



বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

# CPD's Recommendations for the National Budget FY2020-21

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

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

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

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# Section I. Introduction

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

- ❑ While it is well-known that nation-wide '**public holiday**' (**lockdown**) **has immense cost**, both economic and humanitarian, the **government's decision to go for it was the right one** in view of containing the spread of the pandemic.
- ❑ Given the state of health infrastructure and health-related human and other capacities, and prevailing state of behavioural practices, precautionary steps must be given priority.
- ❑ According to indications from global trends and as opined by large section of health experts **Bangladesh is yet to cross the peak phase** of the spread of the COVID-19 pandemic.
- ❑ In view of this, **opening up of economic activities**, other than agriculture and food chain related activities (production, wholesale and retail) **could result in further spread** of the virus at a critical phase of the pandemic.

- ❑ Expert opinions must be given due importance in this regard.
- ❑ Government's **decision to revive the economy must be informed by health safety priorities.**
- ❑ Accordingly, as experts are suggesting, **opening of economic activities should be synchronised with the trajectory of the pandemic**, and mitigation to ameliorate the sufferings of the people designed.
- ❑ **International experiences of developing countries do not support** opening of economic activities beyond the essential sectors during the peaking phase when there is high risk of contamination; while **recent guidelines by the WHO** also takes a **cautionary perspective**
- ❑ Government's fiscal compulsions – **lack of adequate resources to underwrite the attendant economic costs of lockdown – should not be the overriding consideration** in the context of opening up of the economy.
- ❑ **Resources will need to be found by creating fiscal space.**



- ❑ Secondly, before opening up, **examine both implementation and capacity of the concerned entities** (factories, offices or shopping malls) and capacities of relevant government agencies **to enforce compliance.**
- ❑ It has been seen that even when RMG entrepreneurs had set their own safety measures, they were not able to comply and enforce those.
- ❑ The same is apprehended in case of shopping malls.
- ❑ Any decision as regards, opening of the economy ought to be taken in a planned manner, taking into cognisance of lower risk in terms of activities and in consideration of spatial dimension (e.g. zoning as has been the case in some countries), by undertaking a thorough audit of compliance and backed by adequate enforcement measures.
- ❑ If the government is able to extend adequate relief/cash support to the people in need, it will be able to withstand the pressure to open up the economy prematurely.

- ❑ To tackle the impact of COVID-19, the government has undertaken a number of steps to ensure health safety and address adverse impacts on the economy.
- ❑ Health measures include emergency allocation of resources for the the Ministry of Health and Family Welfare and as incentives and insurance coverage for healthcare workers.
- ❑ Besides, the government has announced general holidays since 26th March 2020 to check the spread of the pandemic, by maintaining social distancing.
- ❑ The resultant lockdown meant that most offices and businesses are closed and most economic activities have grounded to a halt.
- ❑ **Production and supply chains are disrupted, income opportunities are lost, and poverty situation has worsened, with new poor population joining the ranks of the old ones.**

- ❑ All these adverse implications will have both immediate-short term and medium terms impacts on the economy which will need to be **tackled through immediate policy response and by keeping the needs of the recovery phase in consideration.**
- ❑ To mitigate the losses incurred by individuals, enterprises and entrepreneurs, the government had to go for large unforeseen expenditures.
- ❑ These include stimulus packages for export-oriented and domestic market-oriented enterprises and the agriculture sector, mostly in the form of subsidised credit and expansion of safety net programmes for the vulnerable groups.
- ❑ The **government has also undertaken expansionary monetary policy measures** to create liquidity for commercial banks to disburse these supports to the affected sectors - however, there is a demand for more support, particularly for the poor and low-income groups to ensure food security.

- ❑ Understandably, the Ministry of Finance **(MoF) will have to work hard in order to generate the additional resources** required for higher government spending to energise and reinvigorate COVID-induced depressed economic activities in FY2021.
- ❑ At the same time, these **expenditures will have to be made in a manner that it creates employment opportunities** and generates without increasing inflationary pressure in the economy.
- ❑ In the run up to the preparation of the budget for FY2021, the MoF will have to take a realistic assessment of key macroeconomic performance parameters in FY2020.
- ❑ This will allow the MoF to establish reliable benchmarks with a view to design feasible objectives and pragmatic approach, macro and sectoral proposals for the needed resource generation, and to ensure efficacy in implementation in view of the upcoming FY2021 budget.

