Independent Review of

iRBD

Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

State of the Bangladesh Economy and the Budget Challenges

জাতীয় অর্থনীতির পর্যালোচনা ও আসন্ন বাজেট প্রসঙ্গ

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CENTRE FOR POLICY DIALOGUE

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CPD IRBD 2019 Team

Dr Debapriya Bhattacharya and *Professor Mustafizur Rahman,* Distinguished Fellows, CPD were in overall charge of preparing this report as Team Leaders.

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

Excellent research support was received from

Senior Research Associates		
Ms Umme Shefa Rezbana	*Mr Mostafa Amir Sabbih*	*Ms Sarah Sabin Khan*
Mr Muntaseer Kamal		
Research Associates		
Ms Sherajum Monira Farin	*Mr Md. Al-Hasan*	*Mr Syed Yusuf Saadat*
Mr Kazi Golam Tashfique		*Ms Sayeeda Jahan*
Programme Associates		
Ms Shamila Sarwar	*Ms Ismum Nawar*	*Ms Rafia Rowshan Khan*
Interns		
Ms Bidisha Choudhury	*Mr Raiven Hasan*	*Ms Humayra Asima Rahman*
Mr Abu Saleh Md. Shamim Alam Shibly		

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2019 Team.

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The CPD IRBD 2019 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

Contents

Introduction

About this Presentation

- The core objective of this presentation is to undertake a benchmarking and stocktaking exercise as regards the performance of Bangladesh

- The possible budgetary implications of the emergent macroeconomic developments will be discussed

- The performance of the Bangladesh economy is analysed through three vantage points :
  - a) Delivery of the 7FYP targets
  - b) Commitments in the election manifesto and follow-ups
  - c) Achievements under the SDG framework

Global Position of Bangladesh

World Ranking of Bangladesh According to GDP/GNI and Per Capita GDP/GNI

Indicators	2000	2005	2010	2015	2016	2017
GDP in current USD	49 (199)	56 (204)	59 (203)	46 (200)	44 (195)	43 (188)
Per capita GDP in current USD	164 (199)	176 (204)	178 (203)	165 (200)	158 (195)	150 (188)
GNI in current USD	46 (189)	54 (194)	55 (193)	44 (191)	44 (189)	42 (185)
GNI per capita, Atlas Method (current USD)	148 (184)	160 (192)	166 (191)	158 (189)	153 (188)	147 (184)

Source: Based on *World Development Indicators* (World Bank, n.d.-a: accessed on 21/10/2018).

- **GDP size:** The country positioned 49 (among 199 countries) in 2000 to 43rd (among 188 countries) in 2017
- **GDP per capita:** The country progressed by 14 ranks (from 165th place to 150th) between 2000 and 2017 as its per capita GDP increased
- **GNI size:** The country positioned 46th (among 189 countries) in 2000 to 44th (among 185 countries) in 2017
- **GNI per capita:** The country progressed its position in terms of GNI per capita from 166 (among 191 countries) in 2010 to 147 (among 184 countries) in 2017

Cross Country Comparison

❑ Conventional criteria for cross-country comparisons

- ➢ Comparable GDP and GDP per Capita
- ➢ GNI per capita (Income category)
- ➢ Level of Development (LDCs, emerging economies, developed countries)
- ➢ Geographical (Countries in the same region e.g. South Asia, South-East Asia, Sub-Saharan Africa, Latin America)
- ➢ Export competitors (e.g. Bangladesh with Vietnam and Cambodia)
- ➢ Intuitively

❑ Selected countries for comparison

1. Ethiopia
2. Kenya
3. Myanmar
4. Pakistan
5. Philippines
6. Tanzania and
7. Vietnam

Cross Country Comparison

Indicator	Position of Bangladesh in 2017	Comments
GDP Growth (Annual %)	2nd (Bangladesh lagging behind Ethiopia)	Doing comparatively well
GDP per Capita Growth (Annual %)	2nd (Bangladesh lagging behind Ethiopia)	Doing comparatively well
GNI per capita, Atlas method (current USD)	4th (Bangladesh lagging behind Philippines, Vietnam, Pakistan)	Moderately lagging behind
GNI per capita, PPP (constant 2011 international USD)	4th (Bangladesh lagging behind Philippines, Vietnam, Pakistan)	Moderately lagging behind
GNI per capita growth (annual %)	4th (Bangladesh lagging behind Ethiopia, Vietnam, Philippines)	Moderately lagging behind
Gross domestic savings (% of GDP)	4th (Bangladesh lagging behind Tanzania, Myanmar, Vietnam)	Moderately lagging behind
Gross capital formation (% of GDP)	4th (Bangladesh lagging behind Ethiopia, Tanzania, Myanmar)	Moderately lagging behind
Gross fixed capital formation, private sector (% of GDP)	5th (Bangladesh lagging behind Tanzania, Kenya, Ethiopia, Philippines)	Alarmingly left behind
FDI Inflow (% of GDP)	7th (Bangladesh lagging behind all but Kenya)	Alarmingly left behind
Manufacturing, value added (% of GDP)	5th (Bangladesh lagging behind Vietnam, Philippines, Myanmar, Tanzania)	Alarmingly left behind
Export of goods and services (% of GDP)	3rd (Bangladesh lagging behind Myanmar, Phillipines)	Moderately lagging behind

Performance as against 7FYP

Macroeconomic indicators	Target in 7FYP (2019)	Performance (FY2019)	Difference (%)	Comments
GDP Growth	7.6	8.13	7%	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 domestic savings (% of GDP)	N/A	23.93	N/A	N/A
Gross national savings (% of GDP)	30.7	28.41	-7%	Moderately Lagging behind
CPI inflation	5.7	5.49	-4%	Achieved

CPD (2019): State of the Bangladesh Economy and the Budget Challenges

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Performance as against 7FYP

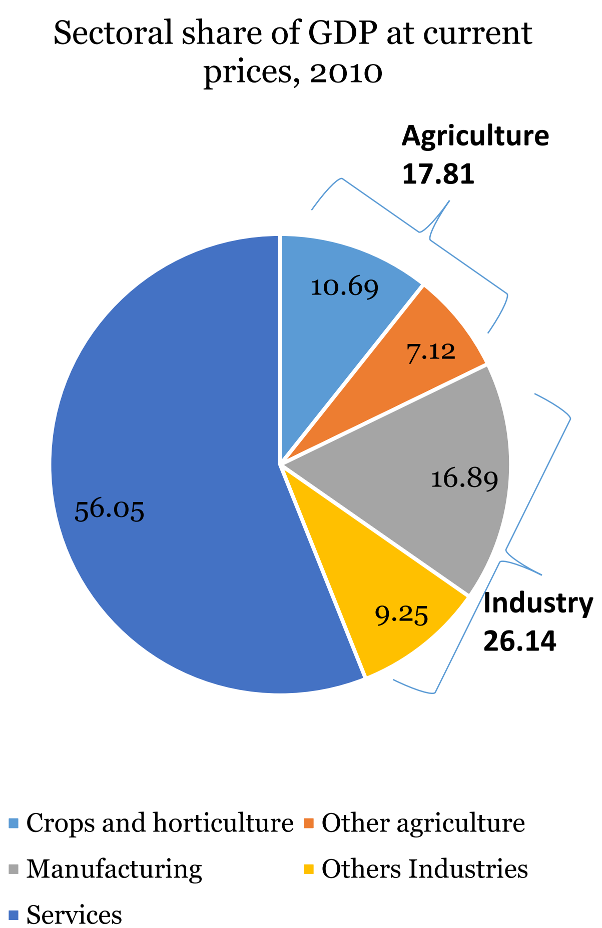
External sector	Target in 7FYP	Performance	Difference (%)	Comments
Remittance (million USD)	23085 (FY2019)	13303 (up to April FY2019)	-42%	Alarmingly Lagging behind
FDI (net million USD)	5871.2 (FY2018)	1583 (FY2018)	-73%	Alarmingly Lagging behind
Export f.o.b (including EPZ) (million USD)	47461.8 (FY2019)	27562.8 (up to April FY2019)	-42%	Alarmingly Lagging behind

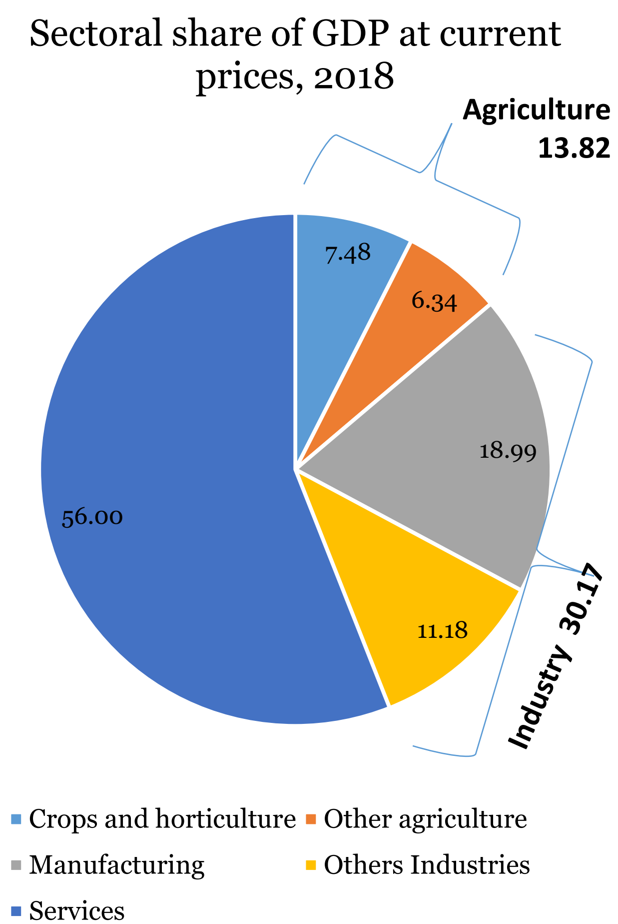
Performance as against 7FYP

Social sector	Target in 7FYP (Year)	Performance (2017)	Difference (%)	Comments
Literacy rate (7+) (UNICEF)	100 (2020)	73	27%	Alarmingly Lagging behind
Net enrollment at primary level (UNICEF)	100 (2020)	90.5	9.5%	Moderately lagging behind
Net enrollment at secondary level (UNICEF)	100 (2020)	61.6	38.4%	Alarmingly Lagging behind
Maternal mortality ratio (per 100,000 live birth) (BBS)	105 (2020)	172	64%	Alarmingly Lagging behind
Under-five mortality rate (per 1,000 live births)	37 (2020) 34 as mentioned in SDG	31	-16%	Achieved

Progress as regards Structural Transformation

Is structural transformation really happening in Bangladesh??





- Service sector contributes to the highest share in GDP (more than 50%)
- Over the years, the share of manufacturing has continuously increased

Trade Outlook in the Global Context

Challenges

- Global economic growth - projected to slow down from 3.6% in 2018 to 3.3 percent 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

Possible opportunities

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

Is Bangladesh's divine blessing over the past few years from favourable global conditions coming to an end?

Fiscal Sector: Stresses Becoming Apparent

Stylised Facts

- ❑ Revenue-GDP ratio decelerated since FY12 to be 9.6% in FY18
- ❑ Public expenditure-GDP ratio also declined since FY13, and reached 13.5%
- ❑ 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
  - ➢ 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

Revenue Mobilisation

- Following the trend of first six months, it is now obvious that the targets of revenue mobilisation for FY19 will not be attained
  - Total revenue mobilisation growth deteriorated (11.2% during Jul-Dec FY19 compared to 16.5% during Jul-Dec FY18)
- Both tax revenue (8.8% growth vs the annual target of 57.4%) and non-tax revenue (31.5% growth vs the annual target of 50.1%) collection have missed their respective targets by a significant margin during the first half of FY19
- CPD estimated the possible revenue shortfall in FY19 to be around Tk. 85,000 crore

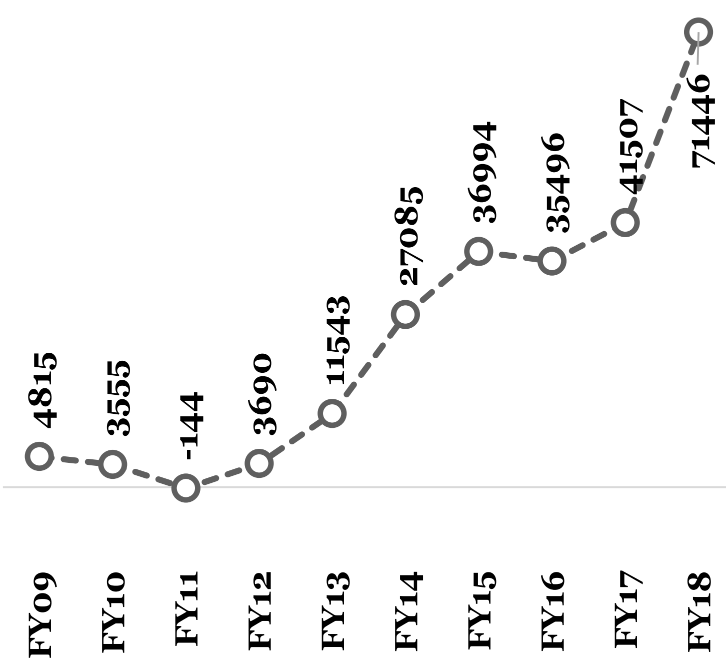
Growth scenario of revenue mobilisation components (%)

Component	BFY18	AFY18	BFY19	AFY18 (Jul-Dec)	AFY19 (Jul-Dec)	Required Jan-Jun FY19
a. Tax revenue	**44.0**	**9.1**	**57.4**	**17.7**	**8.8**	**101.8**
a.1 NBR tax	44.4	8.9	58.3	16.9	9.4	102.5
a.2 Non-NBR tax	32.7	16.0	34.7	42.3	-4.6	80.5
b. Non-tax revenue	**36.2**	**-4.0**	**50.1**	**6.5**	**31.5**	**67.9**
Total revenue (a+b)	**43.1**	**7.6**	**56.7**	**16.5**	**11.2**	**98.4**

Revenue shortfall shot up significantly in recent years

- The discrepancy between revenue mobilisation target and actual attainment has been a recurring phenomenon with sharp increases in recent years
  - UNESCAP (2014) reported tax gap (i.e. difference between actual tax collection and potential collection) in Bangladesh is about 7.5% of GDP
  - CPD (2016) study found that the actual income tax-GDP ratio was 1.53% as against the potential ratio of 3.05% (based on HIES 2010 data)
  - Khan (2018) found that 68% of the eligible taxpayers did not pay income tax in 2017. Income quartile-wise analysis revealed that more than one-third of the top-earners did not pay taxes

Actual revenue shortfall (in Crore Tk.)



- Failure to collect income tax at the targeted level has generally been the major reason of revenue shortfall over the recent years
- Low VAT collection has become a rising concern
- Lower non-tax revenue mobilisation than the envisaged level further added to the problem

Public Expenditure

Full utilisation of the planned expenditure appears to be implausible

- Regrettably, the repeated incidence of inability to deliver planned budgetary allocation continues in FY19
- Total expenditure recorded a growth of 21.4% during Jul-Dec of FY19, compared to the corresponding period of FY18
  - Largely driven by non-development expenditure
  - Considerably higher than the revenue mobilisation growth of 11.2%
- ADP, as well as operational expenditure, will need to grow by 89.0% and 56.8% respectively, over the remaining six months of FY19 to reach the public expenditure targets
- The higher expenditure growth, coupled with low revenue generation growth, resulted in a 663% growth in budget deficit for the Jul-Dec period of FY19
  - **Early signs of a fiscal stress?**

Growth of public expenditure and deficit (%)

Component	Target FY18	Actual FY18	Target FY19	Jul-Dec FY19	Required growth Jan-Jun FY19
Total expenditure	**48.5**	**13.0**	**52.5**	**21.4**	**69.0**
ADP expenditure	82.3	19.0	72.9	23.7	89.0
Non-ADP expenditure	33.2	10.3	42.6	20.7	56.8
Overall deficit (excluding grants)	**64.4**	**28.9**	**42.3**	**662.9**	**30.6**

ADP expenditure, against allocation in FY19, is higher compared to FY18 according to IMED data

- 53.3% of original ADP was spent during Jul-Apr of FY19 – higher compared to FY18 (50.2%) for the corresponding period
- ADP was mainly driven by high project aid utilisation – positive sign!
    - Project aid utilisation during the first nine months (53.1%) was highest since FY15
    - Power Division and MoST (Rooppur Project!) contributed to 41% of total project aid utilisation during this period
- Among the top 10 ministries with a cumulative share of 72% in FY19 ADP, six key ministries performed below the average during Jul-Apr FY19
    - These include Road Transport and Highways Division (52.2%) , Ministry of Railway (29.1%), Bridges Division (33.9%), Health Services Division (46.8%), Secondary and Higher Education Division (43.1%), Ministry of Water Resources (50.7%)
    - This is a worrying sign since these ministries/divisions are implementing some of the mega projects in Transport and social sectors such as education and health
- The fast-track projects are also not fast enough!
    - The cumulative implementation of the eight fast-track project during Jul-Feb FY19 was 30.8% - lower than the overall ADP implementation (38.8%) during this period

Annual Development Programme

The discrepancy between MoF and IMED data is increasing

- Data discrepancy with regard to ADP expenditure between two government divisions (Finance Division and IMED) has aggravated in recent times
  - Discrepancy increased from 1.1% in FY13 to a staggering 41.1% in FY18
  - It has already reached to 34.7% in the first six months of FY19

Discrepancy (MoF vs. IMED)

Year	MRFP, Finance Division, MoF	IMED	Difference	% Departure from MRFP
	Crore Tk.			
FY13	49,474	50,035	561	1.1
FY14	55,328	56,913	1,585	2.9
FY15	60,004	68,524	8,520	14.2
FY16	80,042	83,581	3,539	4.4
FY17	83,500	100,839	17,339	20.8
FY18	100,093	141,492	41,399	41.4
Jul-Dec FY19	46,739	30,539	16,200	34.7

It will be a key challenge for the govt. to consolidate between these two figures in the upcoming fiscal year!

