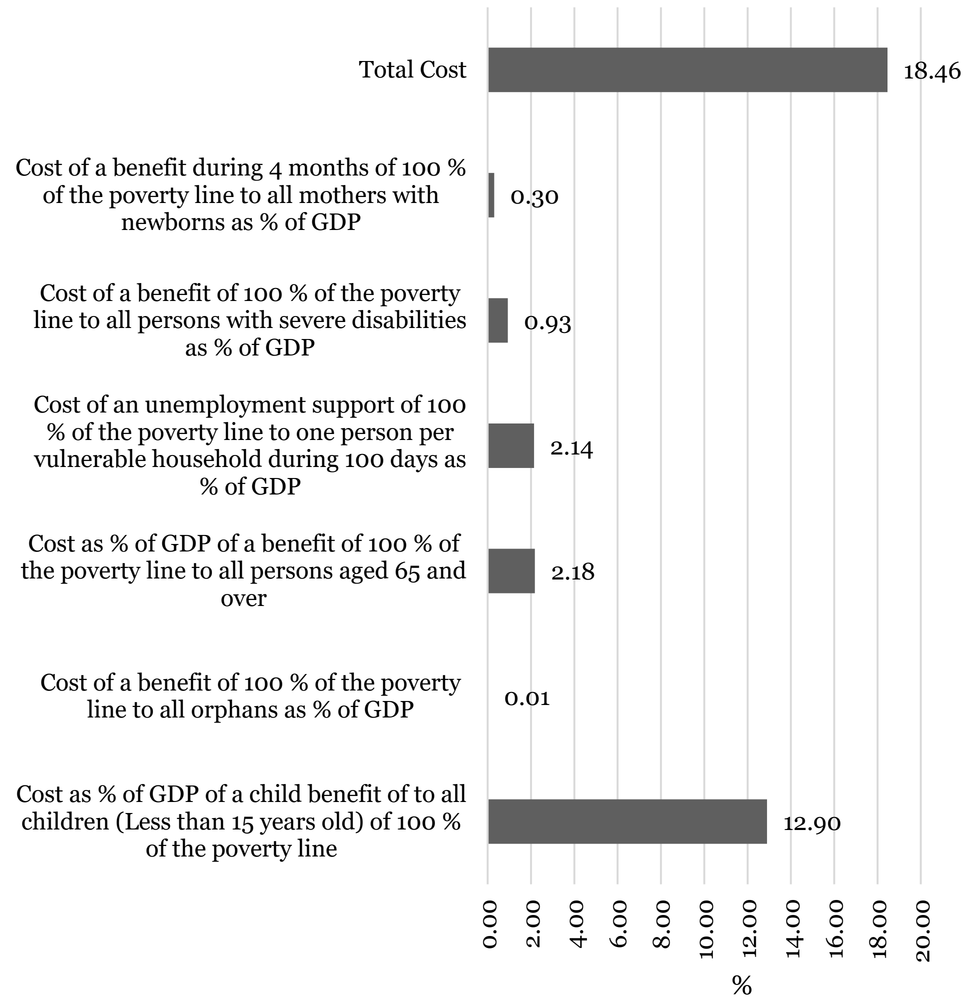
- Although total social safety net allocation has increased, **budget allocation for a number of safety net programmes have fallen short of the targets set out in the National Social Security Strategy (NSSS).**
  - For example, the combined primary and secondary school stipend in the budget for FY2019-20 is only 10.16% of the NSSS target for FY2019-20.
- With such inadequate resource allocation, these social safety net programmes cannot be expected to fully accomplish their respective objectives.



6.9 Social Safety Net

- The budget speech for FY2019-20, just like the previous budget speech, has mentioned the intention of the government to introduce a Universal Pension Scheme.
  - **Unfortunately, no budget allocation was made for such a scheme.**
  - The government should at least consider introducing the Universal Pension Scheme as a small scale pilot project, in to order to kick-start the programme.
- ILO Social Protection Floors Recommendation, 2012 (No. 202) states that member countries should establish and maintain their social protection floors comprising basic social security guarantees, in accordance with national circumstances.
  - ILO estimates suggest that the cost of establishing a social protection floor in Bangladesh is approximately equal to 2.2 times the total tax revenue and official development assistance (ODA) received in 2016, or 25% of the military spending in 2016 (Ortiz, *et al.*, 2017).
- SDG target 1.3 also calls upon countries to "implement nationally appropriate social protection systems and measures for all, including floors, and by 2030 achieve substantial coverage of the poor and the vulnerable".