## **Section II. Macroeconomic policy stance for FY2020-21 budget**

## □ **Brief overview of the economy**

- Challenges facing the Bangladesh domestic economy prior to the pandemic including those concerning the financial sector and those originating from the global headwinds have now been further aggravated by the adverse impacts emanating from the outbreak of the novel coronavirus (COVID-19) pandemic
- Excepting remittance, all major performance indicators were south-bound, resulting in weakening of the balance of payments position, subdued domestic resource mobilisation and low utilisation of allocated development expenditure

## □ **Brief overview of the economy**

- With export earnings decreasing by 18 per cent in March, and remittance flows falling by 32 per cent in April, and the adverse implications of the ongoing lockdown, the signs as regards economic performance for the fourth quarter of FY2020 are truly ominous
- Although the Ministry of Finance (MoF) had earlier set the target of an 8.2 per cent growth of the Gross Domestic Product (GDP) for FY2020, the projections will need to be revised downward significantly
- Various international organisations including the World Bank (WB) and the International Monetary Fund (IMF) have projected a highly reduced growth of between 2-3 per cent for Bangladesh in FY2020

## □ The emerging scenario in the backdrop of COVID-19

- **Uncertainties in the global economy in view of COVID-19 and consequent repercussions for the Bangladesh economy are already creating added pressure on the economy both from the demand side and from the supply side. This in turn will have adverse implications for revenue mobilisation during the remainder of FY2020 as also beyond**
- This will originate from lower collection of revenue from customs duties (CD), value added tax (VAT) and supplementary duties (SD) at the import stage due to downturn in trade, particularly based on import payments (on account of both price effect and quantity effect)
- Closing down of enterprises, job losses and income reduction will lead to lower income tax collection, both corporate and personal
- Adversely affected private and multinational companies incurring revenue losses will be likely to pay lower corporate tax



## □ The emerging scenario in the backdrop of COVID-19

- On the other hand, the government is also having to incur large amount of unforeseen immediate expenditures. These include expenditure for medical accessories and equipments, stimulus packages for enterprises and expansion of safety net programmes for the vulnerable groups
- Taking cognisance of economic trends, prior to when COVID-19 hit the economy, CPD had projected that, the total revenue shortfall in FY2020 could be over 100 thousand crore. These estimations were based on available data from the MoF. Now, the adverse consequences of COVID-19 will need to be added on to this. Consequently, the fiscal deficit as percentage of GDP will be significantly higher than the target figure of 5.0 per cent
- **In this context, CPD feels that in view of the current trends in revenue collection and public expenditure, budget deficit may increase to 5.5 per cent of the GDP in FY2020. Depending on the extent of COVID-19 and associated costs and policy measures, this may rise further**

## □ Macroeconomic stance in view of COVID-19

- Higher demand for cash incentives in the wake of COVID-19 may put additional fiscal pressure on the exchequer
- In view of the emergent scenario, **CPD feels that budget for FY2021 will need to be informed by an expansionary macroeconomic stance to underwrite the needed additional public spending and infusion of adequate liquidity in the economy**
- Pursuing such an approach will likely increase fiscal deficit in the FY2021 budget
- However, in view of the emerging scenario such a stance is conceivably the right one. The MoF will however, need to design deficit financing in a prudent way so that loanable funds for the private sector are not crowded out and inflationary pressure is not created in the economy
- CPD thinks that greater recourse to higher foreign aid to underwrite the fiscal deficit is the pragmatic way forward in this backdrop

## □ **Macroeconomic stance in view of COVID-19**

- In doing so, the budget will need to keep in the perspective, both the short term, by addressing tasks of health risk mitigation and ensuring food security through expanded safety nets, and the recovery phase, by helping the entrepreneurs, enterprises, businesses and commerce, to help these get on their feet
- To address the health emergencies, help mitigate the risks and shocks originating from COVID-19, stimulate domestic demand at a time of reduced income and livelihood opportunities and to strengthen supply side response, the government will need to pursue an expansionary fiscal policy and go for expanded public expenditure in view of the budget for FY2021
- The shock absorption capacity of Bangladesh economy will critically hinge on efficacy of how this is done to stimulate demand, generate supply response and create employment opportunities

## □ Macroeconomic stance in view of COVID-19

- **Increased budget deficit should be managed through prudent reallocation and prioritisation of public expenditure**
- **The COVID-19 situation emphasises the need for higher allocations for the health sector**
- Sadly, the share of health budget is at present equivalent to only 0.9 per cent of GDP of Bangladesh. This is even lower than the target of 1.12 per cent of GDP set out in Bangladesh's 7FYP
- Since the expansionary fiscal public expenditure stance will need to be pursued at a time of weakened fiscal-budgetary scenario and shrinking fiscal space, there must be renewed efforts towards both better mobilisation of resources through energetic and strengthened steps to curtail tax avoidance and enforce anti-illicit financial flow laws and regulations, and by raising efficacy of public expenditure