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Budget Deficit and Financing

- As mentioned earlier, budget deficit registered a growth of 662.9% during Jul-Dec of FY19 over the corresponding period of FY18
  - Low revenue collection growth (11.2%), and high expenditure growth (21.4%), driven by ADP expenditure contributed to this
- Financing was mainly driven by high domestic borrowing (1,666%) and low foreign financing (-168.8%)
  - On a positive note, government opted more for bank borrowing (231.6%), as compared to NSD sales to finance this deficit in Jul-Dec of FY19
  - It is quite clear that government will once again fell short in achieving its net foreign borrowing target growth of 684.1% in FY19

Description	BFY18	AFY18	BFY19	Upto Dec FY18	Upto Dec FY19	Growth
Deficit (Crore Tk.)						%
Revenue Collection	**287,990**	**216,544**	**339,280**	**103,623**	**115,257**	**11.2**
Total – Expenditure	**400,266**	**304,562**	**464,574**	**105,265**	**127,784**	**21.4**
ADP	153,331	100,050	173,000	24,690	30539	23.7
Non-ADP	246,935	204,512	291,574	80,575	97,245	20.7
Overall Deficit (Excl Grants)	-112,276	-88,018	-125,294	-1,642	-12,527	662.9
Financing (Crore Tk.)						%
Foreign Borrowing-Net	**46,420**	**21,403**	**50,016**	**2,490**	**-1,712**	**-168.8**
Domestic Borrowing	**60,351**	**81,075**	**71,226**	**-885**	**13,860**	**1,666.1**
Bank Borrowing (Net)	28,202	11,731	42,029	-5,801	7,636	231.6
Non-Bank Borrowing (Net)	32,149	69,344	29,197	4,916	6,224	26.6
National Savings Schemes (Net)	30,150	46,289	26,197	23,824	24,994	4.9
Others	1,999	22,755	3,000	-18,908	-18,770	-0.7

Considerations for the Upcoming Budget

- Revenue mobilisation growth was substantially lower than public expenditure in FY2019
- Structural weaknesses in the area of revenue mobilsation need to be addressed -
  - lack of reforms
  - providing tax exemption on ad hoc basis
  - limited administrative capacity and efforts to expand tax net
  - tax avoidance
- Quality of ADP expenditure will remain under scrutiny
- Stress on budget deficit is likely to increase in view of slack revenue mobilisation – bank borrowing may intensify in the last quarter
- Foreign fund utlisation will be the key
- Hard choices for NSD certificate sales need to be made – reduction of purchase limit and reduction of interest rates

Banking Sector and Capital Market

Banking Sector: Chronic Deficiencies and Confounding Dilemmas

Manifest Symptoms of the Problems in the Banking Sector

- ❑ Under-capitalised banks (state-owned commercial banks and development finance institutions)
- ❑ High volume of non-performing loans (NPL)
- ❑ Unwarranted return of the liquidity crunch
- ❑ Falling deposits in banks
- ❑ Decline in private sector credit growth
- ❑ Increase in government borrowing from national savings certificates

Root Causes of the Problems in the Banking Sector

- Corruption, poor corporate governance, weak internal control of banks and poor management of SCBs
- Absence of rule of law and weak legal framework (such as Money Loan Court Act 2003 and Bankruptcy Act 1997)
- Collusion between the unholy trinity of bank officials, businessmen and political actors
- Habitual shielding of banks and defaulters under the government's protective umbrella leading to epidemic form of moral hazard
  - Repeated recapitalisation of weak banks
  - Changes in loan classification, rescheduling and write-off regulations favouring the defaulters
- Major reshuffling in top management of several banks in order to install politically-favoured personnel

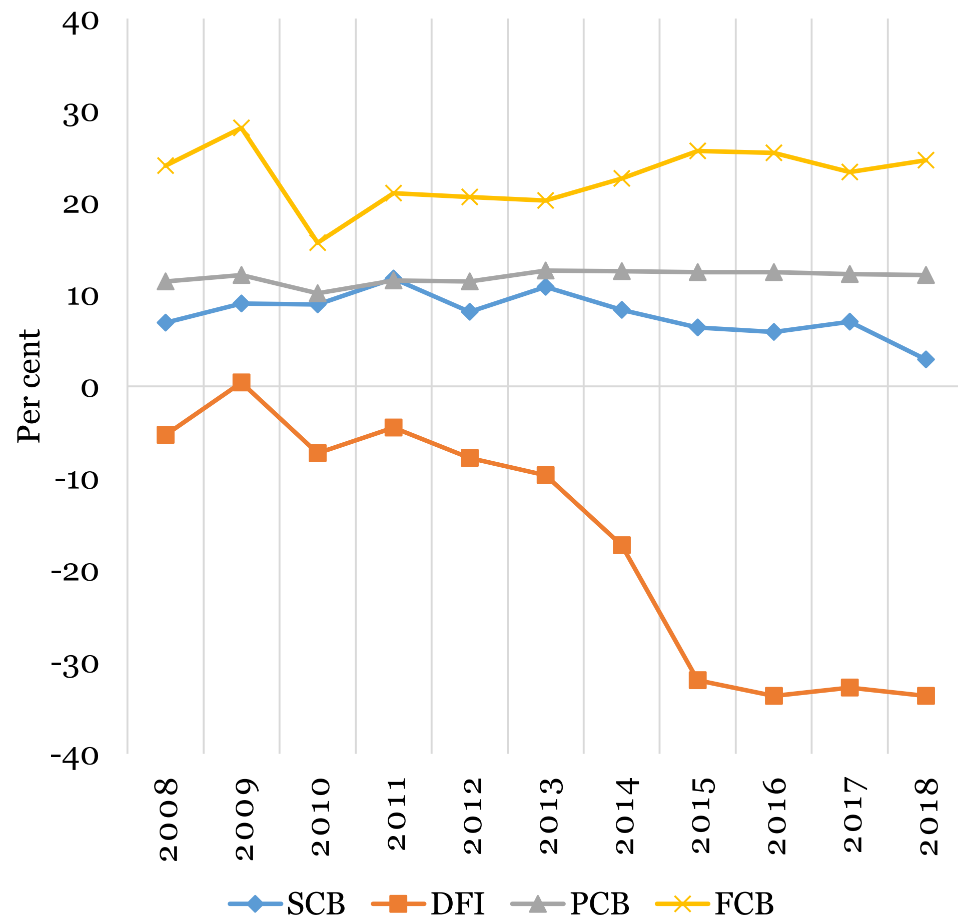
Root Causes of the Problems in the Banking Sector

- Rise of crony capitalism and concentration in bank ownership
  - Licenses to open new banks offered
  - Family dominance in bank boards allowed
- Political influence in loan disbursement
- Complete disregard to international best practices and global banking standards
- Failure to undertake strong measures against loan defaulters and wrongdoers
- Loss of autonomy of the central bank
  - Board of directors, managing directors and deputy managing directors for SCBs controlled by Ministry of Finance, as opposed to being administered by Bangladesh Bank
  - Monetary policy effectiveness compromised through arbitrary decisions undertaken mainly due to regulatory capture

Under-capitalised Banks

- ❑ Bangladesh Bank's Guidelines on Risk Based Capital Adequacy state that banks in Bangladesh must maintain a minimum total capital ratio of 10% (or minimum total capital plus capital conservation buffer of 12.5%) by 2019, in line with BASEL III
  - ➢ However, SCBs have failed to maintain minimum capital adequacy requirements since 2013
  - ➢ On the other hand, DFIs have remained critically under-capitalised during 2008-2018

Capital to risk weighted assets ratio by type of bank (in %)



Source: CPD compilation from Bangladesh Bank

High Volume of Non-performing Loans

- NPLs have become a central feature of the plot that describes the story of the banking sector of Bangladesh
- In recent years, NPLs have spiralled upwards, partly due to the fresh funds offered by the government in every budget to recapitalise the NPL-struck banks
- The amount of NPLs in the banking sector surpassed Tk. 1 trillion-mark for the first time in March 2019
  - The share of NPLs also rose to 11.87% of the total outstanding loans in Q1 of 2019 from 10.30% in the previous quarter
- The volume of NPLs in the banking sector has been so high in recent years, that in the eight out of nine years between 2010 and 2018, the amount of NPLs would be enough to pay for both the national education and healthcare expenditure

NPL compared to GDP and budget allocations for education and health

FY	Amount of NPLs[i] (in billion BDT)	Gross NPL as % of total loans	NPL as % of GDP	Education budget as % of GDP	Health budget as % of GDP
2010	227	7.3	2.85	1.95	0.79
2011	226	6.1	2.47	2.01	0.80
2012	427	10.0	4.05	1.78	0.73
2013	406	8.9	3.39	1.73	0.71
2014	502	9.69	3.74	1.87	0.70
2015	594	8.79	3.92	1.85	0.69
2016	622	9.23	3.59	2.18	0.73
2017	742	9.31	3.76	2.19	0.34
2018	893	10.41	3.73	2.09	0.89

Source: CPD compilation from Bangladesh Bureau of Statistics (BBS), Bangladesh Bank Annual Report (various years), Budget documents (various years), Ministry of Finance (various years).

Note: i) NPL data is for calendar years; all other data are for fiscal years.

High Volume of Non-performing Loans

- Nevertheless, it must also be kept in mind that the amount of NPLs would have been far higher, had there been no adjustments due to the frequent rescheduling and writing-off of loans
- The outstanding balance of written off loans stood at BDT 401.0 billion as of December 2018
- In 2018, as much as 43.1% of first time rescheduled loans for foreign trade remained non-performing
- High proportion of non-performing rescheduled loans were also observed for commercial loans

Proportion of NPL in first time rescheduled loans (in %)

	2017	2018
Agriculture	5.60	13.30
Industry	26.30	30.50
Working capital	29.90	35.00
Foreign trade	29.40	43.10
Commercial	49.10	42.60
Ready-made garments	24.80	23.30
Consumer	31.20	25.10
Others	20.20	21.80

Source: CPD compilation from Financial Stability Report 2018, Bangladesh Bank

General Amnesty to Loan Defaulters

- Bangladesh Bank offered enormous waivers to loan defaulters with the stated purpose of accelerating debt servicing in the banking sector
  - As per the recent instruction of the Central Bank dated 16 May 2019, defaulters are allowed to pay only a 2% down payment, which will provide more incentive for them to normalize bad debts
  - Defaulters have to apply for the facility within 90 days of Circular No. 5 (dated 16 May 2019)
  - The new loan rescheduling policy grants loan defaulters a generous 10 year loan repayment period, with a one year grace period
  - Moreover, as directed by Circular No. 5 (dated 16 May 2019), the rescheduled loans would have to be repaid at only 9% interest rate, which falls within the lowest range of interest rates
  - Furthermore, as mentioned in Circular No. 5 (dated 16 May 2019), the Central Bank has authorized banks to waive all interest for defaulters, depending on the bank-client relationship
  - An additional incentive given to defaulters is the 'One Time Exit', which allows them to pay the bare minimum, which includes bank's cost of funds and principal loan amount, with a condition of having to pay the outstanding amount within a year
  - As mentioned in Circular No. 4 (dated 16 May 2019), borrowers with a good record were offered a 10% rebate. The provision of 10% rebate to borrowers will be given if they have no record of bad loan default in the last one year
- These measures are likely to further aggravate the situation of NPL in the banking sector
  - Such special privileges offered to loan defaulters may lead to a moral hazard problem since it may encourage all borrowers to take greater risks

Unwarranted Return of the Liquidity Crunch

- The liquidity position of the overall banking sector worsened in the first three months of 2019, compared to the liquidity position in December 2018
- Excess liquid assets as a percentage of total liquid assets declined from 29.13% in March 2018 to 25.92% in March 2019
- However, the ground reality of liquidity in scheduled banks is apprehended to be far worse, as disclosed in the major newspapers
- Thus, there is a possibility that the liquidity crunch will get worse in the event of large-scale government borrowing from banks

Excess liquid assets (in crore Taka)

	State-owned commercial banks	Specialised banks	Private commercial banks	Islamic banks	Foreign commercial banks	All banks
Mar-18	39835	12	14463	4382	14058	72750
Jan-19	31713	28	16057	4665	15180	67643
Mar-19	30923	4	15870	3388	14064	64249

Source: CPD calculations from Major Economic Indicators, Bangladesh Bank

Excess liquid assets (as a % of total liquid assets)

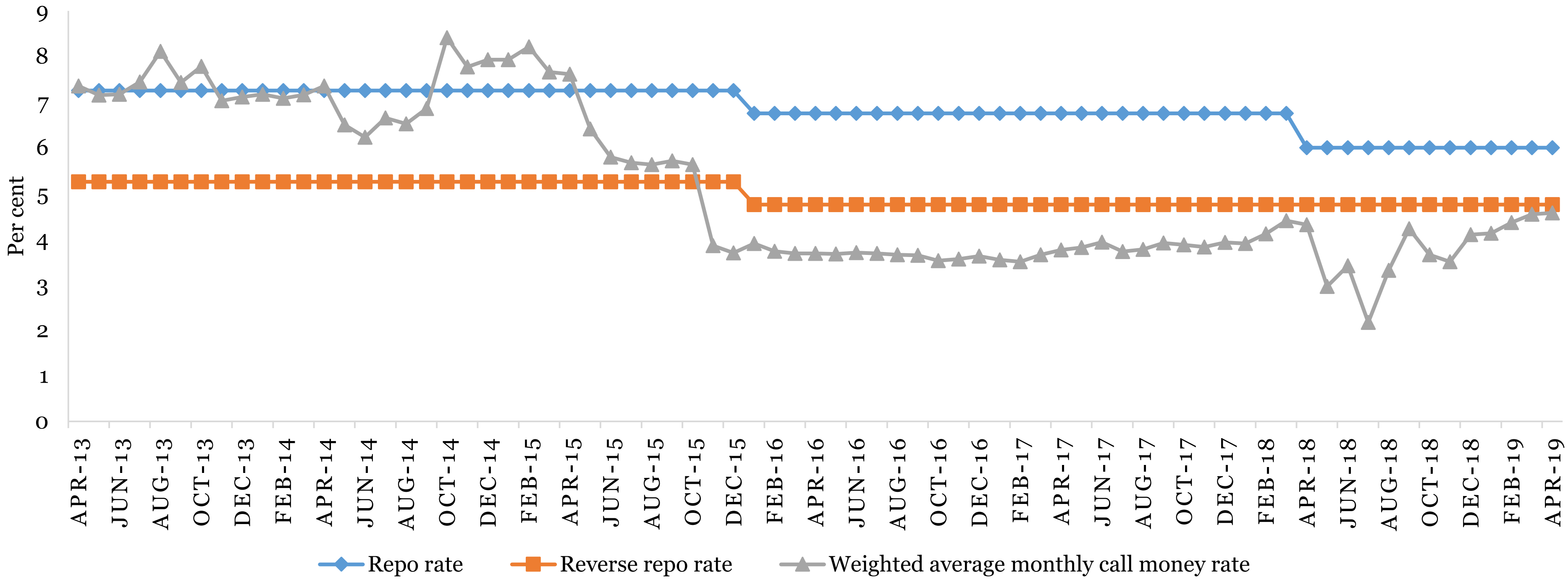
	State-owned commercial banks	Specialised banks	Private commercial banks	Islamic banks	Foreign commercial banks	All banks
Mar-18	43.43	0.70	13.66	15.44	63.87	29.13
Jan-19	37.85	1.79	14.48	16.57	63.20	27.23
Mar-19	37.05	0.25	14.19	12.42	59.36	25.92

Source: CPD calculations from Major Economic Indicators, Bangladesh Bank

Increasing Trend of Call Money Rates

- ❑ Liquidity pressures in the banking sector are also evident through the increasing trend of call money rates
  - ➢ The weighted average monthly call money rate increased from 2.17% July 2018 to 4.57% in April 2019, which is the highest since October 2015
  - ➢ If the weighted average monthly call money rate exceeds the repo or reverse repo rates, then the effectiveness of monetary policy will be compromised

Repo, reverse repo and call money rates (in %)

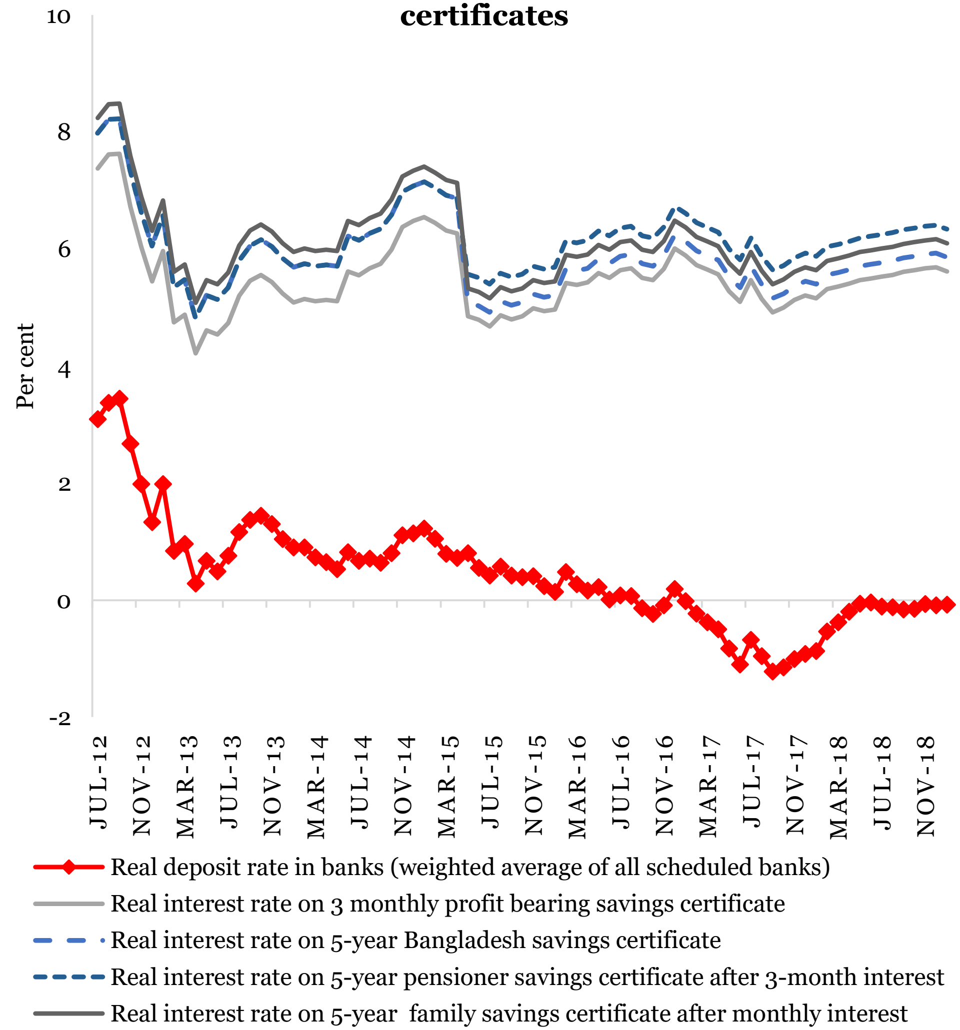


Source: Authors' compilation from Major Economic Indicators, Bangladesh Bank

Real Problem with Real Interest Rates

- The real weighted average deposit rate offered by scheduled banks has been below zero since January 2017
- Hence, the general public have little incentive to save their hard earned money in the banks and watch it lose its value over time
- On the other hand, the real interest rates on various forms of the national savings certificates were around 6%
- Thus, savings continued to be diverted into the national savings certificates and away from the banks
- Total outstanding government borrowing from national savings certificate reached as high as 30% of total outstanding time deposits in banks in March 2019, compared to 23% in March 2017
- In the absence of adequate social protection, the national savings certificate has transcended its role of a financial product and transformed into a de facto social safety net mechanism
- Consequently, the government has dug itself into an abyss which is proving to be difficult to escape