Estimated cost of social protection floors for Bangladesh



Source: CPD calculations using ILO social protection floors cost calculator.

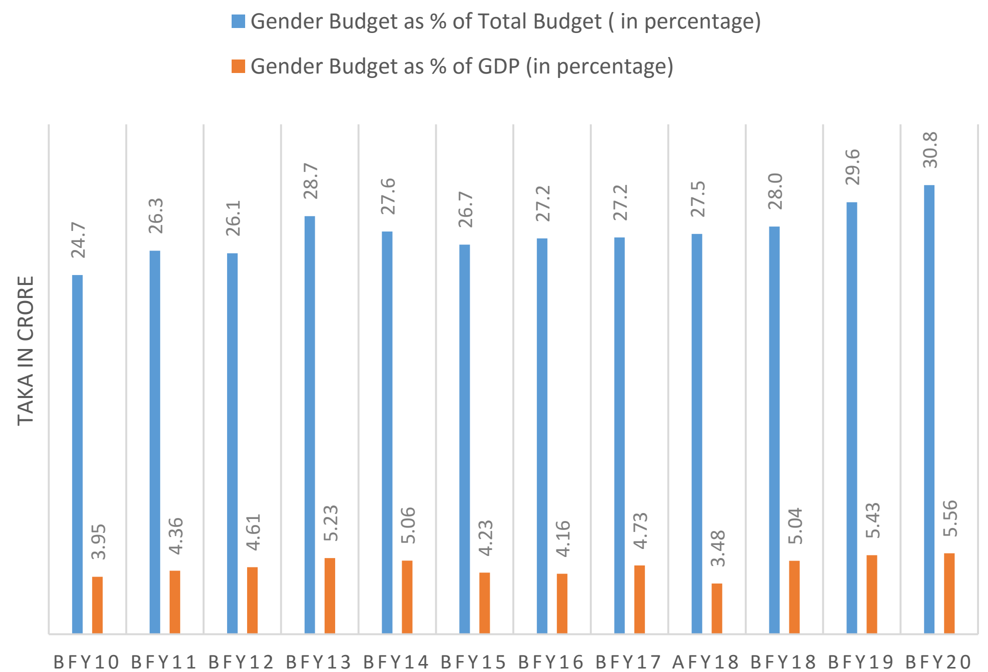
Gender

6.10 Gender

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

- ❑ Allocation for Gender Budget in FY20 (Tk 161247 crore) increased by 17.1% against FY19.
- ❑ Actual expenditure data for FY18 has been reported in the budget FY19-20
- ❑ However, actual expenditure data for the previous years was unavailable
    - ❑ Actual expenditure is lower than budget allocation (in FY18)
- ❑ Gender budget as a percentage of total budget has increased from 29.65% in BFY19 to 30.82% in BFY20.
- ❑ Over the last decade, gender budget as a share of total budget ranged from 26% to 29%, reaching its highest (30.8%) in BFY20.
- ❑ Although nominal per capita allocation in gender budget increased by Tk 1335 from BFY 19 to BFY20, real per capita allocation increased by only Tk 425

Share of Gender Budget in Total Budget and GDP (in percentage)



Source: Author's compilation from various years, Ministry of Finance.

6.10 Gender

- Out of 5 gender centric projects, 2 projects were scheduled to be completed by FY20:
  - "Mirpur and Khilgaon Working Women's Hostel" with a maximum possible implementation rate (99.8%) is highly likely to be completed
  - "Shapno" with a low maximum possible implementation rate (8.3%) is highly unlikely to be completed