## □ **Macroeconomic stance in view of COVID-19**

- Greater effort will be needed to mobilise foreign aid, taking advantage of G-20 decision to support low income economies, and putting stress on getting aid in the form of budgetary support
- Implementation of ongoing fiscal and administrative reforms should also not be lost sight of in this backdrop
- These aspects must be reflected in the budgetary proposals for FY2021 and their implementation
- The fiscal space to be created due to higher budget deficit should be used efficiently and with inclusivity, so that concerns of rising inequality are not further accentuated in view of COVID-19 response in FY2021 budget

## **Section III. Revenue mobilisation**

- ❑ The fiscal framework for FY2021 will need to break free from the traditional mould given the magnitude and impact of the ongoing COVID-19 pandemic and its short-term impacts and medium-term footprints
- ❑ Adverse impacts of domestic and export-oriented activities and likely slow recovery will make resource mobilisation particularly challenging in FY2021
- ❑ On the other hand, there will be pressure on the Ministry of Finance to provide additional incentives (in terms of both fiscal measures and budgetary allocations) from perhaps across all sectors and segments of the economy
- ❑ The Ministry should pursue fiscal policy in a judicious manner considering the overall welfare of the economy

- Taking this into consideration, the revenue mobilisation strategy for the FY2021 budget should be pursued by taking the following four approaches:
  - i) setting the revenue mobilisation targets in a prudent and realistic manner;
  - ii) designing the tax measures considering both the risk and vulnerability mitigation urgency and the subsequent economic recovery in tandem with revisiting current fiscal incentives;
  - iii) strengthening of monitoring and enforcement mechanisms and
  - iv) prioritising implementation of medium-term reform plans.



□ In view of this, CPD is putting forward following recommendations for consideration while formulating the budget for FY2021:

a) Keeping food prices low to ensure food security of low-income people should be seen as a strategic objective. Budget proposals for NBR in FY2021 should be guided by this. **Reduction of import related tariffs (such as AIT and VAT) on essential food items such as onion, lentil, garlic, ginger and soybean oil etc. should be considered on a dynamic of basis based on the evolving market scenario in terms of price, projections about production and the demand scenario**

b) **In the FY2021 budget, NBR should consider raising the tax-free income threshold levels from Tk.250,000 to Tk.350,000. Besides, it may also consider restructuring the first three slabs of income tax from 10, 15, and 20 per cent to 5, 10, and 15 per cent respectively, at least for next two years.** NBR may consider allowing payment of individual income taxes for FY2020, by instalments, by March 2021

- c) **NBR must be restrained from all ad-hoc provisions of tax incentives. NBR needs to be selective and careful in the next fiscal year as more demand for incentives will be lined up in the wake of COVID-19.** Proper cost-benefit analysis must be conducted before coming up with new provisions. Also, some of the existing provisions should be reviewed and discontinued if deemed as having low priority. The objective of the tax incentives should be to directly support particularly the marginalised group. **Fiscal incentives provided should take cognisance of other measures in support of particular groups/sectors. For example, corporate tax rate should be unchanged in view of the fact that a number of measures have already been taken in support of large entrepreneurs**
- d) CPD would like to reiterate its earlier proposals urging the NBR to initiate wealth and property taxes in Bangladesh. Also, an inheritance tax, informed by global best practices, may be introduced. Besides helping to mobilise additional revenue, such initiatives will also provide an opportunity to build a more equitable society

e) **All types of tax evasions and illicit financial flows (IFF) will need to be curbed with a strong hand.** As is known, Bangladesh loses a sizable amount of resources as a consequence of IFF. Coordinated efforts by several policy actors will be required to implement the National Strategy for Prevention of Money Laundering and Combating Financing of Terrorism (NSPMLCFT) 2019-21 in all areas related to tax evasion and IFF. These include Anti-Corruption Commission, Criminal Investigation Department of Bangladesh Police, Department of Narcotics Control, Bangladesh Financial Intelligence Unit (BFIU) of the Bangladesh Bank, and Customs Intelligence and Investigation Directorate (CIID), Central Intelligence Cell, VAT Audit and the Intelligence and Investigation Directorate of the NBR. Transfer Pricing Cell (TPC) of the NBR should work closely with BFIU and CIID to curb trade-based money laundering. The TPC should be strengthened with adequate human resources and forensic investigation capacities

f) **The planned procurement and installation of EFD and SDC devices by NBR must be accelerated in order to ensure effective implementation of the new VAT law and to augment additional revenue at a time of resource constraint.** At the same time, unfinished components of the VAT online project must be completed in a comprehensive and timely manner so that a hassle-free submission of VAT returns can be ensured

g) The **existing black money whitening facility** through voluntary disclosure of undisclosed income discourages honest taxpayers while tax evaders are encouraged. This provision **should not be continued** from the next fiscal year. There may be increased pressure for this on the ground of mobilising additional money in the backdrop of likely difficulties in resource generation in FY2021. As is well known, this measure has failed to register any notable response in the past

h) Since automation is an integral part of the new VAT regime, NBR should eliminate all hurdles with regard to registration and getting BINs, updating information, installation of devices and submission of returns. It should also clarify ambiguities concerning the VAT law including central registration system, exemption and registration threshold, definitional complexities as regards businesses and stakeholders in line with Public Financial Management (PFM) Action Plan 2018-23