Real rate of interest on bank deposits (weighted average of all scheduled banks) and real interest rate on national savings certificates



Source: CPD illustration based on data from Monthly Economic Trends, Bangladesh Bank

Government Borrowing Compared with Deposits and Advances of Banking Sector

- Net government borrowing from the banking sector as a percentage of GDP decreased from 7.43% in 2008 to 4.22% in 2018
- On the other hand, net government borrowing from national savings certificates increased from 7.34% of GDP in 2008 to 10.57% of GDP in 2018
- Unsurprisingly, the total amount of deposits in the banking sector decreased from 46.39% of GDP in 2014 to 43.03% of GDP in 2018

Government borrowing from banking sector and national savings certificates compared with deposits and advances of banking sector (as % of GDP)

FY	Net govt. borrowing from banking sector	Net govt. borrowing from NSD certificates	Total deposits of all banks	Time deposits of all banks	Demand deposits of all banks	Total advances of all banks
2008	7.43	7.34	34.36	30.14	4.22	29.13
2009	8.22	7.06	36.92	32.63	4.29	30.38
2010	6.80	7.70	39.71	34.49	5.22	33.12
2011	7.99	6.93	42.10	36.84	5.25	35.67
2012	8.69	6.05	43.45	38.61	4.84	36.75
2013	9.18	5.39	44.68	40.03	4.65	35.72
2014	8.74	5.68	46.39	41.60	4.79	36.12
2015	7.27	6.93	46.13	41.35	4.78	36.48
2016	6.59	8.01	45.80	40.62	5.18	37.10
2017	4.92	9.68	44.43	39.27	5.16	37.64
2018	4.22	10.57	43.03	38.00	5.03	39.00
2019	3.65	10.94	43.26	36.15	4.19	37.55

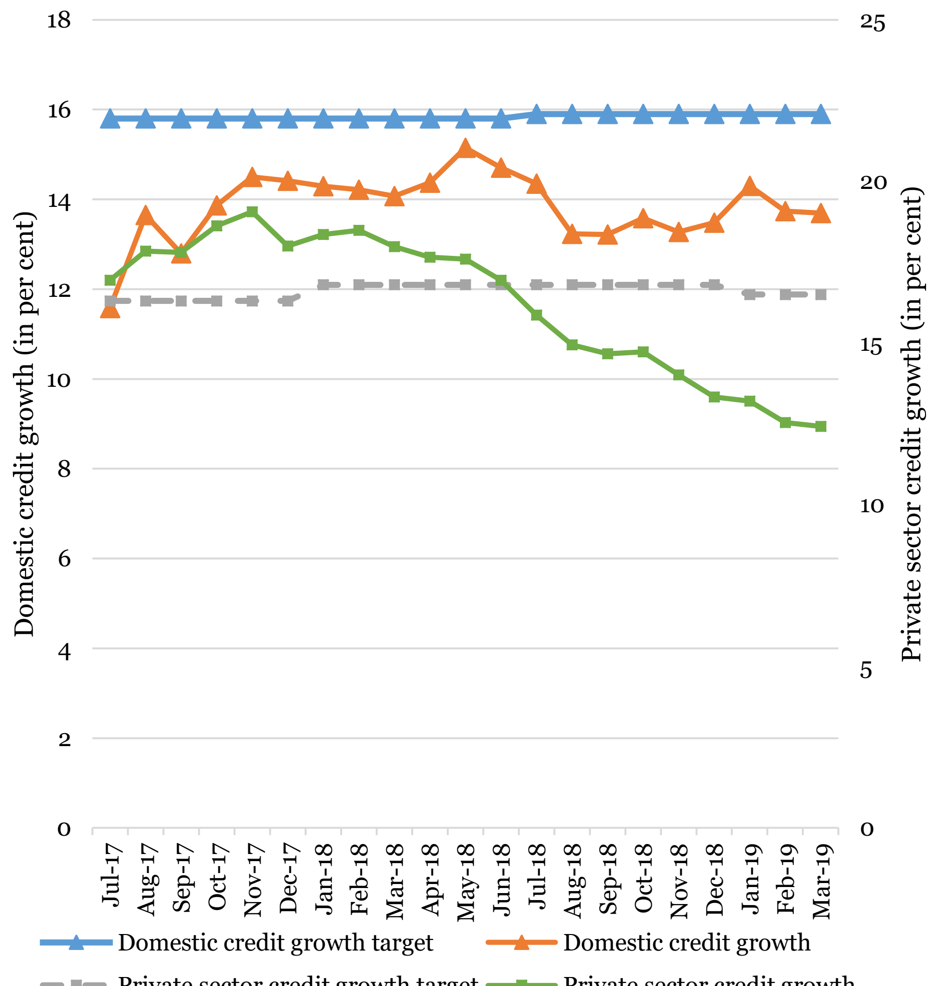
Source: CPD calculations from Monthly Economic Trends, Bangladesh Bank.
Note: Values for 2019 are as of March 2019

Independent Review of Bangladesh's Development (IRBD)

Domestic Credit Growth and Private Sector Credit Growth

- Domestic credit growth has fallen slightly from 14.07% in March 2018 to 13.70% in March 2019
  - Domestic credit growth of 13.70% is below the target of 15.90% set out in the monetary policy of January-June 2019
- Private sector credit growth has decreased from 17.98% in March 2018 to 12.42% in March 2019
  - Private sector credit growth of 12.42% is below the target of 16.50% set out in the monetary policy of January-June 2019

Domestic credit and private sector credit growth (actual vs. target)



Source: CPD calculations from Monthly Economic Trends and Monetary Policy Statement, Bangladesh Bank

Implications for the Upcoming National Budget FY20

- The upcoming budget may allocate funds for the recapitalisation of banks
  - It has been estimated that the GoB has spent BDT 15,705 crore during the period FY09-FY17 for recapitalising banks
  - The budget for FY19 did not explicitly mention the exact amount earmarked for recapitalisation of banks
  - This alarming trend is likely to continue, and it is anticipated that the upcoming budget will also set aside resources for the recapitalisation of banks without explicitly mentioning the amount of funds
- Banks burdened with high volume of NPLs will find it difficult to make profits, which may constrain the ability of the upcoming budget to collect tax revenue from banks
- Revenue collection from banks will be even more limited if the trend of reducing corporate tax on banks continues, as in the recent few years
  - In the past, reduction of corporate tax for banks has not led to any improvement in the performance of banks

Implications for the Upcoming National Budget FY20

- The liquidity crunch in the banking sector reduces the scope for bank-borrowing as a source of deficit finance
- There are risks that increased government borrowing from banks may lead to financial crowding out of private borrowing, which may consequently have adverse effects on private investment
- National saving certificates will continue to be a large source of finance for budget deficit, although there is growing apprehension and mounting evidence that government borrowing from national savings certificates may be unsustainable
- Since the sale of national savings certificates can neither be decreased nor be stopped, the government must seriously rethink their interest rate structure

Pledges in the Election Manifesto 2018 of Bangladesh Awami League

- The 2018 election manifesto published by the Bangladesh Awami League included pledges intended to reduce the amount of NPLs, as well as forward-looking initiatives for improving the efficiency of the banking sector, increasing access to finance and accelerating technology adoption. Overall, the pledges in the election manifesto address some of the major issues affecting the banking sector
- However, some of the measures being considered may not be the best methods for achieving the objectives of the election manifesto
  - For example, awarding licenses to new banks cannot guarantee that private investment will increase or financial inclusion will improve. Nevertheless, the central bank has approved licenses for establishing three new private commercial banks
- A number of measures that were considered in the first 100 days may do more harm than good
  - For example, removing the single borrower exposure limit, which prohibits banks from lending more than 35% of their total capital to a single borrower may increase the vulnerability of banks through greater credit concentration
- Other measures that have been considered in the first 100 days, such as categorising borrowers as either "honest" or "dishonest", may be prone to subjective biases
- Thus, one cannot but conclude that the measures considered and taken in the first 100 days of the government will not be able to accomplish reforms that were reflected in the election manifesto 2018 of the Bangladesh Awami League

Recommendations

- Recapitalisation of losing banks should be stopped. This public money has better alternative use
- No new licenses for new private commercial banks should be issued as most of the existing new banks are not performing well
- Central bank directives that prohibit rescheduling and restructuring of written-off loans should be strictly imposed
- Dependency on national savings certificates should be lessened in order to reduce the debt burden of the government. In this regard, the government has to revisit the interest rate structure of national saving certificates

Recommendations

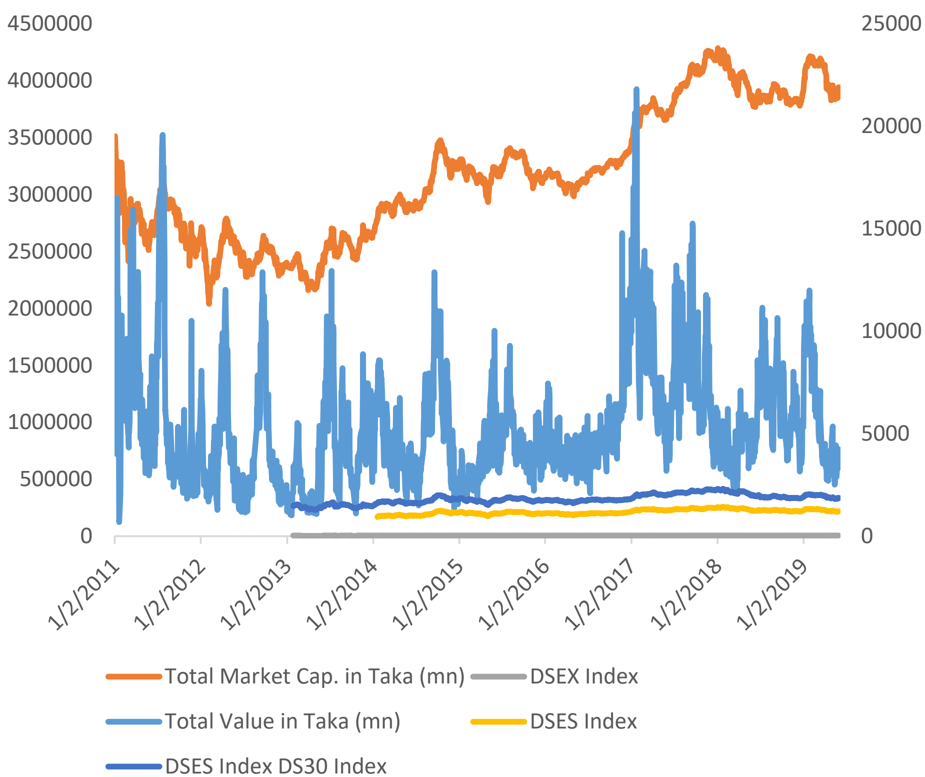
- Banking Companies Act should be amended to reduce both the number of family members in the board of directors and the tenure of each member
- Bankruptcy Act has to be amended to remove mortgage-related loopholes that delay the course of justice
- Single borrower exposure limit for commercial banks should not be repealed
- The budget should allocate adequate funds for setting up an independent banking commission. CPD has been continuously urging for such a commission in order to bring transparency in the prevailing situation, identify the root causes of the manifest problems and suggest credible measures for improving the situation sustainably

Weak State of Capital Market: Not a Financing Issue?

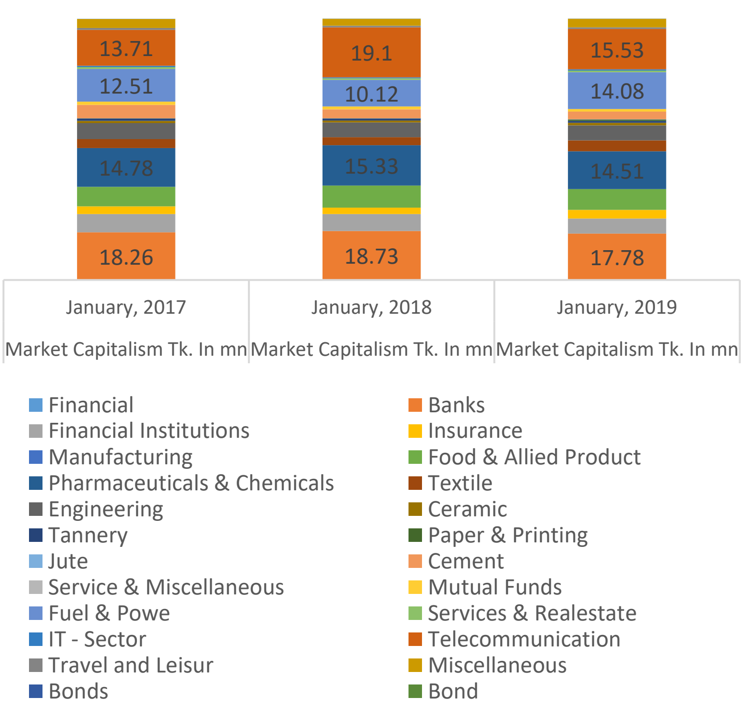
Trends of Key Market Indicators: No Major Change in Market Concentration and Turnover

- Since the market collapse in 2010, key performance indicators such as market capitalisation, volume trade in the market, DSEX30 and DGEN have improved overtime
- However, there is no change in the highly concentrated nature of the market in terms of market capitalization
  - About 61.9% of total market capitalization is related with shares of banks (17.8%), telecom (15.5%), pharmaceuticals (14.5%) and fuel and power (14.1%)

Performance of DSE (2011-2019)

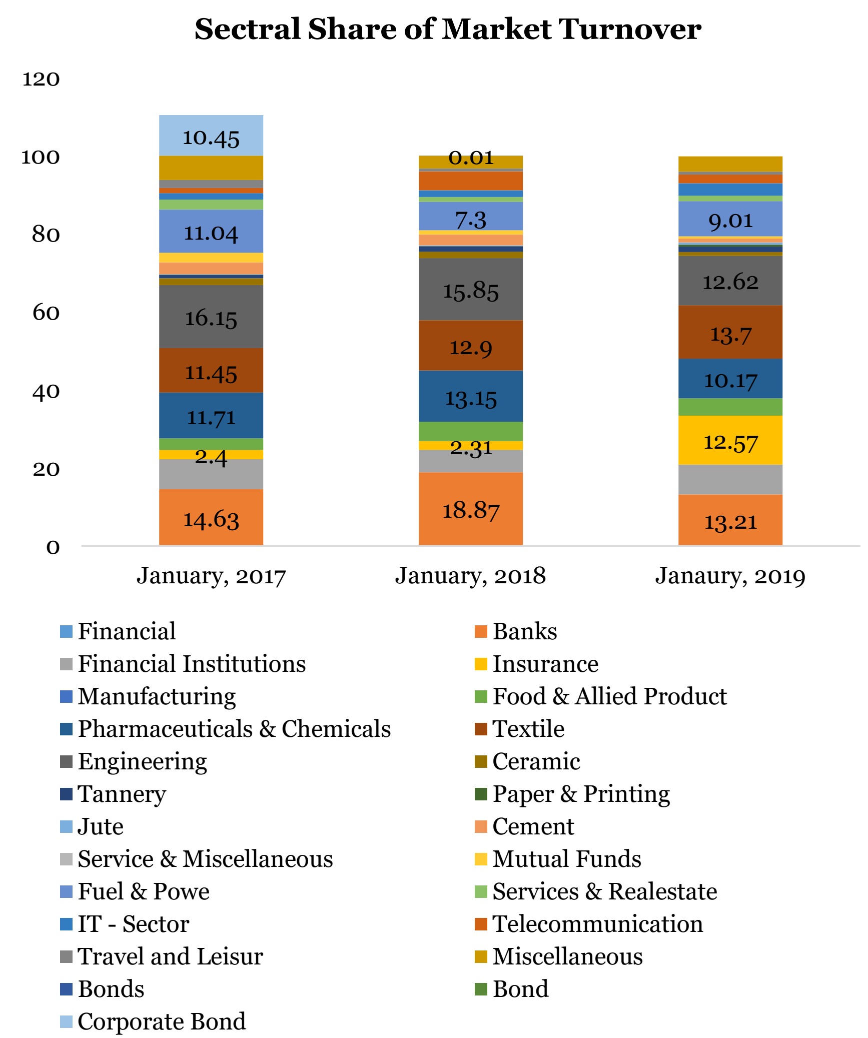


Sectoral share of Market Capitalisaiton in the DSE



Trends of Key Market Indicators: No Major Change in Market Concentration and Turnover

- ❑ Market trade did not follow the composition of the market capitalization
  - ➢ Major sectoral shares in case of total turn over at the DSE include textile, insurance, engineering and non-bank financial institutes
- ❑ Despite the poor/modest performance in real economy, high turnover of sectoral shares such as insurance and non-bank financial institutes are questionable
  - ➢ A number of these are 'Z' category shares

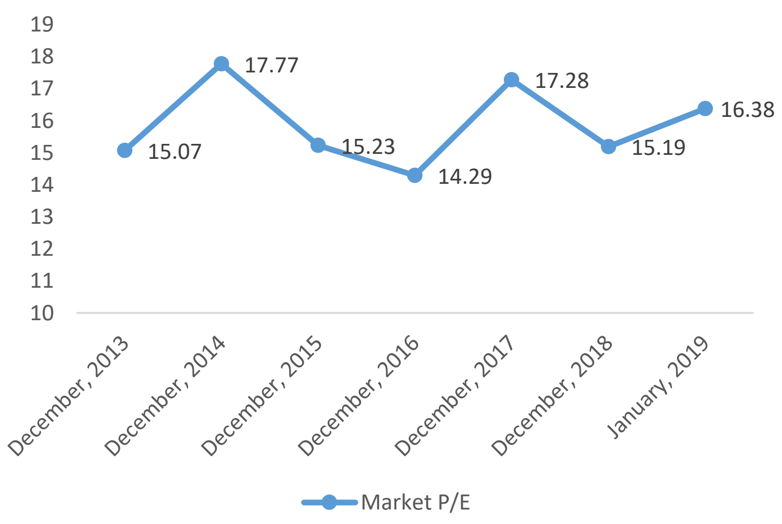


![iRBD logo]