Child

6.11 Child

Emerging challenges for the children in Bangladesh

- Children (aged less than 16 years) make up 40% (6 crore) of the total population of Bangladesh.
- The progress in hunger, poverty, gender parity in schooling, reduction of death rates of children under 5 years, improvement in water supply and sanitation facility, have contributed to positive changes in the lives and livelihood of the children
- However, a number of emerging issues pose new challenges to the children:
  - Climate change and migration
  - Urbanisation and poor condition of living
  - Rise of death of new-born babies; problems of stunting
  - Lack of access to safe drinking water and improved sanitation
  - Weak state of physical and mental safeties
  - High drop-out at the secondary levels
  - High rate of child marriage
  - Lack of awareness about child rights
- National budget needs adequate allocation targeting proper development of children
- Allocation of child budget as a percentage of total budget has been increasing steadily since its inception in FY16, reaching its highest of 15.33% in FY20.
  - However, in actual expenditure of child budget (Tk 41,894 crore) in FY18 was lower than budget allocation (Tk 55860 crore)
- Budget allocation has increased from Tk.65600 crore in FY19 to Tk.80200 crore in FY20
- Child budget allocation (as % of GDP) has marginally increased from 2.59% in BFY19 to 2.78 % in BFY20.

6.11 Child

Child Budget-rising allocation, unveiling the inclusion of actual expenditure

- Unlike previous years, child budget presents data on expenditure for FY18 which indicates better transparency to evaluate and appreciate the proportion of budgeted amount that has been realized in a particular year.
    - Expenditure data of earlier years (since FY2016) should be included in the document.
    - Between BFY 18 and AFY18, the nominal per child allocation increased by Tk 854
- However, expenditure of child budget is much lower AFY18 compared to the budget allocation in FY18 (65.8% lower in real p/c term in FY8)

- Nominal and real allocations per child in FY2020 are Tk. 12730 and Tk.6164 respectively
    - Nominal allocation has increased by Tk 2309 annually
    - Real allocation per child increased by Tk 84O annually
    - Total number of child-centric ministries have gradually increased from 7 to 15 between FY 17 and FY20
    - In FY20, the highest allocation is under Ministry of Primary and Mass Education where child-centric budget is 99.70% compared to 99.5% in BFY19
- Out of a total of 4 child centric projects (to be completed in FY20)
    - "Rocks Project" and "School Feeding Programme in Poverty Ridden Areas" are likely to be completed
    - The completion of "Kishore Kishori Club" by FY20 is highly implausible.

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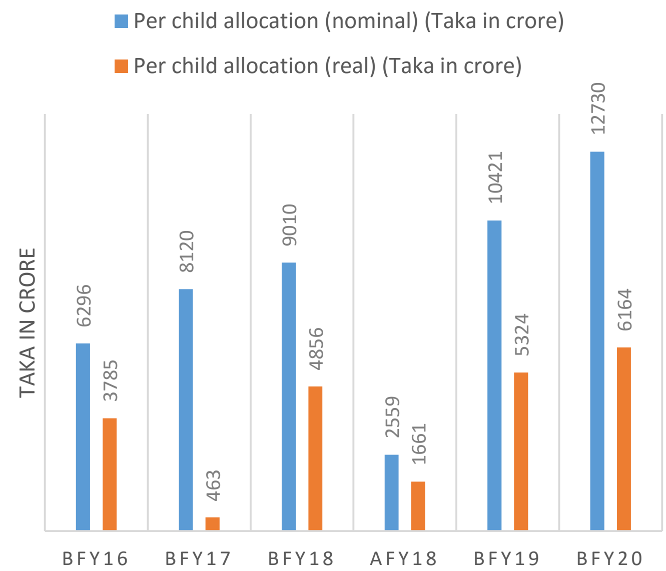
Per Child Allocation of Child Budget
(Taka in crore)



Source: Source: Author's compilation from Ministry of Finance (MoF), Child Focused Budget (various years).