- i) NBR should, at the earliest, launch a comprehensive on-line payment system for VAT, income tax and customs together with an interface with iBAS++ and ensure harmonisation and taxpayer data sharing across various wings of the NBR, as has been envisaged in the PFM Action Plan 2018-23
- j) Broader use of technology may bring forth some uptick in revenue mobilisation efficiency. CPD urges NBR to introduce an e-TDS system to this end. Such a system will enable NBR to issue tax certificates against an e-TIN linked to the 'tax-deducted-at-source (TDS)' collection system. This will make evasion of TDS difficult
- k) For the upcoming FY2021 budget, a viable completion timeline should be chalked out for implementing the reforms which are already under consideration (e.g. Customs Act and Direct Tax Act), so that results could be generated at the earliest at a time when this is most needed

## **Section IV. Deficit financing**

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

a) **It is critically important to give heightened attention to seek and utilise new funding opportunities available from external sources, particularly those from multilateral and bilateral sources, must be mobilised to combat the COVID-19 pandemic.**

The government has already approached a number of development partners in this regard. Such efforts should be intensified and every available opportunity should be exploited. **To this end, Bangladesh should actively seek budgetary support from potential external sources as such funds can allow more flexibility in terms of spending**

**b) Bangladesh should take advantage of the decision of the G-20 as regards providing low income countries funds at low interest to combat COVID-19 pandemic. There may also be opportunities for suspension of debt service payments and debt cancellation not only from traditional OECD development partners but also from Southern countries which are members of G-20. These should be proactively explored and pursued**

c) Sale of NSD certificates has already come down by a substantial degree. Given the downturn in economic activities, credit demanded by the private sector is expected to remain low. Hence, the government may opt for borrowing from commercial banks to finance the increased deficits considering availability of liquidity in the banking sector



d) The current regulations pertaining to NSD certificates (e.g. purchasing limit, requirement of e-TIN and NID while purchasing, interest rate etc.) should be kept unchanged, and properly enforced

e) Mobilisation of idle funds lying with state owned entities could be accelerated to finance the increased deficit in view of the added expenditure required to tackle the ongoing pandemic. For example, **windfall gains of the Bangladesh Petroleum Corporation (BPC) in the backdrop of lower oil prices should be channelled towards resource mobilisation in view of FY2021 budget**

# Section V. Public Expenditure

- ❑ The government is set to propose a fiscal budget of about Tk. 560 thousand crore in FY2021 which is higher than the original budget of FY2020 and the revised budget of FY2020 by about 7.0 per cent and 11.3 per cent respectively
- ❑ It is pertinent to have some idea about the benchmark situation based on latest available data to provide plausible recommendations to the government to pursue its development, non-development and sectoral allocative priorities in view of immediate and short-term recovery in the context of COVID-19
- ❑ According to the MoF, actual expenditure under non-development head during July–February of FY2020 was 44.3 per cent of the originally planned allocation (48.3 per cent in FY2019). It was characterised by a growth of 42.0 per cent in subsidies. For FY2020, the government set aside Tk. 2,825 crore and Tk. 3,060 crore as subsidies to provide 1 per cent cash incentive for RMGs export and 2 per cent cash incentive for remittance senders, respectively

- ❑ However, this will not be exhausted fully following the decline in RMG export earnings and remittance inflows in view of the COVID-19 pandemic
- ❑ Accordingly, the government should be able to save about Tk. 1,300 crore, after April 2020, from its earmarked subsidy amount for the aforementioned sectors
- ❑ Further, falling oil prices in the international market in the aftermath of COVID-19 and the oil-war between Saudi Arab and Russia have provided an opportunity to the Bangladesh Petroleum Corporation (BPC) to make significant profits, which was likely to provide some fiscal cushion to the government

- According to the IMED data for the first eight months (July–February), actual spending under ADP was 38.5 per cent (30.9 per cent as per MoF data) of the originally planned allocation of Tk. 202,721 crore (38.8 per cent in FY2019). Lower utilisation (35.5 per cent) of foreign aid (lower than both FY2018 and FY2019 for the corresponding period) led the reduction of ADP by Tk. 9,800 crore (or 4.8 per cent), downsizing the ADP to Tk. 192,921 crore in the RADP for FY2020
- Government has already identified 330 projects as less priority ones from which it expects to save about Tk. 10 thousand crore to be spent in priority sectors. This will lead to further reduction of RADP for FY2020