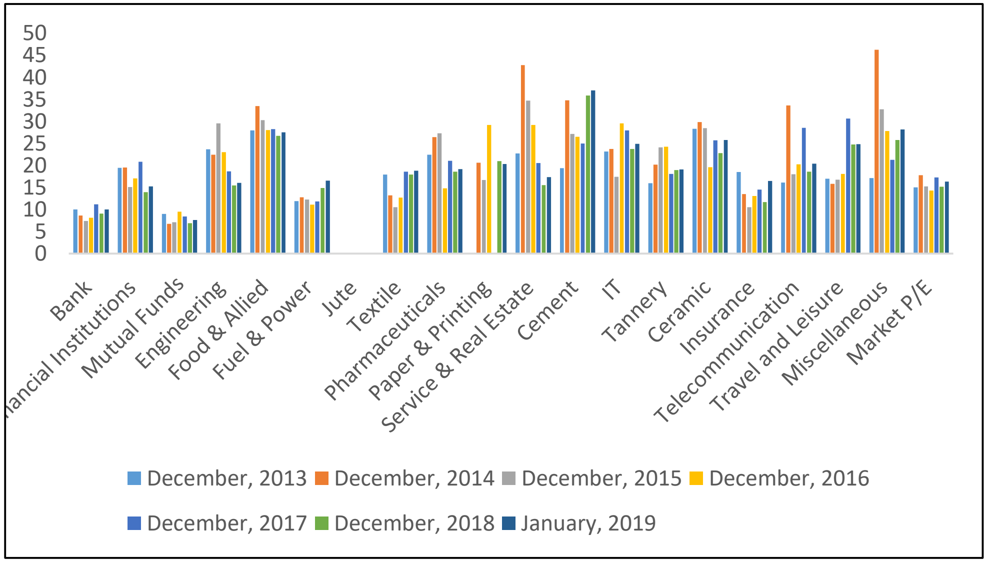
No Major Change in Market Volatility

- Between 2013 and 2018, overall P/E ratio has increased by 8.7% indicating further expensive and volatile situation of the stocks in the DSE
- P/E ratio of majority of sectors has increased (9 out of 17)
  - The highest level of rise in P/E ratio was observed in case of jute (694%) followed by cement (90.7%), miscellaneous (63.9%) and travel and leisure (45.8%)
  - P/E ratio declined at higher level in case of engineering (-32.2%), service & real estate (-23.7%) and financial institutions (-21.8%)

Market P/E Ratio (2013-2019)

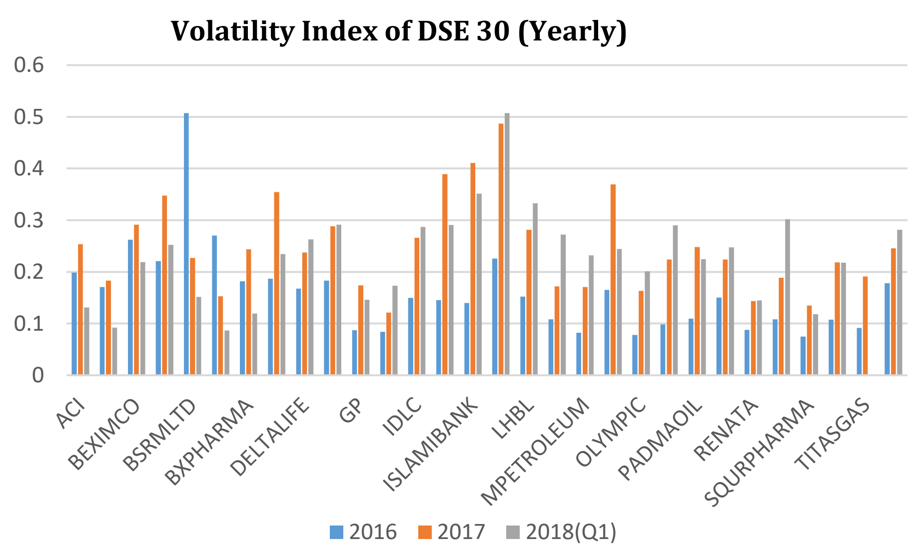


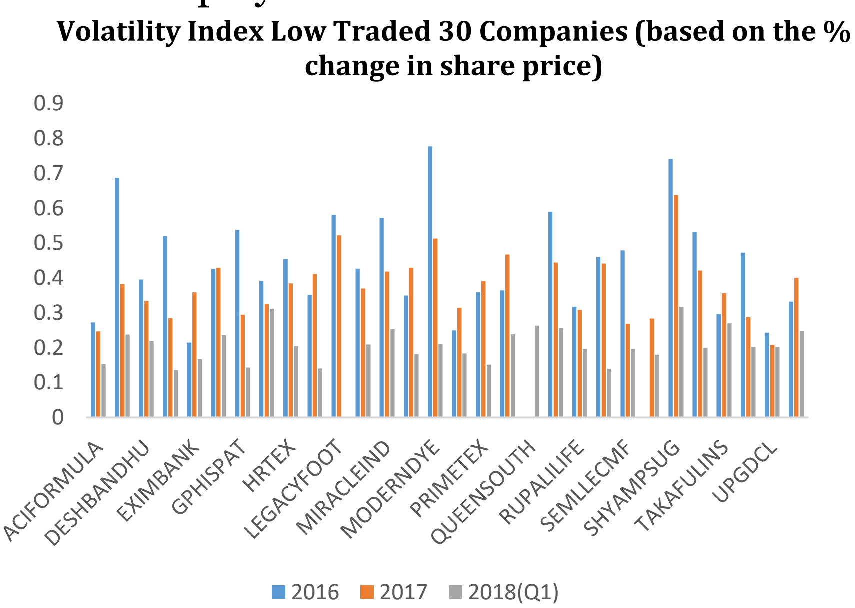
Sectoral P/E Ratio (2013-2019)



No Major Change in Market Volatility

- Relatively high volatility in share price index of low traded companies compared to those of high traded companies (DSE 30)
  - This indicates inefficient way of trading stocks by investors
  - A part of responsibility goes to inefficient operation of institutional investors in the market
- CPD (2018) identified that trading behaviour of sponsor shareholders and institutional investors during the period of uncertain situation of market volatility is partly responsible for the market behaviour
  - The relationship between institutional shareholding and public shareholding was found to be positive when market was less volatile (in January, 2017)
  - From this, it transpires that institutional investors had contributed in to volatility in the market and their sheer size of investment in the market played a role in it





Incentives and Supports have Limited Impact

Incentives and Support for the Capital Market

- Various fiscal and budgetary support has been extended to the capital market over the years targeting different stakeholders such as retail and institutional investors, listed companies, DSE/CSEs and brokerage houses etc.

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Retail investors	Income tax: special benefits Allowed investment of undisclosed income to purchase Bangladesh Infrastructure Finance Fund (BIFF) bonds, up to June 2012 by paying tax at a rate of 10% The level of tax-free income and all tax slabs remain (Personal tax)	Investing in BIFFL and treasury bonds, subject to payment of tax at the rate of 10% The income tax limit for individuals above 65 years and women has been raised from Tk. 180,000 to Tk. 200,000	Investment opportunity for undisclosed income at a tax rate of 10% in the capital market	Highest investment limit eligible for tax rebate has been increased from Tk. 1 crore to Tk. 1.5 crore General threshold for personal income tax was increased from Tk. 200,000 to Tk. 220,000 Withdrawal of 0.05% tax at source in case of the transfer of bonds is likely to reduce transaction cost 15% tax rebate on investment in private mutual funds The threshold limit for tax-exempted dividend income was increased from Tk. 5,000 to Tk. 10,000	Rise in tax exempted dividend income Personal income tax threshold - Tk. 220000 - lower than in India IRs. 2,00,000 (equivalent to Tk. 2,56,000) Scope to invest in government Treasury bond remained unchanged Capital gains tax proposed for investment over Tk.10 lakh – imposed in 2 slabs- 15% AIT imposed on gains/profits from transfer of share	Personal income tax threshold has been raised by Tk. 30,000 to Tk. 2,50,000 and threshold for women and senior citizens has been revised upward to Tk.3,00,000 from Tk. 2,75,000 Special tax treatment (19c): Opportunity continues for invest in government Treasury bond by paying only 10% tax. Voluntary disclosure of income (19e): Scope continues for legalising undisclosed money in productive and income-generating sectors through payment of 10% penalty alongside the regular tax (Provision includes capital market investment) Existing 5% upfront source tax on interest income from Treasury bonds and Treasury bills has been withdrawn
Institutional investors	Issuance of infrastructure bonds to raise equity for infrastructure-related projects under BIFF (PPPs) For capital gains in the share market, tax will be imposed on companies (10%)					Existing provision of 10% deduction of tax at source on income from share market by any company or partnership firm has been removed

Incentives and Supports have Limited Impact

Incentives and Support for the Capital Market

- Various fiscal and budgetary support has been extended to the capital market over the years targeting different stakeholders such as retail and institutional investors, listed companies, DSE/CSEs and brokerage houses etc.

	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Listed companies	For capital gains in the share market, tax will be imposed on sponsor shareholders or directors of a listed company (5%), and premium value of shares of companies (3%) No change has been proposed in the budget with regard to the corporate tax structure and incentives.	The budget for FY2011-12, however, made no changes in corporate tax rates	Corporate tax rate has been increased for listed cigarette companies from 27.5% to 35%. Corporate tax rate for non-listed cigarette companies will remain at 42.5%. Reduced tax rate has been maintained for non-listed merchant banks (37.5% instead of 42.5% as with other banks). Newly listed company will enjoy tax rebate of 10% in the first year for offloading of 20% share of paid up capital, and dividend income amounting Tk. 5,000 will be exempted from tax. Withdrawal of 3% tax over extra-premium on listed company shares' face value and s ource taxes.	Three major changes were brought in the existing corporate tax structure. The increase in the tax rate for publicly traded mobile phone companies, from 35% to 40%. For both the publicly traded and non-publicly traded cigarette manufacturing companies, tax has been increased. Withdrawing the 3% tax over extra-premium on listed company shares' face value and source taxes	Corporate Tax for Non-Publicly Traded Companies has been reduced Other corporate taxes (publicly traded companies, Banks, Insurance, mobile phones) remain unchanged	

Incentives and Supports have Limited Impact

Incentives and Support for the Capital Market

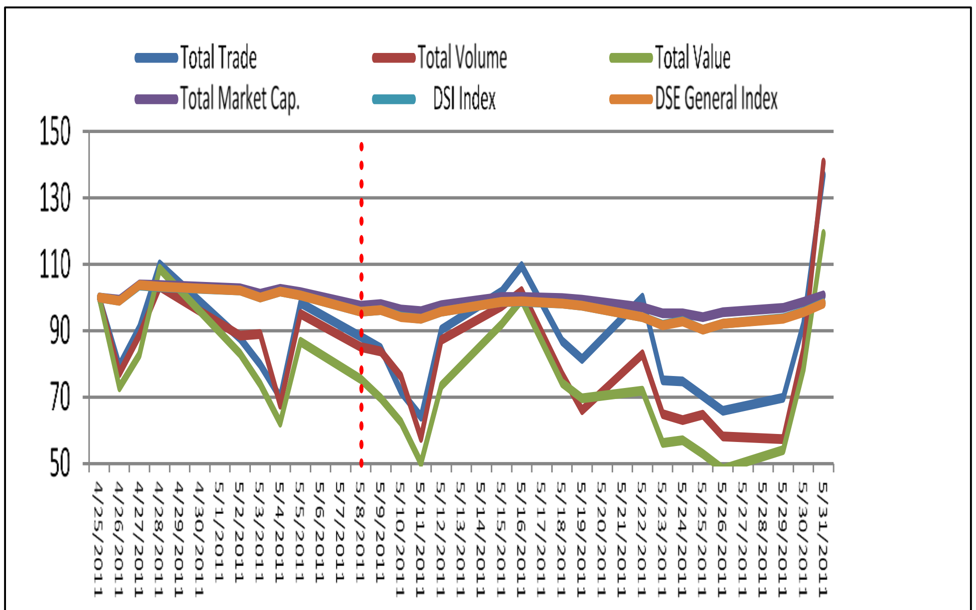
	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16
Brokerage houses		Tax deductible at source for the commission charged by the brokerage houses has been raised from 0.05% to 0.1%				
Stock exchanges		Announcement of enactment of the Financial Reporting Act, establishment of the Financial Reporting Council, Clearing and Settlement Company, enforcement of demutualisation of stock exchanges, amendment of the SEC Act and Security and Exchange Commission (Public Issue) Rules, 2006	Slow progress demutualization of the stock exchanges towards this has been rather slow	Passing the necessary law for demutualisation of the stock market	5 years tax exemption for Demutualised Stock Exchange.	
SOEs	No development with regard to an earlier decision in connection with offloading shares of the 26 state-owned enterprises					

Incentives and Supports have Limited Impact

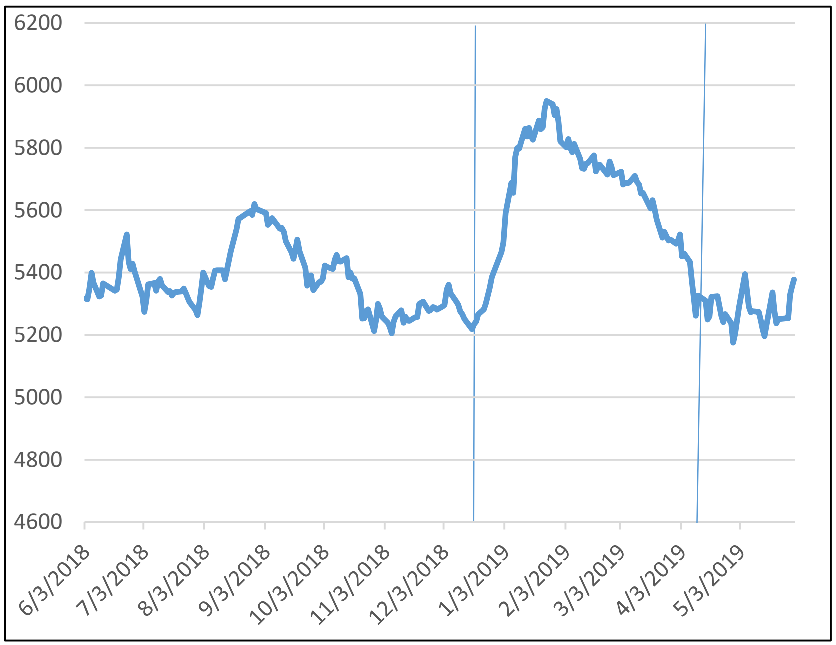
Incentives and Support for the Capital Market

- Such incentives and supports had little contribution in case of improving the performance of the market
  - In other words, lack of finance is not the major problem of the market.
- The market has been influenced by various illegal practices which could not be controlled properly
  - During 2018-19, the pre-election gain in share prices has almost lost in post-election period
  - Number of new companies listed and their raised capital seems to be on the decline
  - Poor listing of well-reputed companies
  - Newspaper reports alleged about possible collusive (e.g. active groups; price movement within a range) and illegal activities of vested quarters (placement shares; price of Z category shares)
  - Allegations of submitting false information in IPO proposals and poor quality of financial reporting of the newly listed companies etc

No major changes in Indices in DSE before and after introduction of Bangladesh Fund, 2012



DSEX Index (June, 18- May, 19)



Stability in the Capital Market: Undertaking Reform Measures

- Upcoming national budget should announce how the government will address unfinished agenda of market reform
  - Strengthen the surveillance mechanism of the SEC
  - Enforce disciplinary measures against improper/illegal activities
  - Increase the level of punitive measures and action to discourage illegal practices
  - Transparency in transaction through BO accounts; BO accounts should be tagged with TIN
  - Proper measure to reduce insider trading
  - Review of information dissemination and promotional measures through different media
- Role of public institutions in order to address emerging issues needs to be highlighted
  - SEC's regular oversight activities need to be more efficient and timely
  - Ensure due diligence in the market behaviour of institutional investors following the OECD guideline of "Responsible Business Conduct for Institutional Investors"
  - Strengthen the activities of FRCs
  - Bond market should be developed in order to create new investment opportunities
- Proposed fiscal measures in the national budget for FY20 (i.e. increase the tax exemption limit of dividend earnings up to Tk.50,000 from existing Tk.25,000) would marginally contribute to improve the stability in the market
  - This would hardly contribute to address the key weaknesses of the market

External Sector Scenario: A Disquieting Turning Point

Balance of Payment

- The external sector scenario had shown disquieting features in FY18 which has persisted in FY19
- Robust export earnings and remittance inflow have not been adequate to underwrite the demands on foreign exchange, emerging from high imports, rising debt servicing liabilities and other demands
  - Thus the *negative overall balance in BoP persists* (USD (-) 0.33 billion as of March FY19); overall balance was in the negative in FY18 (at USD (-) 0.8 billion) for the first time since FY11
- Reserves stood at USD 31.7 billion (as of March FY19)
  - Capacity of forex reserves to underwrite imports fell sharply from 8 months' equivalent (in FY17) to about 5.3 months at the end of March FY19
  - The capacity of the central bank to continue to undertake sterilisation interventions in the foreign exchange market *is likely to be limited in future*

External Sector Projections

- ❑ The projections in 7FYP for exports, imports, remittances are now far from reality!