6.11 Child

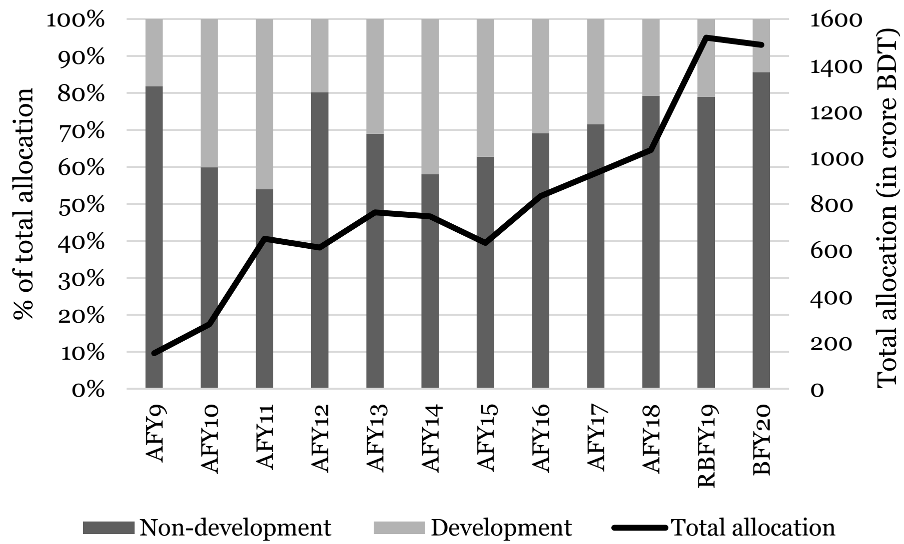
- Due to slow pace of implementation, three core projects aligned with the election manifesto commitments - 'Maternal, Child, Reproductive and Adolescent Health (MNCAH)', Community Based Health Care (CBHC)' and 'Health Information Systems (HIS) and EHealth' exhibit a poor maximum completion status of 18.7 %, 37.8% and 33.7% by June 2020 respectively.

Youth

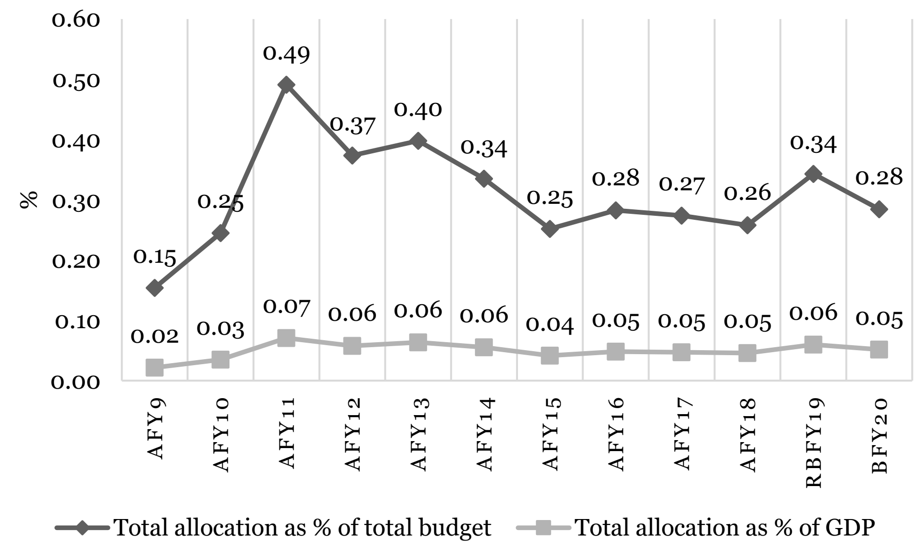
6.12 Youth

- In the Ministry of Youth and Sports, allocation for development expenditure has fallen from 21.1% of the total allocation in the revised budget for FY2018-19 to 14.4% of the total allocation in the budget for FY2019-20.
- The total allocation for the Ministry of Youth and Sports has decreased from 0.34% of the total revised budget for FY2018-19 to 0.28% of the total budget in FY2019-20.

Non-development, development and total allocation for the Ministry of Youth and Sports



Allocation for Ministry of Youth and Sports as % of Total Budget and GDP



6.12 Youth

The budget speech mentions a number of positive measures aimed at youth:

- BDT 100 crore will be allocated to provide start-up capital to promote all types of startup enterprizes among youths.
- Steps have been taken to train 15 lakh people.
- Special programme will be introduced to create 1 lakh skilled and professional drivers for the transport sector.