- ❑ Pursuing an expansionary fiscal approach is aligned with government's four declared strategies which were to be pursued over the next three fiscal years. This approach is critical for boosting domestic demand and providing food security and to ensure livelihood for the marginalised citizens
- ❑ To this end, MoF should pursue the followings:
  - **Non-development expenditure**
    - a) **To reduce public expenditure pressure, the government needs to identify non-development expenditure which may be deferred. Some of these are expenditures on foreign travel, acquisition of assets, investment in shares and equities, recapitalisation of state-owned enterprises. These should be deprioritised**

➤ **Non-development expenditure (continued)**

- b) Expected fiscal cushion emanating from non-utilisation of cash incentives for RMGs and remittances following the declining trend in the RMG export growth and the expected significant decline in remittance flows over the coming months due to COVID-19 may be channelled as ‘minimum income support’ for the returnee migrants and the RMG workers [if needed in addition to the government announced support for working capital (wages) provided under the credit line]**
- **c) Expected savings from lower oil prices at the global level need to be channelled to selected sectors particularly health, agriculture and SSNPs**

## □ Development expenditure

- a) **The ADP for FY2021 should be designed with due caution to ensure that required allocative priorities are followed and inclusivity is maintained in view to responding to the ongoing COVID-19 pandemic (e.g. adequate and priority allocation for health, agriculture, social protection and, labour and employment sectors).** Additionally, efficient utilisation of the allocated funds needs to be ensured so that no major revisions are required towards the end of the fiscal year
- b) MoF **should identify which projects** need additional funds for completion in FY2021 that are critical to support the causes of health and economic emergencies. This additional allocation needs to be made available from other projects where activities could be deferred without incurring high costs and debt burden.



## ➤ **Development expenditure (continued)**

Identification of such projects could be based on a number of criteria including:

**(i) projects which do not involve commitment of foreign aid (only 19% project in FY2020 had project aid) and those whose completion rate was less than 30 per cent in financial terms in FY2020;**

(ii) projects in case of which targeted project aid may be disbursed at a lesser amount against the disbursement schedule;

(iii) projects where economic costs for delayed implementation could be accommodated (compensated) through economic gains of some other priority projects.

c) Inclusion of projects with 'symbolic' allocations (for example, Tk. 1 lakh to 1 crore) should be avoided in the ADP for FY2021 considering the requirement of funds for priority projects. For example, there were a total of 100 projects in ADP for FY2020 which received allocation of less than or equal to Tk. 1 crore

# **Sector-specific proposals for FY2020-21 budget**

## Social Safety Net

- ❑ The national budget for FY2021 should give special focus on social safety net programmes (SSNPs) and related activities in view of COVID-19
- ❑ According to the ILO world social protection report 2017-19, about 66 per cent of the elderly population, 70.6 per cent of children, 79.1 per cent of women with new-borns and 81.5 per cent of people with disabilities in Bangladesh were not covered under any social protection benefit. The COVID-19 pandemic is likely to worsen the situation of the above-mentioned vulnerable groups, reinforcing the need for additional public investment in the SSNPs. In this connection, government's strategy to expand SSNPs as one of the four strategic priorities for the next three fiscal years needs to be proactively pursued
- ❑ In view of COVID-19, the GoB has taken a number of steps within its existing SSNP framework which includes relief (both in cash and in kind), assistance under the “ghore fera” programme, open market sales in selective areas and others

## Social Safety Net

- ❑ The current approach to deal with COVID-19 by the government has a number of inadequacies, some of which are:
  - (i) possibility of lack of reflection of the spatial dimensions of the demand for assistance/security (e.g. geographically backward regions) under the existing 'supply-driven' approach;
  - (ii) leaving a significant share of urban and peri-urban vulnerable groups because of the primarily rural-focused approach of existing programmes;
  - (iii) inadequate amount of assistance provided to the targeted beneficiaries;
  - (iv) lack of coverage of sections of the population who are deserving but gets excluded; and
  - (v) problems of 'inclusion' and 'exclusion' bias in selection (of beneficiaries) process.
- ❑ These deficits and gaps will need to be addressed in the redesigned SSNPs in view of the FY2021 budget.