Balance of Payments (million USD)

Items	July-Mar FY19	7FYP projections for FY19
Trade balance	-11,928	-16,490
Export f.o.b.(including EPZ)	30,439	47,462
Import f.o.b (including EPZ)	42,367	63,952
Services	-2,680	7,672
Of which: Workers' remittances inflows	11,869	23,085
Current Account Balance	-4,234	-6,351
Capital account	188	850
Financial account	4,209	10,960
Of which: Foreign direct investment	1339	7,440
Overall Balance	-329	5,459

Export Earnings

- Growth target for exports had been set at **6.4%** for FY19
  - During July-April FY19 total export growth has been **11.6%** - mainly driven by RMG exports (which accounts for 84% of total export) growth of 12.6% compared to 6.8% growth of non-RMG exports
- The next budget may consider fiscal incentive for export sector
- Two likely scenarios are discussed -
  - The exporters urged for a 5% cash incentive on export earnings for all is likely to entail significant fiscal burden– *additional cash incentive to the tune of around Tk. 14,000 crore will be needed in FY20*
  - The government may increase cash incentive for RMG export by one percentage point in both traditional market and non-traditional market - *an additional Tk. 3,300 crore will be required in FY20*

Import Payments

- Growth of imports decelerated to 5.1% as of March FY19 compared to corresponding period of FY18, from the high rate of 25.2% in FY18
- LC openings have also posted a (-) 2.9 percent growth in July-March FY19
- If import payments post higher growth in FY20 (or even sustains the trend growth values), the deficit in trade and current account will rise, with consequent effect on overall balance
- Much will depend on commodity price movements - in FY19, price of major import items such as petroleum products (POL items), crude petroleum and fertiliser have increased
- Commodity price rise will be reflected in the budget in three ways: revenue implication depending on the demand elasticity of the imported good, imported inflation, and impact on subsidy for products subsidized by the government (e.g. fertilisers)

Remittance Inflow

- Remittances posted impressive growth in FY19
  - 10% during July-April FY19 along with record remittance inflow in May 2019
  - The faltering number of workers going abroad (negative growth of 11.1% for July-April FY19) will likely have a lagged adverse impact on remittance flow
- A 3% cash incentive is being considered - 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 BDT 4,600 crore
  - Equivalent to half of agricultural subsidy in FY19 and one-fourth of health service budget for FY19

Independent Review of IRBD Bangladesh's Development

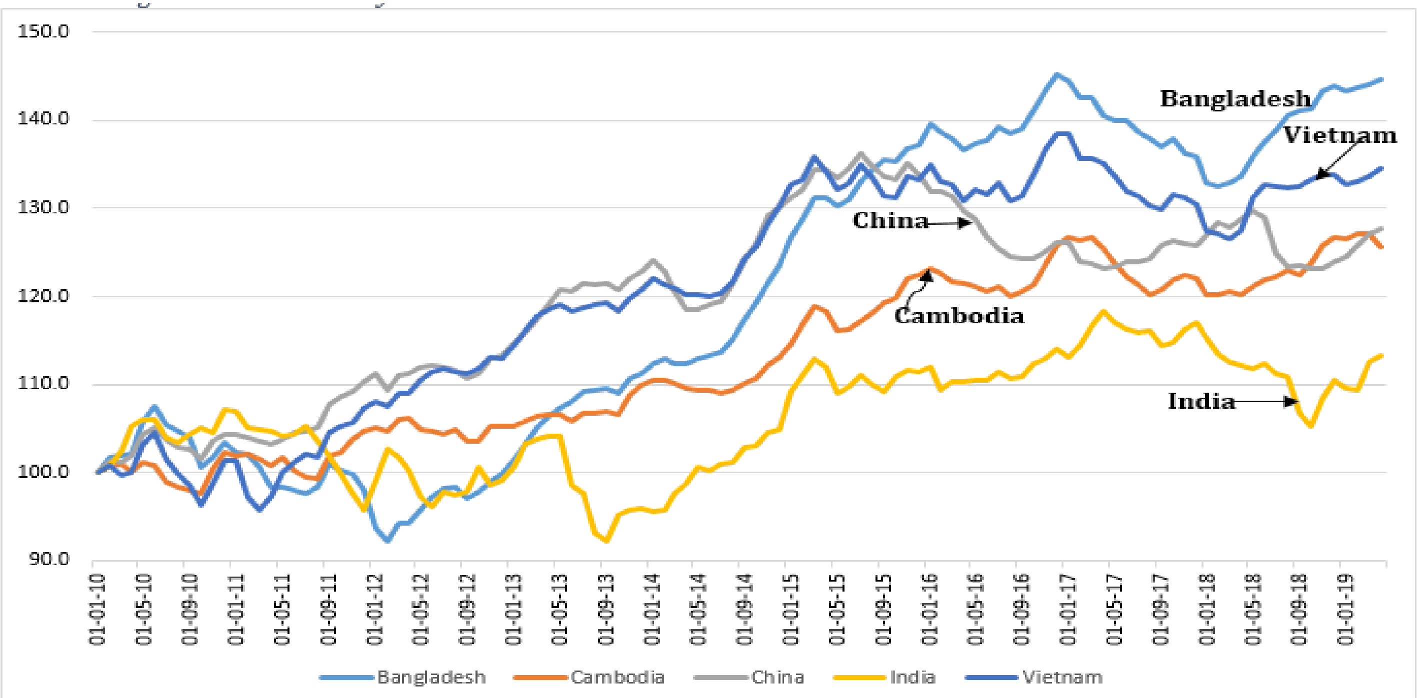
Balance of Payments

- Surplus in financial account has not been enough to compensate for the deficits in current account in BoP
  - The overwhelming share in foreign account is composed of short and MLT loans, not of foreign direct investment (FDI) or portfolio investment
  - Net FDI stood at USD 1.3 billion – *way lower than that projected in 7FYP for FY19 (USD 7.4 billion)*
  - Rising loan in the pipeline (from USD 18.1 billion in FY16 to USD 35.8 billion in FY18) - *increasing debt servicing liabilities for future!*
  - At the same time buyers credit from the private sector has also been on the rise from as of USD 3.85 billion December 2015 to USD 10.2 billion as of December 2018
    - Cost of borrowings has been on the rise significantly since 2015 because of (lower) middle income graduation, and in a few years it will rise further as Bangladesh crosses the threshold of blended (mix of concessional and non-concessional) to non-concessional borrowing
    - Both accumulated debt and debt-servicing liability will rise sharply – *adding pressure on forex reserve*

Exchange Rate

- ❑ The downward pressure on exchange rate will persist
  - ➢ REER of BDT is higher compare to that of Bangladesh's key competitors (with 2010 as base year); also, REER of BDT is considerably higher than NEER
  - ➢ Alarmingly, the capacity of the central bank to ensure gradual depreciation is faltering due to the discussed disquieting movements in the external sector

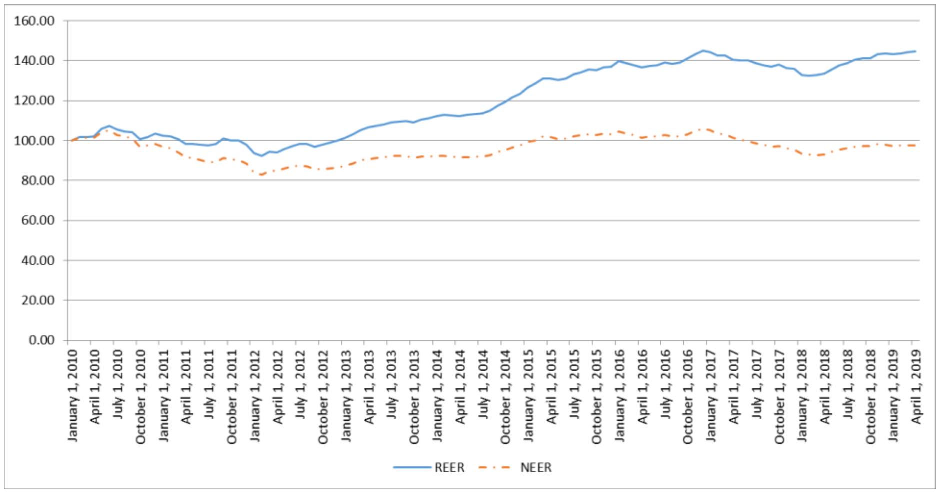
REER of Selected Developing Countries



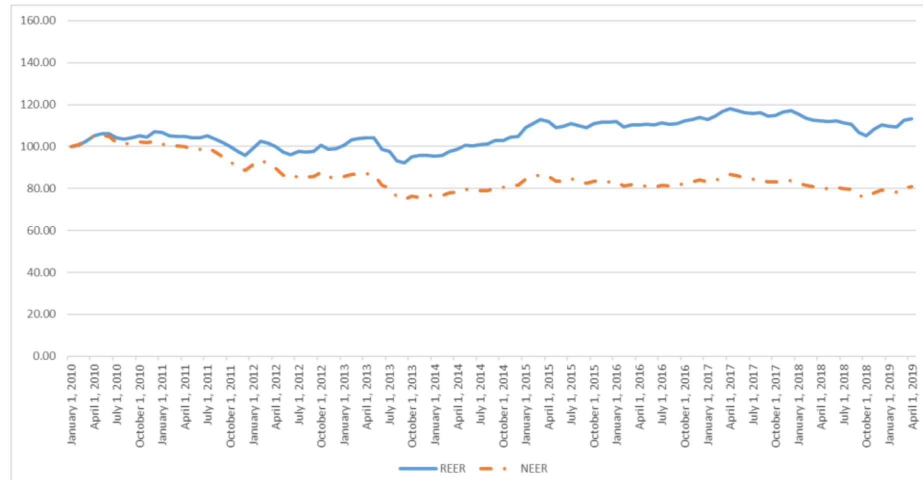
Exchange Rate

- ❑ Bangladesh needs urgently to reduce the rising gap between REER and NEER through currency depreciation

REER and NEER of Bangladesh



REER and NEER of India



Policy Suggestions

- A gradual depreciation of the BDT should be pursued with the help of the central bank's sterilisation interventions
  - Since a sharp depreciation may have adverse implications for import payments, consumer prices and foreign debt servicing
- Depreciation of BDT will also help incentivising export and remittances – hence, cash incentives will not be required!
- Rather, government should emphasise providing better public services (education, health, water, sanitation, housing) for the workers living in industrial areas
- In the short term, the expected deficit in the current account may be brought down by containing imports
  - The government may also consider raising import duties on selected luxury items and consumer goods
  - Bangladesh Bank can selectively impose higher LC margin to discourage imports

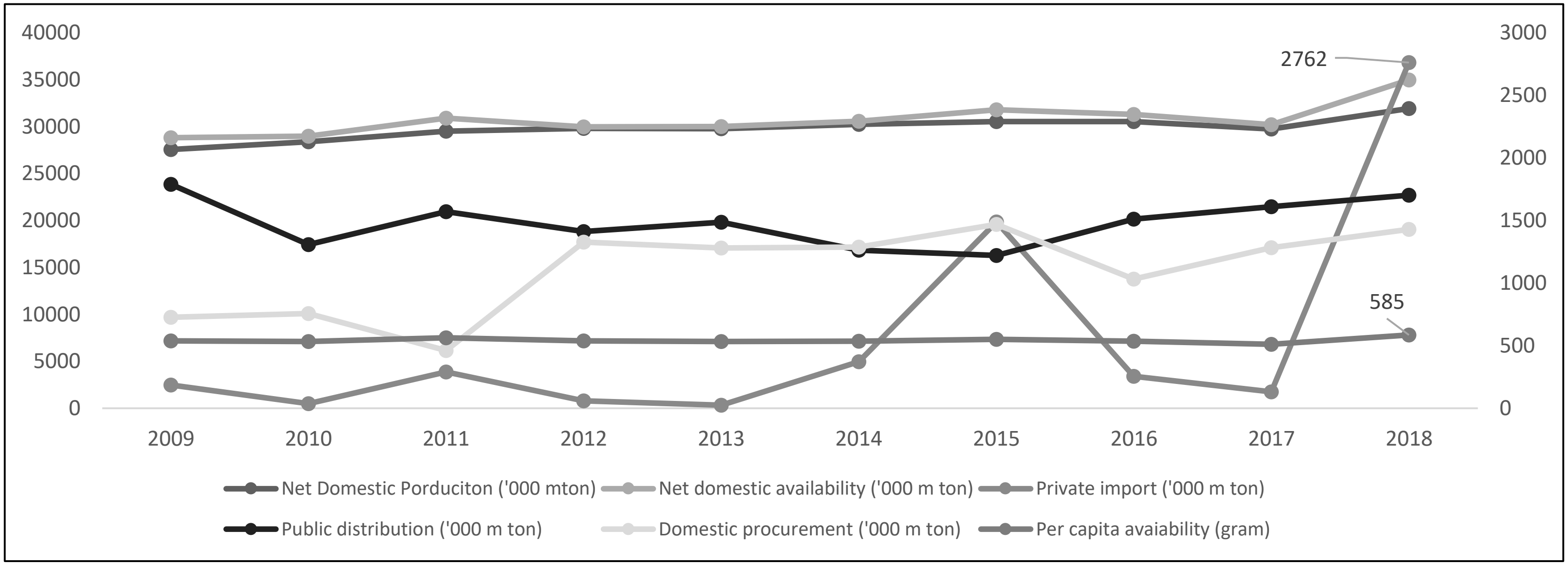
Sectoral Issues

Seasonal Fluctuations in the Rice Market in Recent Years: Impact, Implications and Required Budgetary Measures

Fading Glory in Boro Rice Cultivation

- ❑ This year's Boro harvest has not been a pleasant experience for the farmers
  - ➢ Unexpected low price during the harvest season against higher cost of production
  - ➢ Lack of buyers in the market
- ❑ Rice market has been passing a transitional period at the edge of near self-sufficiency level
  - ➢ Seasonal fluctuations demand better deficit management in terms of production, import and public procurement
- ❑ Despite seasonal fluctuations, net annual availability of rice (34.9 m ton in FY2018), as well as per capita rice availability (585 gm) maintained a consistent trend over the years

Recent Unplanned Import of Rice has Affected the Rice Market



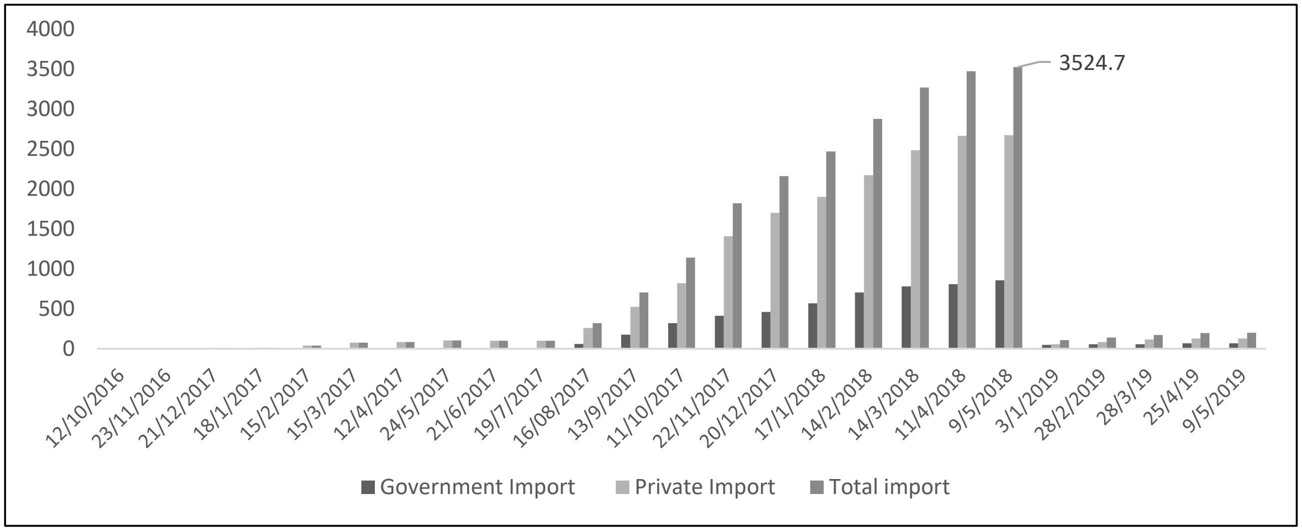
Fading Glory in Boro Rice Cultivation

- A CPD team visited Manikganj on 30 May, 2019 to collect information from key stakeholders of local rice market: farmers, rice mill-owners and officials of Agriculture and Food departments
- Surveyed farmers are in precautious this year with their Boro harvest – production cost has increased by 7.5%, while sales price has declined by 24%
- Traditional rice mills are being shut down due to increasing presence of large scale automated rice mills
- Low price, limited or no buyers of rice in the harvest season affected farmers in number of ways
  - Shortages of cash to meet their domestic needs, and also for investing in next crop plantation;
    - limited storage space at home would affect rice quality in case of post-harvest sale of rice
- The Manikganj Sadar Upazilla Food Controller's office did not buy paddy directly from the farmers in last two years (2017 and 2018).
  - Government has issued orders on 25 April 2019 to buy paddy with a target of 1642 mt
  - As of 30 May 2019, the office has bought only 29 mt of paddy directly from farmers (1.8% of the targeted amount)
- CPD has identified four reasons behind the depressed harvest market in the Boro season

Reason 1: Untimely Fiscal Measures on Private Import Affected Rice Market

- Since the floods of 2017, fiscal measures on private import of rice has deepened the situation in rice market
    - Import duty on rice was reduced by 18% in June 2017, and was continued till May 2019 (should have been withdrawn earlier)
    - As a result, about 3.5 mill. mt of rice was imported in FY18 (mainly by private sector), when the seasonal deficit of Boro production was estimated to be about 1.5 mill. mt in 2017
    - A good harvest in subsequent rice seasons resulted a surplus rice supply (9.7 million tons at the end of FY2018), which affected the price of Boro in 2019.

Yearly (cumulative) Rice Import (in '000 mt)

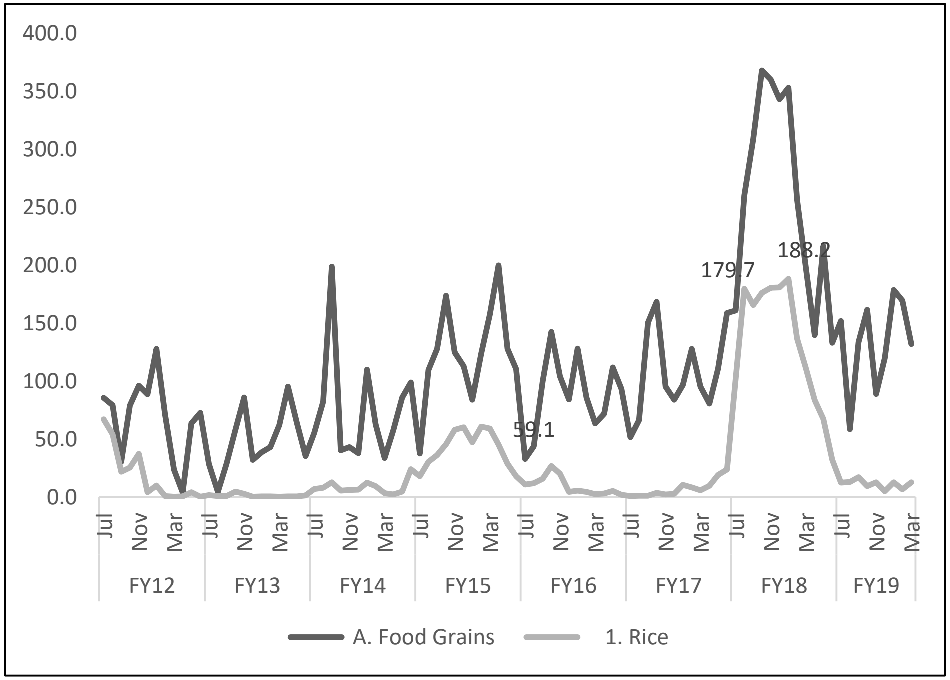


Reason 2: Poor Institutional Monitoring Further Weakened the Rice Market

- Different ministries and departments concerning the rice market have their individual and collective monitoring mechanism
  - Food Planning and Monitoring Unit (FPMU) of DoF comprises members of 8 ministries take decisions as regards targets for food procurement
  - Ministry of Agriculture sets targets for acreage and production of rice

- Monitoring authority should have been more vigilant about the quantity of rice imported throughout FY18 and its impact for the domestic market
  - Low import duty on rice should have been rationalised to curb import of rice by the private sector