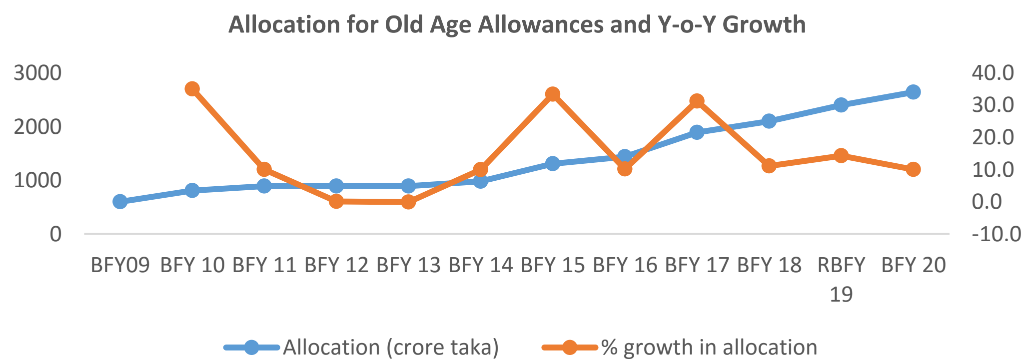
However, a number of pledges made in the Election Manifesto 2018 of the Bangladesh Awami League have remained unaddressed in the budget FY2019-20

- Separate Youth Division under the Ministry of Youth and Sports will be formed to bring the administrative dynamism in the work for the development and welfare of youths
  - **Separate Youth Division is yet to be created**, and the proposed budget for FY2019-20 has not allocated any funds for such a division
- The fund allocation for the Ministry of Youth and Sports will be increased
  - The fund allocation for the Ministry of Youth and Sports in the budget FY2019-20 has decreased by 2.04% compared to the revised budget for FY2018-19
- The annual youth budget will be outlined following format of gender-based budget.
  - **The budget for FY2019-20 has not outlined any separate Youth Budget.**

Senior Citizen

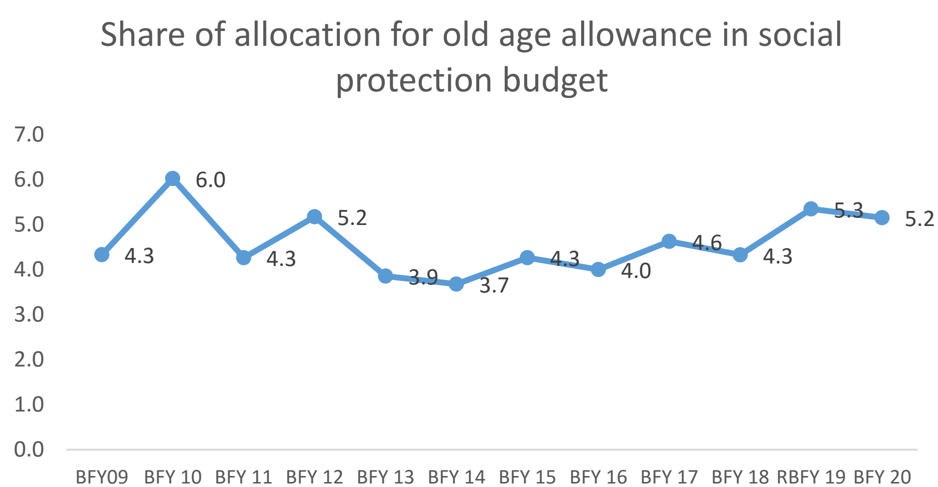
6.13 Senior Citizen

- According to the World Population Aging 2017, Bangladesh has a total of 1.20 crore population who are aged 60 years and above (7.4% of total population)
  - This population will increase to 4.45 crore in 2050;
  - It is increasing at the rate of 4.41% per year and this rise will be substantive in the upcoming years.
- The allocation under the old age allowances has been increased by Tk.240 crore in FY 2020 from Tk.2400 crore to Tk.2640 crore.
  - This higher allocation will cover additional 4 lac man month (of senior citizens) (from 40 lac mm to 44 lac mm) without any change in per capita allocation (Tk.600)
  - Considering the high cost of living, the per capita allocation needs to be increased.



6.13 Senior Citizen

- Allocation for senior citizens (% of social protection budget) has experienced slow rice in recent years (from 3.7% in AFY14 to 5.2% in BFY20)
- The election manifesto of the Awami league highlighted 'income generating activities for aged in possible cases, separate chapters in the text books on the social responsibility and awareness about the aged people, earmarking seats/spaces for the aged in transports and residential establishments, expanding geriatric healthcare at grass roots levels, aged-friendly entrances in hospitals, airports, buildings and transports are the steps to be taken up in the next ten years. These activities are not reflected in BFY20 except in healthcare service the number of beneficiary has been increased.