## Social Safety Net

### ❑ Recommendations:

- a) **SSNP budget excluding pension has been increased. However, it is much lower than the FY2020 target of 2.3 per cent of the GDP outlined in the 7FYP. The government should allocate at least 3 per cent of the GDP for SSNPs as outlined in the National Social Security Strategy (NSSS).**
- b) **CPD has proposed a total of 1 crore 70 lakh (under lower case scenario) and 1 crore 90 lakh (under upper case scenario) low-income households should be provided with Tk. 8,000 per month for two months. These will cover a total of 6.84 crore and 7.57 crore citizens respectively. Total financial requirement for the proposed cash transfer programme is estimated to be Tk 26,962 crore (about 0.9 per cent of GDP) under the lower case scenario and Tk 29,852 crore (about 1.0 per cent of GDP) under the higher case scenario. The proposed programme will not be a replacement of the ongoing general SSNPs but will be a time-bound additional support measure in view of adverse pandemic impacts**

## Social Safety Net

### ❑ Recommendations (continued):

**c) The government is preparing a list of beneficiaries to be covered under the support programme for 50 lakh households. This listing should put emphasis on urban and peri-urban vulnerable groups along with those of rural ones. It is important to ensure that transparency is maintained in implementation and that preparation of lists and distribution of cash and kind support is free from political influence. Government should take support of NGOs and local level social organisations in identifying, selecting and distributing the support, and to address ‘inclusion’ and ‘exclusion’ bias in selection process**

d) Since it is the final year of the NSSS and the government lags far behind (both in terms of allocation and coverage) as regards implementation of the targeted life-cycle based programmes, it should take this opportunity to revisit the strategy and make necessary revisions

## Social Safety Net

### □ Recommendations (continued):

e) The government, following its earlier commitment, should consider introducing the Universal Pension Scheme with the help of a limited scale pilot project. It would also allow the government to redesign the non-contributory old age allowance programme and provide beneficiaries the much-needed support to cope with COVID-19 induced health and economic vulnerabilities, in the immediate and also in the recovery phases. CPD estimate suggests that the government would require an allocation equivalent to 0.19 per cent to 0.85 per cent of the GDP based on different scenarios. FY2021 budget will be a good opportunity to start the initial work in view of the government's commitment

## Health Sector

- ❑ The health sector should get priority in the national budget for FY2021 for obvious reasons. The scale of the pandemic has proved that there is no way to contain the spread of COVID-19 without the necessary investment in the health sector
- ❑ Unfortunately, the health sector in Bangladesh has always been neglected. Apart from the lack of infrastructure and equipment, healthcare facilities in Bangladesh are also not staffed with adequate numbers of healthcare service-providers
- ❑ As of 2018, there was only one registered physician for every 1,581 individuals in the country. The level of awareness about healthcare among the general population was also found to be very low in Bangladesh. The health sector of Bangladesh has been plagued by many longstanding problems, such as low budget allocation for health, high out-of-pocket healthcare expenditure and poor utilisation of health budget



## Health Sector

- ❑ The allocation for health as share of total budget has also fallen (from 5.1 per cent in budget of FY2019 to 4.9 per cent in the budget of FY2020). Since 2017, the share of health budget as percentage of GDP has remained stagnant at about 0.9 per cent. According to the World Bank data for 2017, out-of-pocket expenditure on healthcare in Bangladesh was the second highest in South Asia after Afghanistan
- ❑ Since the outbreak of COVID-19, the government has undertaken a number of budgetary measures targeting the health sector, health professionals and health-care service providers
- ❑ A total of Tk. 250 crore has been allocated to the ministry of health to procure coronavirus test kits, equipment and personal protective equipments
- ❑ Government has announced an incentive package for health professionals for their active engagement in dealing with corona patients

## Health Sector

- ❑ Apart from this, the government has announced health insurance ranging from Tk. 5 lakh to Tk. 10 lakh for the physicians and others dealing with corona patients and related facilities
- ❑ Government has recruited 2000 doctors and 6000 nurses on an emergency basis to deal with corona patients
- ❑ **However, investment in the health sector ought to balance the expenditure for short-term emergencies for coronavirus and the long term needs of the health sector**
- ❑ Thus, the additional allocation for the health sector in FY2021 should not be a 'one-time' one, rather should continue in the coming years in order to address the longstanding demands of the health sector

## Health Sector

□ The government should take into consideration of following issues related to the health sector in preparing budget for FY2021:

**a) Enhanced budgetary allocation for the health sector, particularly for:**

**i) production and distribution of medicine;**

**ii) improvement of health services;**

**iii) availability of medical instruments and support to health professionals. In this connection, annual allocation for a number of specific projects in the ADP need to be increased. These relate to allocation for projects on communicable disease control (CDC), non-communicable disease control, community-based health care system development and nursing and midwifery education facilities**

## Health Sector

**b) Necessary fund should be allocated for establishment of emergency facilities and procurement of health-related equipments and facilities. In this context, terms and conditions for procurement of emergency health related equipment may be made flexible and may be exempted from the taxes**

c) The MoF may consider a reduced rate of corporate taxes against the earnings of certain categories of taxpayers during fourth quarter (April-June) of the FY2020 and first quarter (July-September) of FY2021. These could include pharmaceutical companies, hospitals, clinics, and other health facilities which are involved in the production of medicines and in prevention, diagnosis, control, attention, and treatment. Besides, it may also consider introduction of tax credits for amounts paid by businesses to sanitize work premises