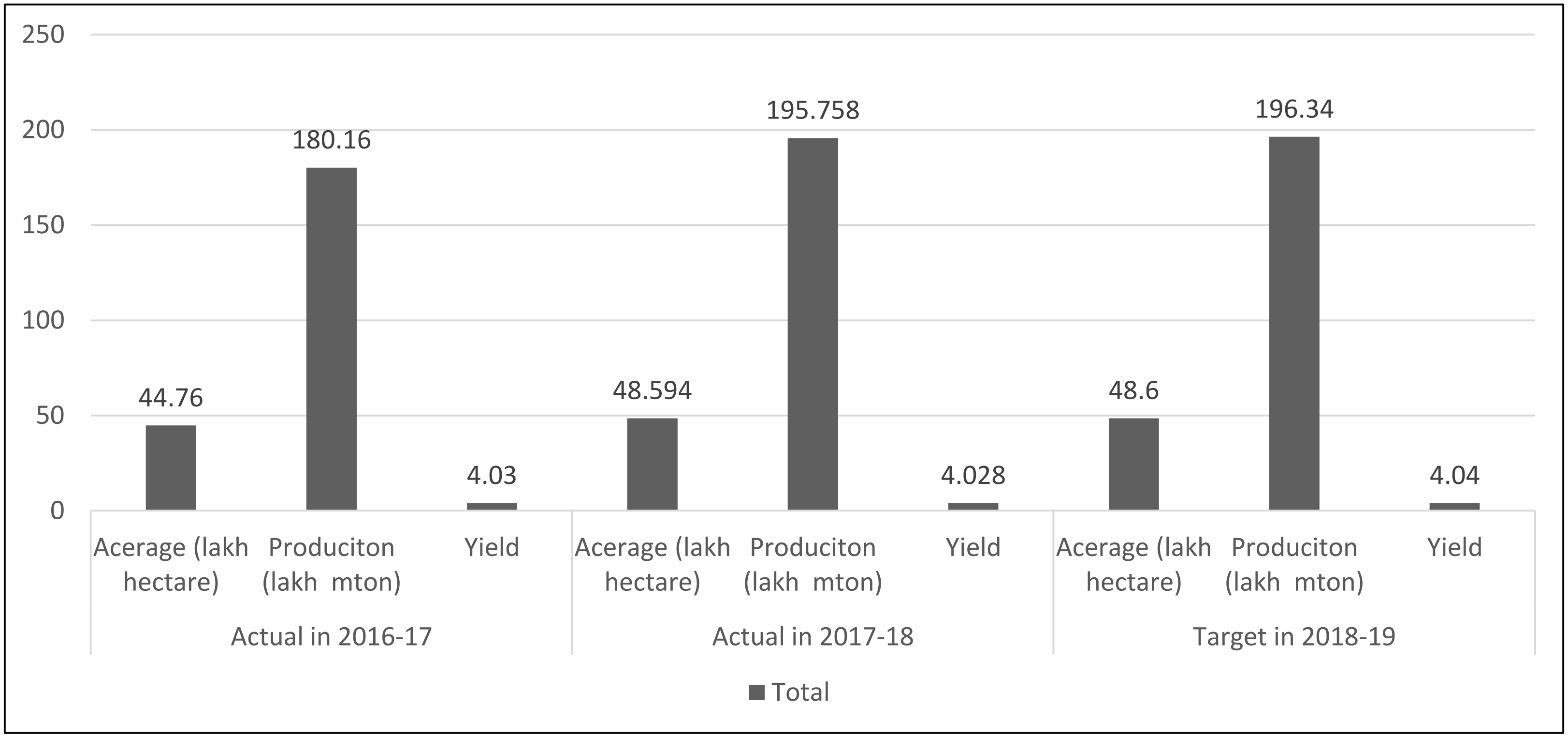
Month wise Import of Rice (2012-Mar.,2019) (in million US$)



Reason 2: Poor Institutional Monitoring Further Weakened the Rice Market

- Surge in import was accompanied by expected higher acreage and production in FY19 Boro season

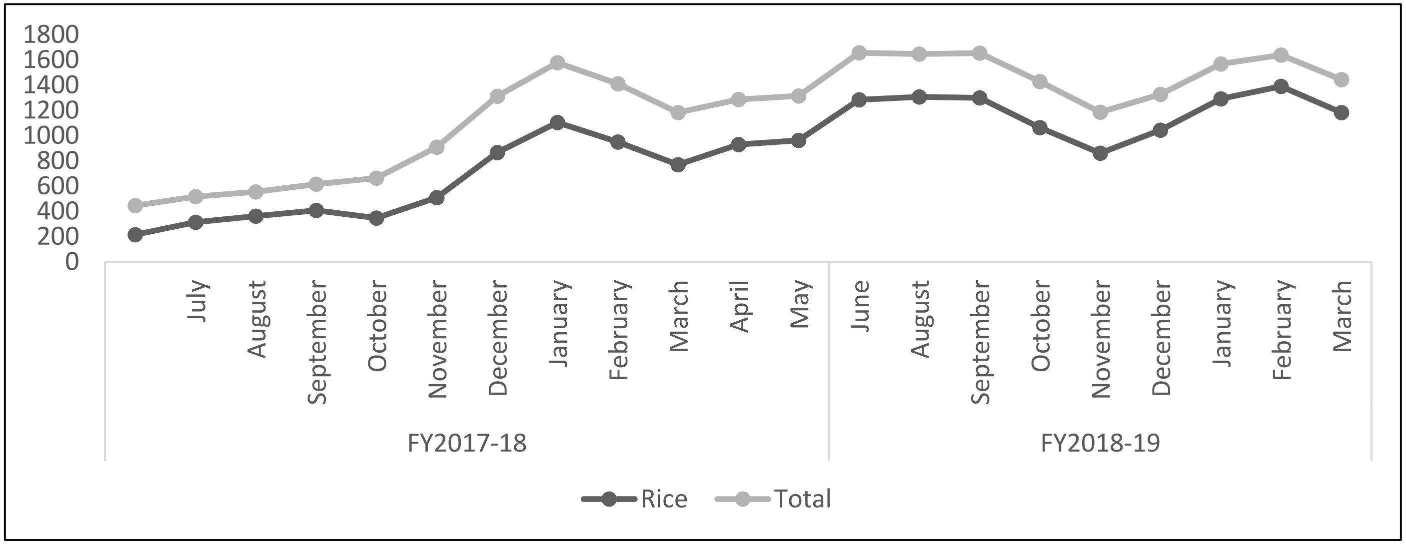
Acreage, Production and Yield of Boro Rice



Reason 3: Use of Post-Harvest Procurement System was not in Prior Consideration

- Government procurement is mainly rice-centric (usually over 90%); paddy constitutes only a marginal share of total public stock
  - However, in 2016 and 2017, paddy was procured in a large volume during 2016 and 2017 – 700,000 mt each
  - In contrast, for FY19, target for paddy procurement was set at 150,000 mt only, against 1.15 mil. m ton of rice, which is the highest in the last one decade
- Given the early negative signals of retail price, setting a negligible target for procurement of paddy was indeed a failure of the procurement committee.

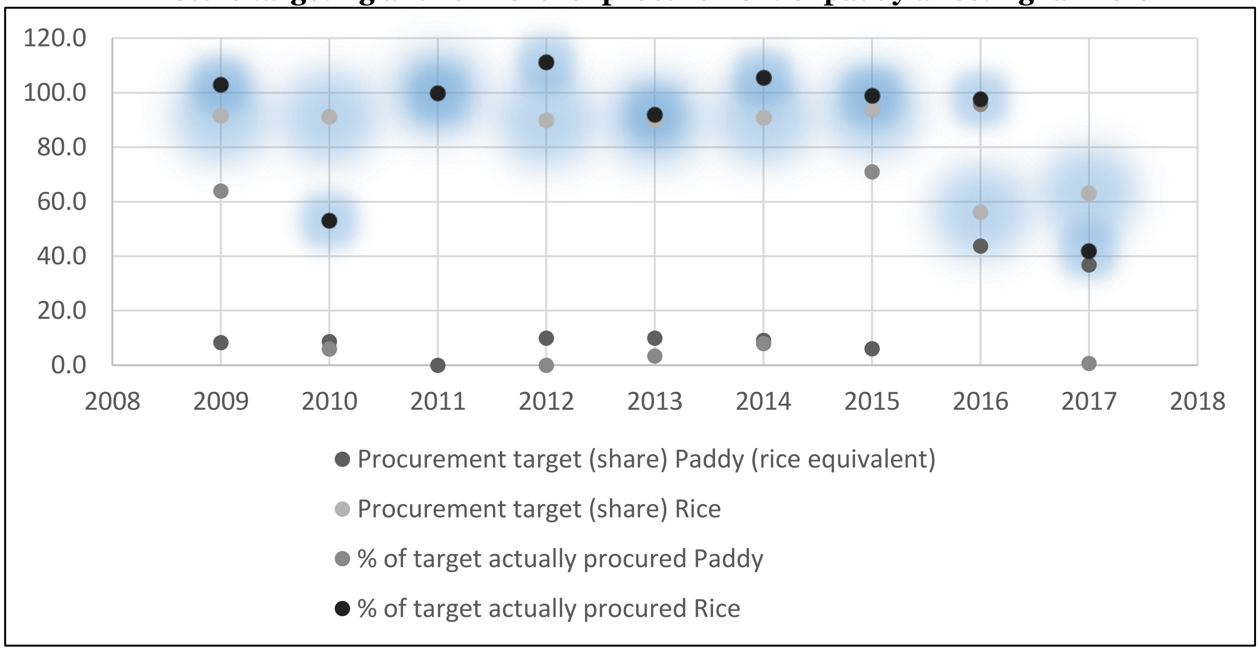
Public Food Stock (Rice and Total Food Grain) ('000 mton



Reason 3: Use of Post-Harvest Procurement System was not in Prior Consideration

- Trend shows, actual procurement of paddy against the set target had always been lower compared to that of rice
  - In fact, actual procurement is highly disappointing most years
  - It is important to explore the possible reasons behind the failure

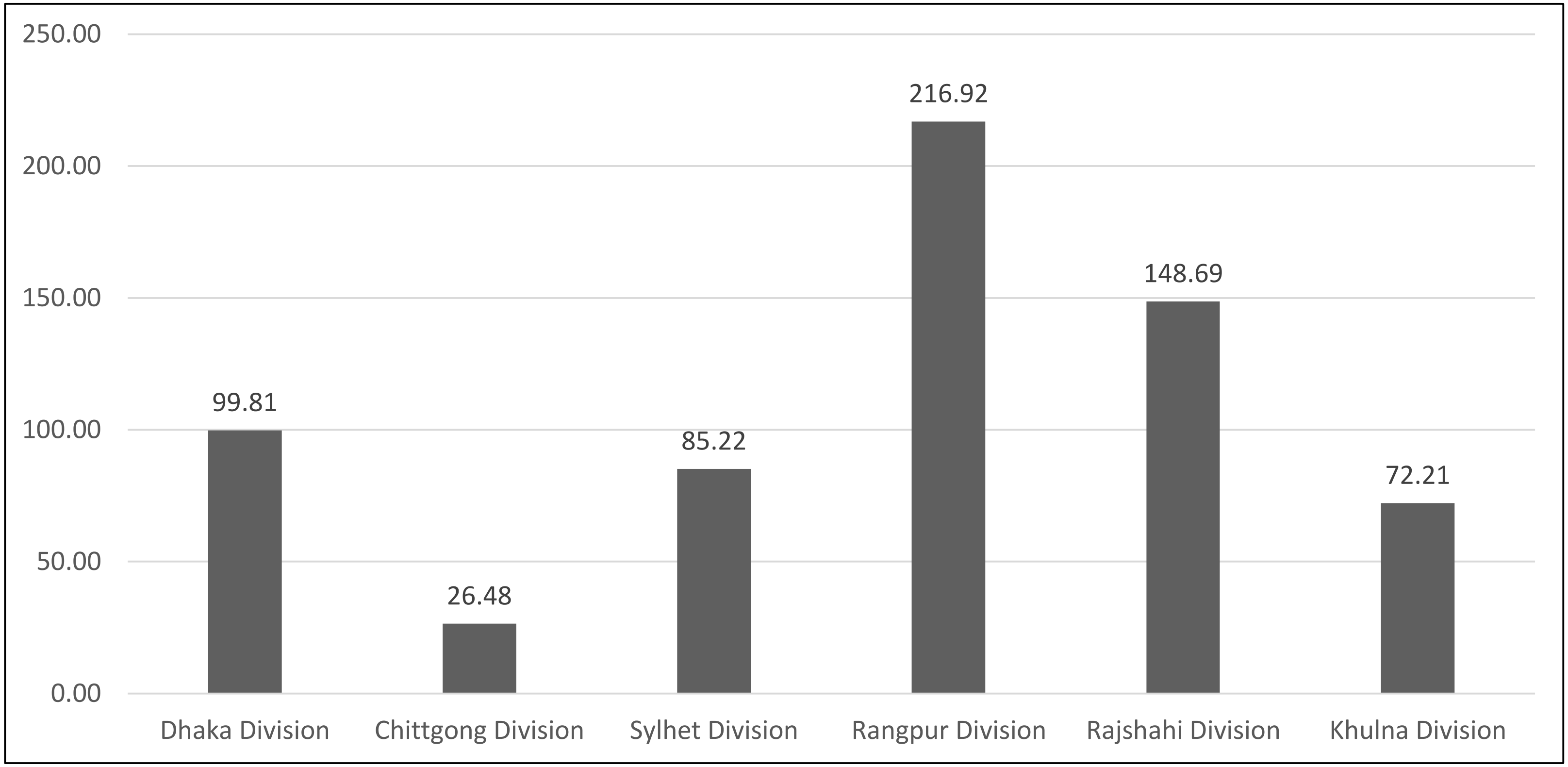
Miniscule targeting and low level of procurement of paddy affecting farmers



Reason 3: Use of Post-Harvest Procurement System was not in Prior Consideration

- Utilisation of procurement capacity widely varies; in some regions (Chattogram, Sylhet) the capacities are unutilised to a large extent

% of Public Food grain Storage Capacity Utilised for Aman and Boro procurement in FY2018



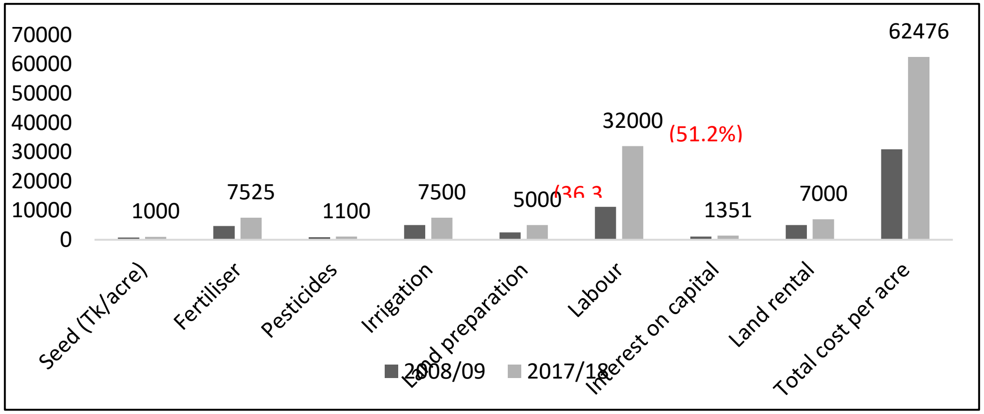
Reason 3: Use of Post-Harvest Procurement System was not in Prior Consideration

- CPD's rapid survey found a number of challenges for the government agencies in direct procurement of rice from farmers:
  - Difficulty with ensuring moisture level (above the limit, 14%); mix of rice beyond 5%
  - Obstacles created by local syndicates
  - Limited or no publicity about public procurement of rice
- Farmers, on the other hand, have the following problems in selling directly to the government
  - Bribery expectation of the government officials who ask for up to 10-15% commission from the sellers
  - Malpractice with weight of paddy during government purchase
  - Allegation of procuring paddy from 'fake farmers', not from real farmers
  - Hassle of transportation arrangement to bring the paddy to government food office
  - Time-consuming sales procedure
    - A lot depends on the will of the government officers; long queue and absence of officials are other common incidences that cause delay
    - Limit for direct sell at Food Office is 3 mt for each farmer; however, some, particularly the fake farmers have ways to sell above that limits

Reason 4: Increased Labour Cost has been the Major Driver of High Production Cost

- Boro cultivation is the costliest among the rice varieties and it has been getting costlier
  - It was 42% costlier than that of Aman rice cultivation during FY18
- High labour wage has been dictating the increase in production cost
  - It has accounted for more than half of the total cultivation cost in FY18 (36% in FY2009)
  - Growth in labour cost is the highest among all the input costs (21% per year between FY09-2018)
  - Shortages of labour during the harvest season added with limited availability of harvesting ma chines increased the production costs
  - Access to machines through either private or public channel, is not easy (CPD field visit in Manikganj)
- In Manikganj, tenant farmers faced the difficulty more due to payment of land rents at high rates
- Subsidy in the agriculture sector mainly targeted to fertiliser and irrigation; which addresses only a small proportion of the total production cost (4-6% between 2009-2018).
  - Reforming the present agricultural subsidy provisions to counter rising agriculture labour wages needs to be considered

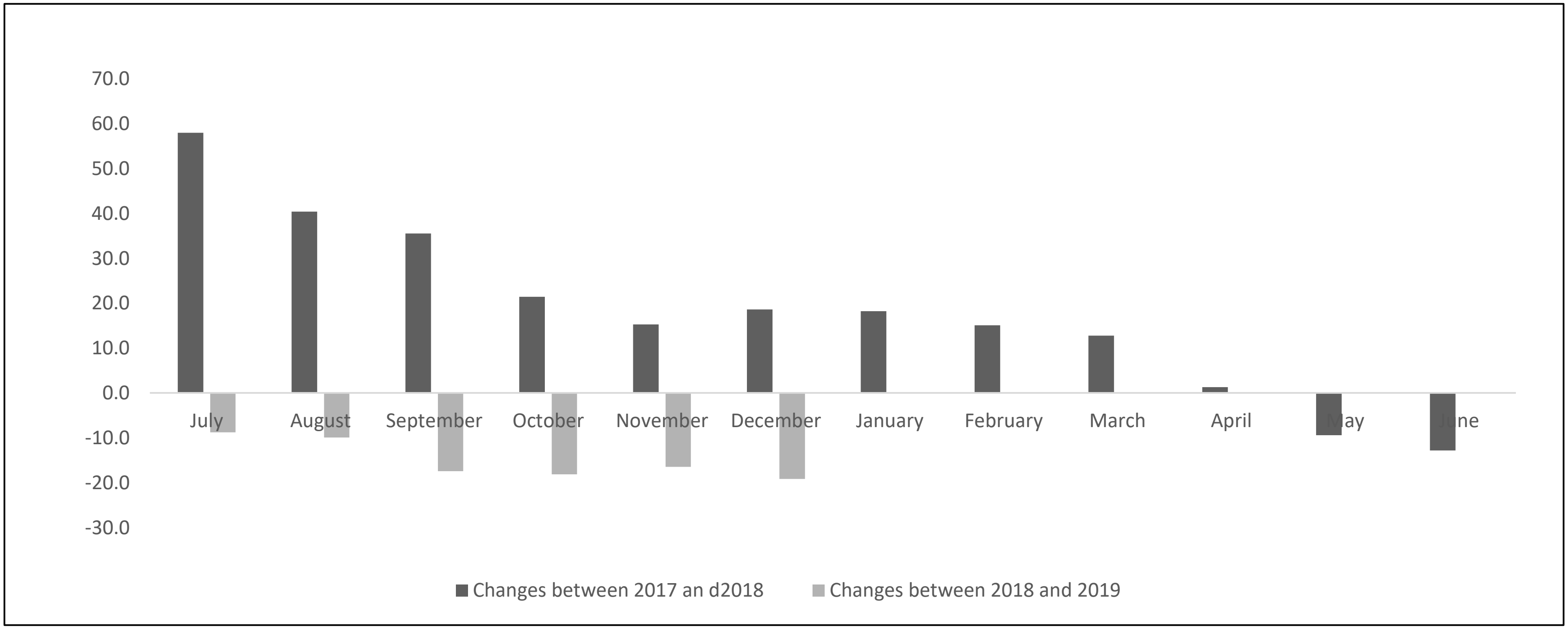
Labour Cost Dictating Boro Production Cost