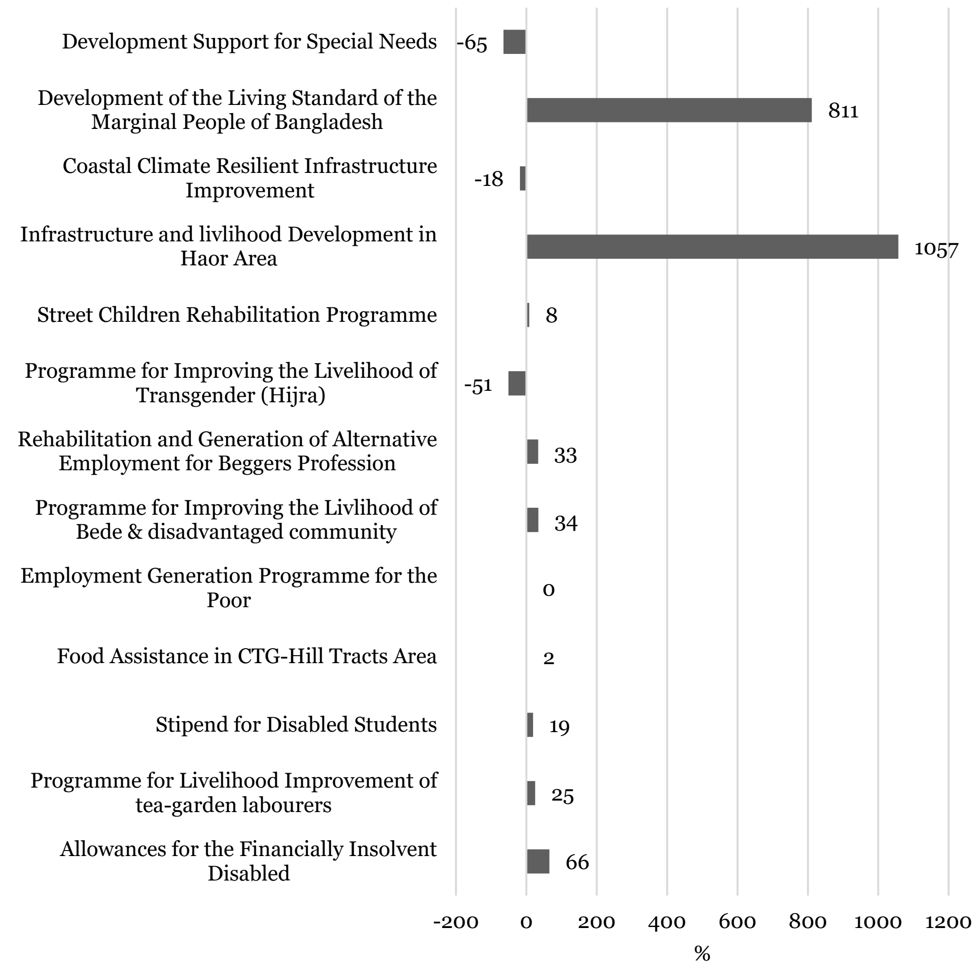


Marginalised Groups

6.14 Marginalised Groups

- In the budget for FY2019-20, allocation has been increased for:
  - Allowances for the Financially Insolvent Disabled
  - Programme for Livelihood Improvement of tea-garden labourers
  - Stipend for Disabled Students
  - Food Assistance in CTG-Hill Tracts Area
  - Programme for Improving the Livlihood of Bede & disadvantaged community
  - Rehabilitation and Generation of Alternative Employment for Beggers Profession
  - Street Children Rehabilitation Programme
  - Infrastructure and livlihood Development in Haor Area
  - Development of the Living Standard of the Marginal People of Bangladesh
- However, budget allocation for Employment Generation Programme for the Poor has remained unchanged
- **Allocation for Programme for Improving the Livelihood of Transgender (Hijra), Coastal Climate Resilient Infrastructure Improvement and Development Support for Special Needs has decreased.**