## Health Sector

**d) Doctors, nurses, and other support staffs working in private hospitals/clinics with corona patients and related matters may be incentivised through offer of special financial package through reduced rate of taxes on their income (in private entities) for first half of FY2021. Hospitals, clinics, diagnostics, and laboratory involved in corona related treatment and research should get a waiver as regards advance income taxes for the period of first quarter of FY2021. As may be recalled, the GoB has already given some incentives to public sector health workers**

e) Grants or donations in cash for the prevention, diagnosis, control, attention, and treatment of the COVID-19 in favour of authorized public and private hospitals and clinics, should not be considered taxable for FY2021

## Agriculture Sector

- ❑ The agriculture sector should get special priority in the national budget for FY2021
- ❑ **The economic adversity caused by COVID-19 has reemphasized the importance of food security through food production, and also the need for increased public food stock holding**
- ❑ FY2021 will be a crucial period from the perspective of ensuring food security both in COVID and post-COVID periods
- ❑ The Agriculture sector would be one of the vital sectors for providing a cushion for the 'new poor' emerging from the COVID-19 pandemic
- ❑ A vibrant agriculture sector will also support the cause of creating additional employment opportunities for people who are likely to lose jobs and livelihood opportunities in urban and peri-urban informal sectors and for migrant workers who have been forced to return home

## Agriculture Sector

□ Keeping in view the four strategies set by the government for implementing national budgets over the next three years, following steps should inform the design of FY2021 budget:

a) Budget allocation for agriculture sector has been declining over the years – from 4.48 per cent of total budget in FY2016 to 2.69 per cent in FY2020.

**Given the demand for additional funds, particularly for implementing important priority projects associated with providing food security and creating employment opportunities, the allocation for the agriculture sector needs to be raised at least 3 per cent of total budget in FY2021**

## **Agriculture Sector**

b) The additional budget should be used to fast track some of the ongoing projects in the agriculture sector with a view to complete those in FY2021. These include, among others, construction of new food warehouses with a capacity of 1.05 lakh m. tons; repairing old food warehouses; production of lentil and oilseeds for strengthening food security; production and distribution of certified seeds to farmers and provision of relevant trainings; strengthening flower supply chain by developing market infrastructure, storage and transport facilities; livestock and dairy development; breed upgrading of livestock through progeny test; beef fattening through modern technologies; extension of technology support at union levels for fish production; establishment of brood bank; renovation of water bodies for enhancing fish production and enhancing production of black bengal goat and others



## Agriculture Sector

c) Agriculture sector needs to ensure proper utilization of subsidy during FY2021. Despite an allocation of Tk.9000 crore over the last three years, a significant part of the allocated amount remained unutilized. For example, Tk. 2,570 crore, Tk. 5,390 crore and Tk. 3,800 crore remained unutilised in FY2016, FY2017 and FY2018 respectively. Similarly, allocation for food subsidy needs to be increased from Tk. 3570 crore in FY2020 in order accommodate the additional expenditure for food support required to cover the additional households planned for coverage under the SSNPs. Listing of targeted beneficiaries and distribution of food to those should be transparent and free from political influence and interference

## Agriculture Sector

d) **Government needs to allocate about Tk. 6,373 crore in the FY2021 for the procurement of rice, paddy and wheat during boro season. Besides, more funds will be needed for procurement during the following aus season.** Hence necessary financial resources should be earmarked in the national budget for FY2021 taking into consideration the overriding needs of maintainig food security during the pandemic period and afterwards. It is to be noted that the government has decided to procure 8 lakh m. ton of paddy (at Tk. 26 per kg) and 11.5 lakh m. ton of rice (at Tk. 36 per kg) and 75 thousand m. ton of wheat (at Tk. 28 per kg) for FY2021

e) Given the limited success in procurement of paddy in earlier years (less than 10 per cent of the targeted amount of paddy had been procured), government should give priority to procurement of paddy as it directly benefits the farmers. Farmers' list which is prepared for procurement of rice should be publicly disclosed and procurement should be done in open places such as in local haats and bazars

## Agriculture Sector

f) The stimulus package for the agriculture sector and agro-based industries (Tk. 5000 crore credit line at the subsidised interest rate of 4.0 per cent) should give priority to those farmers who were most-affected such as vegetable farmers, poultry and chicken and egg producing SMEs. Local level agriculture and livestock offices should send a list of affected farmers to their concerned Ministries for necessary action

g) The Ministry of Finance may consider a number of fiscal measures for the affected agro-based industries which could include waiver of VAT at the domestic stage for the period March-June, 2020, deferred payment of quarterly advance income taxes till June, 2020 and payment of corporate taxes for FY2020 by instalments till March, 2021. These waivers could be continued in the FY2021 budget. Besides, companies which are incurring losses during FY2020 may be allowed to 'carry back losses' against the taxable profits for the two previous years: FY2018 and FY2019.