Reason 4: Increased Labour Cost has been the Major Driver of High Production Cost

- ❑ Among the crop options, Boro is cultivated by the major share of farmers
  - ➢ About 61% of net cropped area is cultivated by Boro
- ❑ Despite the weak signal in the retail market (started since May 2018, and continued till this season's starting in November), farmers kept going for cultivating Boro rice, even at a higher level
  - ➢ Farmers' loss this season should be compensated through designing and implementing an effective crop insurance schemes

Farmers Have Limited Options during Boro Season: Despite Lowering Price Farmers Went for Higher Acerage of Boro



Short Term Budgetary Measures

- Immediate measures are required in view of ongoing procurement
  - Considering the current stock of foodgrain (1.45 million m ton), there is further capacity to procure paddy (total food stock capacity is 2.1 million m ton) using untilised space available in different regions
  - Government should revisit the procurement target of paddy, which is currently set at 150,000 m ton. Government needs to allocate additional fund for procurement of additional amount of paddy
  - In view of implementation progress as regards attainment of poor procurement target of paddy, a special drive is required
- Government may consider gradual replenishment of its existing stock using the ongoing PFDS programmes (64.2% of the revised target for FY19 has been distributed up to March 2019)
  - At present, FFP is the leading food distribution programme (32% of total food distributed in FY2019)
  - Special targeted programme could be designed for poor and deprived section of people (cyclone-affected people, fishermen, Rohingya people etc.) for distribution of a specific quantity
- The Government may consider providing a one-time cash incentive of Tk.5000 to each of the 1.82 crore farmers (Agricultural input assistance card holders) in absence of crop insurance against revenue loss of the farmers during Boro rice cultivation – a budgetary allocation of around 9100 crore may be required

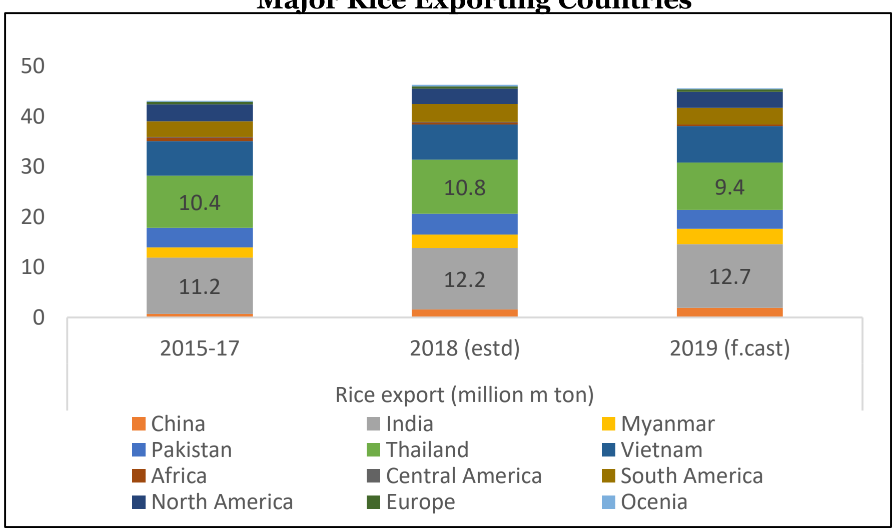
Short and Medium Term Budgetary Measures

- **Suggestions for Improvement of Public Procurement System:** CPD surveyed farmers recommended decentralisation of government's procurement system. A few specific recommendations in this connection include:
  - Set up mobile 'point of sell' at village level where the farmers can bring their paddy easily without hassle. Such point-of-sell would ensure better transparency in the procurement process
  - The government can organise monthly 'haat' where they will buy paddy directly from farmers. Proper publicity will be required to inform the farmers about such new initiatives (e.g. mosques can disseminate to inform the villagers about this)
  - Strict steps will be needed to break the political syndicate, which is obstructing direct procurement from farmers by the government. Administrative and political commitment will need to be demonstrated in this regard
  - Government should make arrangement for drying rice with high moisture content from farmers after processing paddy
  - Government investment should be made available for new technology to store paddy containing higher moisture content

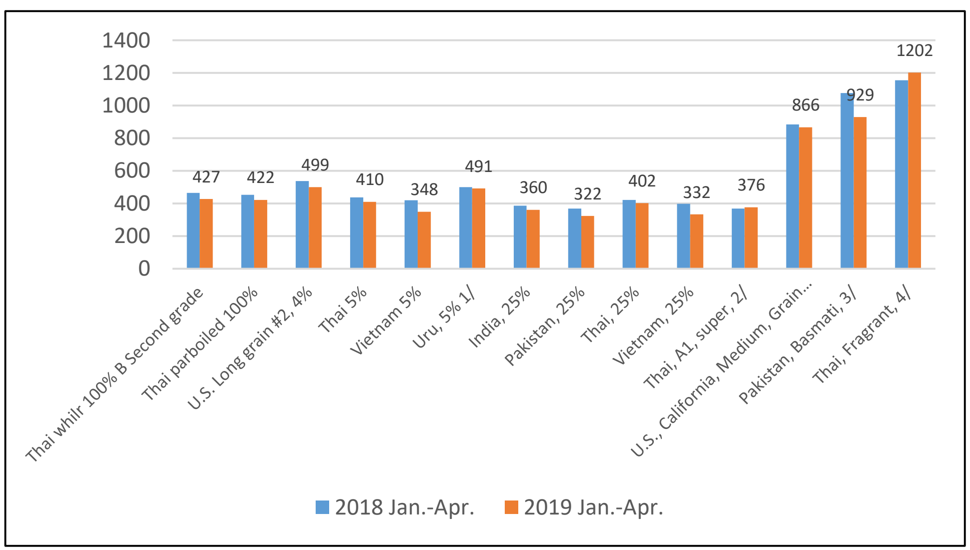
Short and Medium Term Budgetary Measures

- ❑ Government may consider allowing export of rice for specific varieties for a limited period.
  - ➢ As per the forecast for 2019, about 47.3 million m ton of rice to be exported by Asian countries, led by five main rice-exporting countries, including India (12.7 mil. m ton), Thailand (9.4 mmt), Vietnam (7.3 mmt), Pakistan (3.8 mmt) and China (1.9 mmt)
  - ➢ Global export price for rice shows a decelerating trend in Jan-Apr 2019 vis-à-vis that of the previous year for almost all varieties
- ❑ Local retail market price indicates that most of the local varieties do not have profit margin in case of export, except medium/normal quality rice (Showrna)
- ❑ However, scope of export would encourage potential exporters to procure more paddy during the Boro season
  - ➢ Any scope for export should be limited to Boro rice and for a limited period (without any subsidy on export price)

Major Rice Exporting Countries



Average Export Price of Different Varieties of Rice



Medium-Term Budgetary Measures

Medium term measures should address the following issues:

- Reduction of production cost of rice, particularly labour cost
- Reduction of labour cost should be considered through both raising yield and mechanisation
- Government's election manifesto highlighted the issue of mechanisation of agriculture
- Further scopes for mechanisation are there for harvesting activities (only 0.8% is mechanised)

- DAE's mechanisation project provide supports to haor and Southern coastal belt with limited number of machineries
  - Budgetary support should be allotted for development of local manufacturers of machineries, low-cost credit facility, reduction of VAT and import duty, and allocation for research and innovation of mechanisation.
  - Immediate approval of agri-mechanisation policy and initiative for implementation of Roadmap for Agriculture Mechanisation: 2021. 2031 & 2041

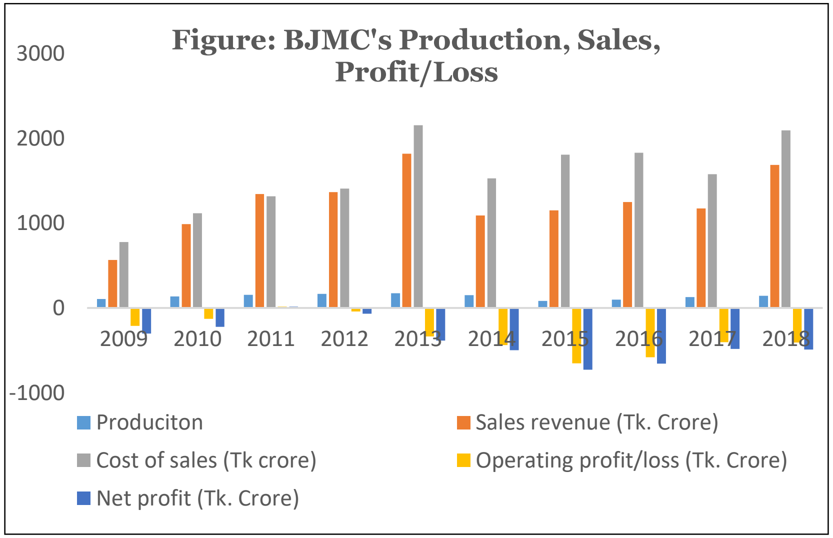
Level of Agriculture Mechanisation

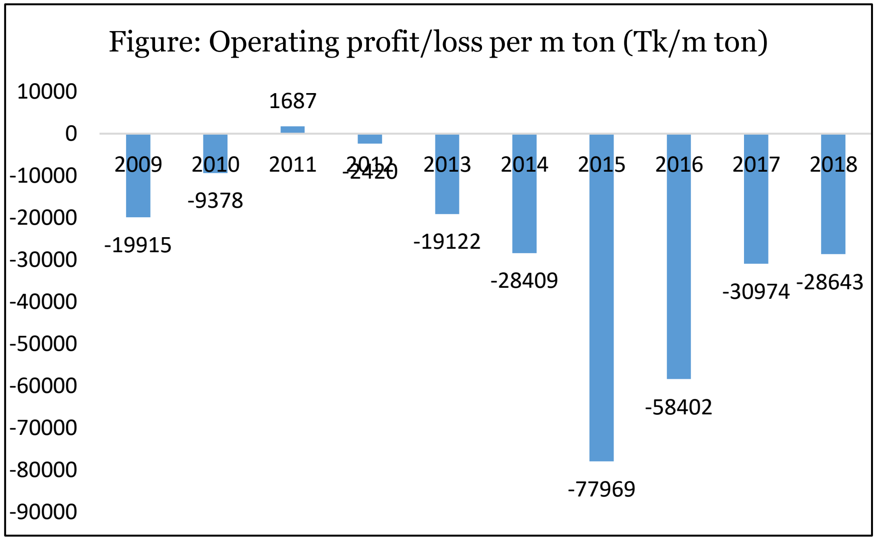
Activities	Rate of mechanisation
Tilling	90%
Irrigation	95%
Planting	0.1%
Fertiliser	1%
Weeding	65%
Pesticides	80%
Harvesting	0.8%
Marai	70%
Jharai	6%
Drying	2%
Storage	4%

Rationalisation of SOE Operation: Case of BJMC

BJMC: A Test Case of Poor State of SOEs

- BJMC is one of the SOEs which is on the verge of shutting down because of its failure to come out from losing streak despite getting fiscal incentives and subsidies from the government over the years
- Since 2009, BJMC had never earned profit except for 2011 which happened due to government special measure to transfer its loan in block account in 2011 for a period of ten years
  - BJMC's loss per m. ton of production of jute goods ranged from - Tk.2420 in 2012 to as high as – Tk.77969 in 2015 and Tk. 28,643 crore
  - Relatively low level of losses in recent years did not sustain when the new minimum wages being implemented with effect from July, 2015 (entry level wages to be increased from Tk. 4,150 to Tk. 8,300)
  - In FY18, BJMC had net loss of Tk. 489 crore, classified loan of Tk. 89 crore, DSL of Tk. 320.7 crore and dues to workers and staffs in the form of payment of gratuity and other benefits of Tk. 425.8 crore



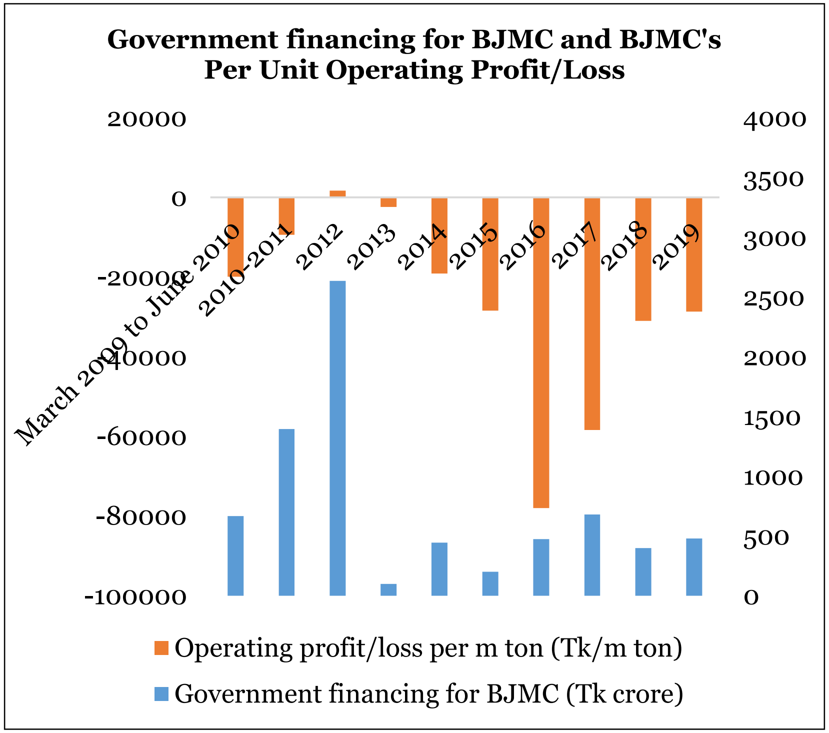


BJMC: A Test Case of Poor State of SOEs

- Since 2009, BJMC received a total of Tk.7477 crore from the government in different forms in order to address its different needs and concerns. However, those support made little contribution to make the enterprises viable
  - Instead, a weak positive correlation is found between the two (0.39) indicating that government financial support may not have any positive relation with BJMC's profitability

Government payment in favour of BJMC (March, 2009 to Jan, 2019)

Reason	Crore Tk.	Share (%)
Issuing bonds for payment of bank dues	2,389	32.0
Purchase of raw jute	1,100	14.7
Handing over land purchase price to BJMC	1,081	14.5
Payment of workers' due salary, wage and eid bonus	709	9.5
Payment of gratuity, provident fund etc.	529	7.1
Providign refinancing facility to purchase raw jute against bank guarantee	500	6.7
Payment of dues to Rupali Bank	438	5.9
Payment of workers' due wages under 3rd and 4th wage commission	400	5.3
Payment of dues regarding purchase of raw jute, electricity bill and other bills	125	1.7
Starting operation of two jute closed mills under PPP	105	1.4
Total	**7,477**	**100.0**



Major Challenges: High Cost of Production, Low Utilization of Loom Capacity and Corruption

- High cost of production (Tk.126286/m ton), low utilisation of loom capacity, huge corruption and high sales price both at local and global markets, weak management and operation, lack of decentralized decision making, low-productivity of machineries and dominance of vested groups etc. – pushed the enterprise at the verge of collapse.
- According to Moazzem (2014), BJMC mills operated with inefficient labour use, low productivity, wage differentials with private mills, huge cost for R&M, short stay of directors/chairman and significantly high cost of production of hessian, sacking & CBC products.