Change in allocation of safety net programmes targeting marginlised groups (in %)



6.14 Marginalised Groups

Budget's special attention to target marginalized groups and maximum possible completion of the major projects by FY2020:

- ❑ **Youth** (Strengthening and modernization of Sheikh Hasina Youth Centre, 93.3%)
- ❑ **Char and haor communities** (Infrastructure and livelihood development in haor areas, 100%)
- ❑ **People with disabilities** (Sustainable socio economic development and rehabilitation for the poor disabled and disadvantaged people by providing activities of special education, health care and miscellaneous skills, 67.3%)
- ❑ **Adivasis** (Production of high-value spice in remote areas of Chittagong Hill Tracts; 59.2%)
- ❑ **Tea Workers** (Safe water and sanitation for tea workers, 41.8%)
- ❑ **Rohingya (**Emergency multi sector Rohingya crisis response project, 41%)
- ❑ **Transgender** (Improvement of livelihood in the capital for the transgender community, 43.2%) people ensuring that the Social Security system supports an effective disaster response system as is mentioned in the SDG's National Action Plan

6.14 Marginalised Groups

Exclusion

- For Biharis, rehabilitation project is unapproved and unallocated.
- The Dalit community is not specifically brought into concern, it is within the budget for the oppressed, destitute and ultra poor and marginal people.
- Allocation for the ultra poor has remained unchanged.

- According to the Election Manifesto, the special allowance of the hermaphrodites has been raised to Taka 600 from Taka 500 under the programme for the improvement of their living standard. The allowances for the gypsy and other backward groups have been increased to Taka 500 from Taka 400

Comparison and recommendation

- According to Seventh Five Year Plan (7^{th} FYP), efforts were to be made to increase public spending on social protection from 2.02% of GDP in FYI5 to 2.3% of GDP by FY20 which has been realized
- There are saline water treatment projects for coastal people ensuring that the Social Security system supports an effective disaster response system as is mentioned in the SDG's National Action Plan

VI. CONCLUDING REMARKS

VI. CONCLUDING REMARKS

Transparency of the budget

- The budget speech (in page 112) used NBR data to report revenue trend growth
  - There is a substantial difference between data provided NBR and MoF
  - Is NBR data used in this case to show a better picture?

- In view of recent surge of tax exemptions amid rising gap between targeted and realized revenue mobilisation, it is critical to have a comprehensive and detailed estimate of revenue forgone
  - Is it due to institutional incompetency or a informed political choice?

- Although, the budget report previous year's actual revenue mobilisation and expenditure figures (FY18 figures in this year's budget), the same for allocations for social safety net programmes and some other indicators are not made available
- Geography-wise diaaggregated information on allocations for social safety net programmes could also help assess the distribution of the public resources to the poor and marginalised

VI. CONCLUDING REMARKS

Transparency of the budget

- Regrettably, a number of inconsistencies have been found in budget documents from different government agencies. For example:
  - In the case of tax deduction rates at source on the bill of contractors and suppliers, the first slab was mentioned to be "Up to BDT 25 lakh" in the budget speech (page 113 of the English version). However, in page 2 of "Salient features of proposed reforms in income tax by Budget 2019-2020" – a document provided by NBR; the same first slab was mentioned to be "Up to BDT 15 lakh". In both documents, the second slab followed the upper limit of the first slab and thus created much confusion.
  - In a similar fashion, in the list of items whose SD have been imposed/increased/decreased, the budget speech provided a list of 9 items (page 124) while NBR provided a list consisting 7 items (page 1 of the document titled SD imposed/increased/withdraw/decreased)

VI. CONCLUDING REMARKS

- Emerging challenges in the economic management have largely remained unaddressed in the proposed budget for FY20
- The proposed budget was not directly informed by the election manifesto of the ruling government
- Despite being the budget for the terminal year of 7FYP, there was no visible urge to make a last stride towards fulfillment of the planned targets
- There was not special effort to rectify the longstanding structural marginalisation of deprived sectors
- There has been a number of promises made (such as generating employment, raising number of taxpayers) without any concrete timebound plan
- The structural reform agenda hardly gain a recognition in the Budget Speech
- Infrastructure oriented public finance driven economic growth centric approach is now showing its limitation to establish an inclusive society

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