## Agriculture Sector

h) In view of urban to rural migration and lower number of workers going abroad for overseas jobs, it is likely that there will be increased pressure on the rural labour market. The Ministry of Finance may consider following a 'go slow' policy as regards incentivising labour-displacing mechanisation. Further reduction of duties at import stage for agricultural machineries (TTI: 12.4-27.5 per cent) should be stalled, preferably till FY2022. Similarly, disbursement of credit at subsidised rate to farmers for agricultural mechanisation should be slowed down during the FY2021 period

## Small and Medium Enterprises (SMEs)

- ❑ Domestic small and medium enterprises (SMEs) were particularly hard hit in view of the corona pandemic
- ❑ As is known, these account for majority of economic enterprises - about 87.5 per cent of these enterprises are cottage and 11 per cent are small scale enterprises
- ❑ Moreover, majority of these enterprises operate informally: 51 per cent of enterprises have no formal registration and 90.2 per cent enterprises have no VAT registration
- ❑ The businesses of these enterprises are overwhelmingly dependent on a few important religious and cultural events
- ❑ In that context, cancellation of the Pohela Baishakh festival as part of government's COVID-19 related restrictive measure has resulted in significant losses to these SMEs

## Small and Medium Enterprises (SMEs)

- ❑ These losses are expected to rise further with the duration of public holiday having been extended till 15 May, 2020 which will significantly affect businesses that take advantage of the Ramadan and Eid Ul Fitr
- ❑ To compensate for these losses, the national budget for FY2021 should target fiscal policy and sectoral measures (along with monetary policy support measures) with a view to increasing cash flows to the SMEs in the form of working capital and raising their investment capacity
- ❑ ADP projects that support SME development should be given priority

## **Small and Medium Enterprises (SMEs)**

□ In view of the above, following measures should inform foundation of FY2021 budget proposals:

a) **Considering the adverse financial situation facing particularly the cottage, micro and SMEs, MoF should consider raising tax exempted yearly turnover limit for SMEs from Tk. 50 lakh to Tk. 1.0 crore for FY2021**

b) The MoF may consider several fiscal measures for the affected SMEs which could include waiver of VAT at the domestic stage for the period July-September, 2020, deferred payment of quarterly advance income taxes for July-September quarter of FY2021 and payment of corporate taxes for FY2020 by instalments till March, 2021. **Besides, companies which are incurring losses in FY2020 may be allowed to 'carry back losses' against taxable profits for the two previous years (FY2018 and FY2019)**

## **Small and Medium Enterprises (SMEs)**

c) ADP projects related to the development of SME sector need to get priority in the budgetary allocations and timely implementation of those in view of FY2021 budget need to be ensured. Ministry of Industry (MoI) which is in charge of implementing SME related projects was not accorded priority in the budget allocations over the past years; indeed, its share in total budget allocation has been declining over the years - from 0.48 per cent of total budget in FY2016 to 0.29 per cent in FY2020. Given the demand for quick implementation of important SME projects during FY2021, allocations for SME related projects needs to be increased beyond business as usual trends



## **Small and Medium Enterprises (SMEs)**

d) MoI should give priority to those SME related projects which are planned to be completed in FY2021 and which could contribute to setting up SMEs by the private sector and/or enhancing SME related activities over the near-term future. Some of these projects include completion of BSCIC industrial estates by FY2021 which are currently being implemented in Borguna, Bhairab, Dhamrai, Chuadanga and Narshingdi, and BSCIC industrial park in Tangail and economic zone in Jamalpur, to name a few

## Small and Medium Enterprises (SMEs)

e) Government has announced a stimulus package of Tk. 20 thousand crore of which Tk. 10 thousand crore is exclusively allocated for SMEs as credit line facility at subsidised interest rate of 2.0 per cent. Of the total amount under the package, the share of micro and small industries would be 70 per cent and the remaining 30 per cent would go to medium sized industries. Besides, 15 per cent of the credit would be distributed to rural SMEs and 5 per cent to women entrepreneurs. Cottage and micro enterprises which remained outside of the banking channel can also take out loans under the package, subject to submission of written financial statement as regards their businesses. **Proper selection of affected enterprises and timely delivery of credit to the deserving enterprises, are highly important from the point of view of delivery of the expected results.** In this connection, the Central Bank may take support from the business bodies/associations, chambers, local business samities and specialized commercial banks. Database on SMEs maintained by these entities could help proper identification and selection of the affected enterprises.

# Stay Well, Stay Safe