BJMC's Mills and Looms

No. of mills	**32**
Jute	22
Non-jute	3
Closed	1
Total looms	**10835**
Looms in operation	9552
Looms not in operation	1283
Budegted looms (upto January, 2019)	7734
Budgeted looms in operation	4452
% of total loom currently in operation	**41.10%**
Total stock of unsold jute goods (as of 31 January 2019) (Tk cr)	**755.98**
BJMC's total debt (provisional) (Tk in crore)	**2479.94**

Selected Audit Observations in BJMC Mills

Audited Issues	Tk (in crore)	Period of audit inspection
Overdraft of money showing false number of workers	2.28	13.12.11 to 31.12.11
Deficit value to Kamarkhali and Langolbandh jute purchase agency in charge	0.4	15.04.12 to 28.06.12
Insurace claim ignored	4.73	15.04.12 to 28.06.12
Loss due to fire incidence	10.3	15.04.12 to 28.06.12
Less income tax cut	1.94	18.03.12 to 05.04.12
Loss due to violation of T&C of letter of intent	25.79	01.12.11 to 12.01.12
Unpayment of lease money, dues, interest and deficit machineries cost	4.45	18.06.12 to 30.06.12
Loss money due to show favours in case of violation in favour of leasee	3.32	15.04.12 to 10.05.12
Showing over-purchase of raw jute	2.49	12.02.13 to 20.03.13
Not cutting VAT and income tax on rented establishments	0.93	12.02.13 to 20.03.13
Loss of the milss due to purchase of raw jute over the weight and standards	0.48	24.02.13 to 17.04.13
Deficit in the closing stock of raw jute amounted 455.85 m ton	3.68	05.05.13 to 11.06.13
Loss of mills due to poor quality and deficit	0.79	29.11.12 to 10.01.13
Wastage due to over limit of use of jute	2.84	05.12.12 to 03.01.13

Major Challenges: Faulty Pricing Policy

- Because of its faulty pricing policy, Bangladeshi jute products have confronted anti-dumping duty in the Indian market (USD 9 to USD 353 per m ton) which severely affected its export to the second largest market, India
  - Curiously, BJMC charged higher price at local market particularly to other government agencies which purchase jute goods as part of implementing the Mandatory Packaging Act 2015
- Faulty pricing policy of BJMC in export market has been affecting the operations of private sector jute mills

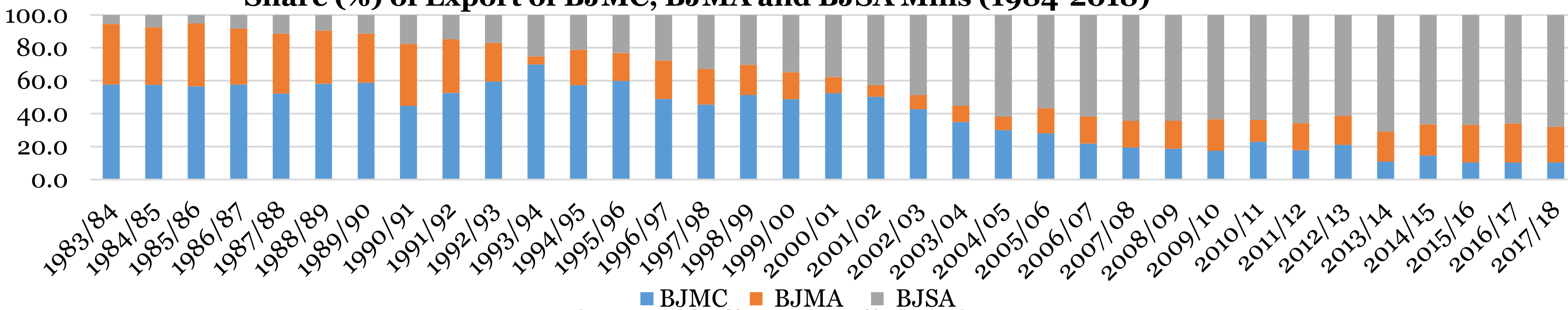
Faulty Pricing Policy of BJMC

Year	Difference between export price and production cost (Tk/m ton)	Difference between local market price and produciton cost (Tk/m ton)
2011	-10567	24538
2012	-7680	30046
2013	-22578	7624
2014	-31609	284
2015	-68774	-37852
2016	-64431	-29812
2017	-45992	9385
2018	-39741	1734

Major Challenges: Limited Contribution of BJMC in Jute Sector

- At present, BJMC mills make limited contribution in the jute sector (its share declined to 10.3% in FY2018 from as high as 52% in FY2001)
- Because of slowing down the operation, number of officers, staffs and workers have been reduced over the years.
  - Moreover, share of enlisted workers in operation has been declining; curiously, number of enlistment of workers have increased in January, 2019
- In contrast, private sector jute mills under BJMA and BJSA have been operated well and number of new small jute mills has been set up in recent years
  - A total of 127 BJMA mills are currently in operation

Share (%) of Export of BJMC, BJMA and BJSA Mills (1984-2018)



Reduction of Officers/ Staffs/Workers in BJMC

Period	Officer/Staffs			Enlisted workers				Workers in Operation				% of enlisted workers in operation			
	Officer	Staffs	Total	Permanent	Temporary	Daily basis	Total	Permanent	Temporary	Daily basis	Total	Permanent	Temporary	Daily basis	Total
January, 2018	1331	2489	3820	28460	23151	7423	59034	21251	10298	6109	37658	74.7	44.5	82.3	63.8
January, 2019	1274	2290	3564	26949	23858	8589	59396	19164	5398	4618	29176	71.1	22.6	53.8	49.1
% change between 2018 and 2019	-4.3	-8.0	-6.7	-5.3	3.1	15.7	0.6	-9.8	-47.6	-24.4	-22.5				

Possible Budgetary Measures to Address the Challenges

- Government should set up a high-powered committee comprising of senior government officials, experts and other stakeholders to take opinion about future directions of BJMC and required measures
  - As a short term measure, government should clear the dues of the workers and staffs as per the existing wage structure; however, payment of wages and dues under the new wage structure needs to be considered as part of broader reform package concerning BJMC
  - A budgetary measure without concrete position as regards BJMC's future would further aggravate its overall financial position
  - Budgetary allocation for related ADP projects should be a part of broaderreform package concerning BJMC
- Government may consider of the following:
  - A gradual rationalization of BJMC operation will be required
  - At present 41% of BJMC's establishments are sufficient for its existing operation - BJMC should narrow down its operation in selected jute mills and vacant the remaining areas/mills for alternate uses
  - BJMC may collaborate with BEZA for setting up SEZs for small, medium scale jute mills and other industrial enterprises to be utilised by private investors
  - The dues and debts and other payments of BJMC can be cleared by receiving the financial compensation for handing over a part of land to BEZA

Inclusivity of the Budget: Social Sector Ought to be a Priority

Education: Allocation and Efficacy of Implementation

- According to World Bank data for 2016, Bangladesh ranked 75th (among 77 countries) with regard to government expenditure on education as a share of GDP
- Education budget decreased as a share of total budget from 12% in FY09 to 11.4% in FY19. Government budget for education as a share of GDP increased to 2.1% in FY19 which is considerably lower than the respective 7FYP targets of 2.8% and UNESCO target of 6%
- This marginal increase allocation has contributed to rise in per capita allocation in the education sector (from Tk.948 in FY10 to Tk.3,205 in FY19)
- Implementation of overall education budget in FY18 (86.1%) - lowest in the last decade!
- The share of financing ADP from local sources for Education sector has increased to 91.4% in FY19 from 48.9% in FY09

Particulars	**FY09**	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
Allocation as % of total Budget	12.0	12.3	13.6	12.1	11.2	11.3	11.7	10.7	14.4	12.6	11.4
Expenditure as % of total expenditure	13.3	15.3	14.3	12.3	11.9	13.3	14.2	15.8	17.1	14.3	
Allocation as % of GDP	1.7	1.8	2.0	1.9	1.8	1.9	1.9	1.8	2.5	2.2	2.1
Implementation rate	98.9	111.0	102.5	94.6	96.9	100.0	95.9	119.6	93.6	86.1	

Allocation	**FY10**	**FY11**	**FY12**	**FY13**	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**FY19**
Per capita nominal	948	1,198	1,307	1,393	1,611	1,850	1,977	3,030	3,082	3,205
Per capita real	887	1,011	1,015	1,013	1,091	1,178	1,188	1,727	1,661	1,637
Expenditure										
Per capita nominal	1,052	1,228	1,236	1,350	1,610	1,773	2,365	2,837	2,653	
Per capita real	985	1,037	960	982	1,091	1,129	1,421	1,617	1,430	

Education: Priority Issues

- ***Provide budgetary support to improve the quality of teaching***

There is only one teacher per 45 students in secondary schools. Further, the number of trained teachers in secondary schools has declined from 75.4% in 2011 to 66.9% in 2018

  - It declined much faster for female teachers (from 77.4% in 2011 to 64.4% in 2018)

- ***Invest in TVET on a priority basis***

The growth rate of the students enrolled in TVET has increased, but it is volatile and still remains low. The proportion of secondary level students in TVET increased from 1.7% in 2001 to only 10.2% in 2018

  - Empirically, it was found that the rural young people (31.1%) were facing the problem more than the urban youth (24.4%) with regard to participation in skill development training

- ***Enhance access to education in disadvantaged areas through budgetary measures***

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

Education: Key Projects

- **Key projects suffer from insufficient allocation and below average implementation**
  - All six projects to address our highlighted issues faced time extension and were carried forward more than once
  - Two out of six projects were completed by FY19
  - The remaining four projects were not completed by FY19 and were carried forward to FY20
  - There implementation rate of STEP and SFP were also below average during Jul-Feb FY19 period
  - Government should ensure inclusion of the important projects (set out in the NAP) such as 'Secondary Education Development Programme', 'Development of accommodation facilities in three Hill Tract Districts and Establishment of new Schools at Haor and other outreach area' in the ADP to address the priority issues
  - Government will also need to take decision on the inclusion of additional class teachers (ACTs) enlisted during the SEQAEP project under its monthly pay order (MPO) system

Title of Project	Project Cost (Crore tk)	Implementation, Jul-Feb FY19	Maximum Possible Completion by FY19	Project duration	
				Original	Revised
Teaching quality					
Construction of PTI in the District - Jhalokathi, Shariyatpur, Narayanganj, Lalmanirhat, Gopalgonj, Dhaka, Sherpur, Narail, Maherpur, Bandarban, Khagrachari and Rajbari)	269	Completed	Completed	4.6	8.5
Teaching Quality Improvement in Secondary Education	646	Completed	Completed	5.1	6.5
TVET					
Establishment of Technical School of 100 Upazila.	2,290	67.9	24.6	4.6	8.0
Skills and Training Enhancement Project (STEP)	1,782	31.6	97.8	6.6	9.5
Access for the disadvantaged					
Reaching Out of School (ROSC) Project	1,085	57.3	90.4	7.6	10.5
School Feeding Programme in Poverty Prone Areas	4,992	40.7	71.8	5.1	8.0

Health: Allocation and Efficacy of Implementation

- According to World Bank data for 2016, Bangladesh ranked 186th (among 186countries) with regard to government expenditure on education as a share of GDP
- Health budget stagnated as a share of total budget from 5.7% in FY09 to 5.7% in FY19. Meanwhile, government budget for education as a share of GDP marginally increased to 0.92% in FY19 which is considerably lower than the respective 7FYP targets of 1.12% and WHO target of 5% of GDP
- Per capita allocation in the health sector increased three fold in nominal terms over the last decade but remained much lower in real terms
- Likewise education, utilisation of the overall health budget in FY18 (83.7%) was the lowest during the last ten fiscal years
- Likewise education, the share of financing ADP has shifted more towards local financing and increased to 63.7% in FY19 from 32.9% in FY09

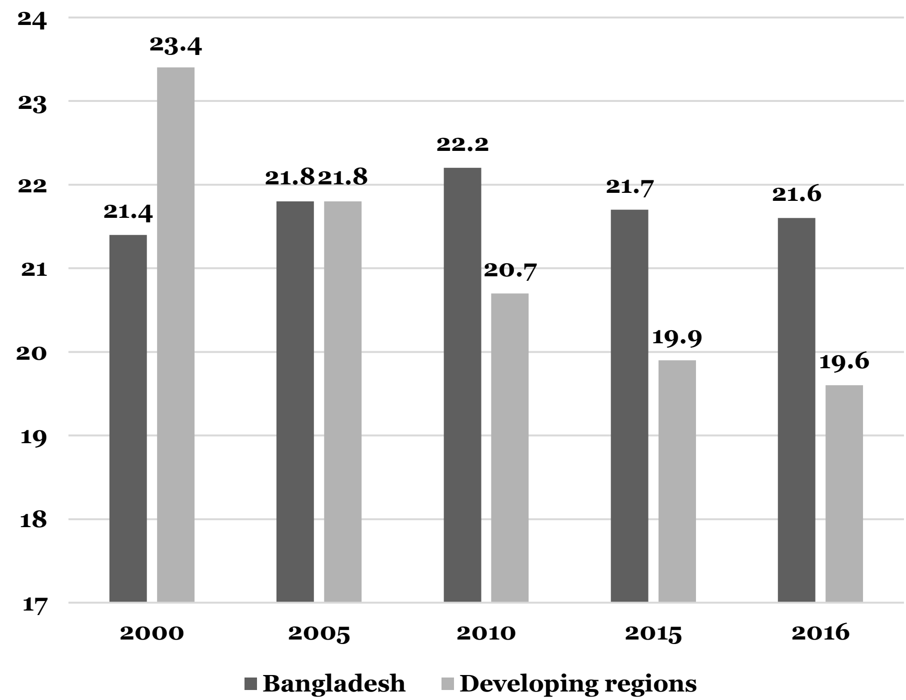
Particulars	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Allocation as % of total Budget	5.9	6.1	6.2	5.4	4.9	4.3	4.4	4.3	5.1	5.2	5.0
Expenditure as % of total expenditure	5.7	6.2	5.7	5.0	4.9	5.0	5.3	5.3	5.7	5.7	
Allocation as % of GDP	0.8	0.9	0.9	0.8	0.8	0.7	0.7	0.7	0.9	0.9	0.9
Implementation rate	87.1	89.8	89.6	86.4	91.6	99.1	93.5	99.3	87.1	83.7	

Allocation	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
Per capita nominal	472	543	585	607	608	706	794	1,081	1,262	1,412
Per capita real	442	458	454	442	412	449	477	616	680	722
Expenditure										
Per capita nominal	424	487	506	556	602	660	788	942	1,057	
Per capita real	397	411	393	405	408	420	474	537	569	

Health: Priority Issues

- ***Put special allocation to prevent non-communicable diseases (NCDs).***
  - Bangladesh ranked 11th out 186 countries in out-of-pocket expenditure as a share of total health expenditure
  - Research findings show that Non communicable diseases/chronic illness can cause large out-of-pocket payments (more than double) relative to other type of diseases
  - Bangladesh has higher mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease compared to developing regions

Mortality rate attributed to cardiovascular disease, cancer, diabetes or chronic respiratory disease (probability)



- ***Facilitate budgetary measures to ensure Universal Health Coverage (UHC)***
  - HIES 2016 data suggests that only 14.4% of population seeks healthcare services from government hospitals
  - Household spends around 4.5% of their expenditure in medical expenses in 2016 which was 3.8% in 2016

Health: Key Projects

- **The key programme in health sector is the 4th HPNSP**
  - On a welcome note, at least seven out of the nine 'not-aligned' targets of SDG 3 are found to be aligned with different operation plans of the 4th Health, Population and Nutrition Sector Programme (4th HPNSP) 2017-2022
  - We have identified at least three projects/operational plans relevant to address the priority issues
  - However, apart from PFD, the implementation of the remaining two project were below average during Jul-Feb FY19 period
  - All three projects faced significant cuts in their allocation in the RADP for FY19
  - This finding is consistent with the earlier finding that priority projects are not getting adequate allocation as well as lacks implementation pace

Title of Project	Project Cost (Crore Tk.)	Implementation Jul-Feb FY19
To address NCD		
Non-Communicable Diseases (NCD)	1,118	20.1
To ensure UHC		
Human Resources Development (HRD)	63	4.0
Physical Facilities Development (PFD)	11,676	65.0

Social Protection: Allocation

- In FY19, the social safety net budget was 2.5% of the GDP, which exceeded the target of 2.3% of GDP outlined in the 7FYP.
  - A close scrutiny of the allocation for social safety net programmes indicates that, in FY19, 35% of the budget for social security was allocated for pension of government officials.
  - In fact, the social safety net budget excluding pension for public sector declined, from 2.1% of GDP in FY11 to 1.6% of GDP in FY19

	FY 10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	7FYP (T) FY19
SSNP budget as % of GDP	2.5	2.5	2.5	2.2	2.1	2.3	2.2	2.3	2.4	2.5	2.3
SSNP budget as % of GDP, excluding pension	2.0	2.0	2.0	1.8	1.6	1.7	1.5	1.4	1.4	1.6	

Social Protection: Priority Issues

❑ *Put special effort to implement the NSSS*

As may be observed from earlier trends, budgetary targets both with regard to allocation and coverage did not consider the proposals set out in the NSSS

	Budget allocation Vs. NSSS targets							MTBF vs NSSS		
	2016-17		2017-18		2018-19			2019-2020		
	Budget	NSSS	Budget	NSSS	Budget	NSSS	Diff	MTBF	NSSS	Diff.
Old Age Allowance	1,890	3,530	2,100	3,740	2,400	3,960	1,560	2,700	4,200	1,500
Child School (Primary and Secondary) Stipend	1,640	6,830	464	7,240	1,750	7,670	5,920	2,053	8,140	6,087
Allowances for the Widowed, Deserted and Destitute Women	690	2,040	759	2,160	840	2,290	1,450	853	2,420	1,567
Programmes for people with disabilities	540	1,910	693	2,020	840	2,140	1,300	900	2,270	1,370

Coverage	Budget vs. NSSS (in Lakh)		Budget (in Lakh)	MTBF (in Lakh)	
	2017-18		2018-19	2019-20	2020-21
	Budget	NSSS	Budget	MTBF	MTBF
Old Age Allowance	35.0	55.0	40.0	45.0	50.0
Child School (Primary and Secondary) Stipend	37.5	179.0	152.3	No data	
Allowances for the Widowed, Deserted and Destitute Women	12.7	32.0	14.0	15.5	17.0
Programmes for people with disabilities	8.2	10.0	10.0	11.0	12.0

Social Protection: Efficiency and Utilisation

- ***Enhance the efficiency of delivering the SSNPs***

Targeted project selection and establishment of a digital database

- Projects are not selected based on poverty pockets and local demands. For example, Rangpur accommodates the highest proportion of poor people of Bangladesh
- Phulchari, an upazila under Gaibandha district of Rangpur division hosts the highest number of poor while has the lowest number of registered labourers under the Employment Generation Program for the Poorest (EGPP) project
- Loopholes can be observed in the beneficiary selection due to a lack of disaggregated database
- Government officials also face the challenge with regard to projecting the budgetary allocation and actual number of selected beneficiaries as against the qualified beneficiaries

Concluding Remarks

Concluding Remarks

- A credible programme and all out effort will be required for accelerating revenue mobilisation in FY20 including implementing planned reform, reaching out for expanding tax base and new areas for revenue, enhancing administrative capacity, rationalising fiscal incentives and curbing tax evasion
  - An action plan for mobilising revenue in FY20 should be attached with the forthcoming budget
- Restoring efficacy of public expenditure should be an utmost priority
  - A public expenditure reform agenda is required for addressing issues such as overcapitalisation, cost and time overrun, and excessive expenditure in last quarter of the year, etc.
- Fiscal incentives, both in the forms of tax exemptions and cash incentives, need to be revisited based on evidence
  - The forthcoming budget must be transparent by reporting the figures of revenue forgone in view of various tax incentives

Concluding Remarks

- There is an urgent need for rationalising the interest rates of NSD certificates as well as fixing the limit of purchase by restricting the highest amount of purchase for all types of certificates
    - The newly-introduced digital database should be properly utilised to curb misuse of this facility
- Value of BDT needs to be rationalised through gradual depreciation which will ensure that new cash incentives are not required for exporters and remitters
    - The prevailing low inflation can support such macroeconomic adjustments
- An Independent Commission for Banking Sector should be constituted without further delay
    - In view of aggravating liquidity crisis, pressure on interest rate may be relaxed to enhance deposits
- Fiscal incentive-based measures will not work for capital market
    - Commitment and competence of SEC is a prerequisite for strengthening the reform agenda

Concluding Remarks

- An out-of-box thinking towards reformulating incentive package for rice farmers is called for, which should include incentives for modernisation and mechanisation of rice farming in order to enhance productivity and export of agricultural products
  - The government should come up with a one-time incentive for rice farmers (agriculture cardholders) to the tune of Tk. 5,000 each, which can be directly transferred to farmers' bank accounts – a budgetary allocation of around Tk. 9,100 crore may be required for this
- SoEs need a rigorous reforms with a view to ensure rightsize and modernisation of the enterprises
  - High-level expert committees need to be formed for institutional audits of SoEs, particularly which have been loss-making for past several years
- The government must realise its commitments mentioned in election manifesto, 7FYP and sectoral policies as regards providing allocations for education, health and social protection
  - Emphasis is required in the priority areas, such as education quality, TVET, access to education in disadvantaged areas, preventing NCDs, and ensuring UHC etc. in the spirit of 'leave no one behind'

Thank You

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