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বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD's Recommendations for the National Budget FY2021-22

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Contents

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CPD's Recommendations for the National Budget FY2021-22

SECTION I. INTRODUCTION

The national budget for FY2021-22 is being prepared in the backdrop of a number of disquieting developments in the economy: weak performance of FY2020-21 budget implementation, the persistence of adverse impacts of the first wave of COVID-19, continuing stagnation in private investment, the second wave of the COVID-19 pandemic, and failure of the external sector to pick-up. FY2021-22 budget will need to address these as also the medium-term fiscal reform issues with a view to making a recovery sustainable. In this backdrop, the Centre for Policy Dialogue (CPD) has proposed a number of fiscal budgetary measures and initiatives, keeping in the purview the upcoming FY2021-22 budget.

The paper is structured in the following manner. Section 2 presents a brief review of the state of macroeconomic developments in FY2020-21 and a stance for FY2021-22 budget. Section 3 puts forward a set of recommendations from the perspective of revenue mobilisation and fiscal measures. Section 4 deals with budget deficit and its financing. Section 5 presents recommendations in the areas of public expenditure and budgetary allocations and prioritisation thereof.

SECTION II. MACROECONOMIC POLICY STANCE FOR FY2021-22 BUDGET

2.1 Brief overview of the macroeconomic scenario in FY2021

Almost after a year since the first wave of the COVID-19 pandemic in Bangladesh, the country is passing through a second wave of the pandemic. The second wave seems to be stronger than the first one both in the number of affected people and the deaths. Therefore, just when the government was hoping to recover from the fallouts of the pandemic, it had to go for lockdown once again to contain the spread of the deadly virus. While strong restrictions on the mobility of people is the only way to flatten the curve, it has brought back the miseries for the people and uncertainty for the economy. The policymakers, once again, are posed with the challenge of maintaining a balance between the lives and livelihoods.

In the midst of the pandemic, the FY2020 was completed with lower than projected growth of the Gross Domestic Product (GDP). However, the official GDP growth of 5.2 per cent in a pandemic year was not so unsatisfactory, particularly because almost all other countries have experienced much lower if not negative growth. In anticipation of the pandemic slowing down and economic activities reviving, the government had projected a growth rate of 7.4 per cent for FY2021. This was a highly optimistic projection too.

However, with almost 10 months on, the key economic indicators appear to be far less promising than what was earlier projected. The fiscal framework continues to be weak in view of poor achievements, more specifically, both in terms of revenue mobilisation and public expenditure.

Available data for the first six months of FY2021 reveal subdued performance as regards several key economic indicators. For example, during the first six months (July- December) of FY2021, both revenue mobilisation and public expenditure have shown lower uptake compared to the same period of the previous fiscal year. As Section 3 of this report shows, as of December 2021, the growth in revenue collection is significantly lower. Given the track record, it is unlikely that the target will be fulfilled during the next six months of FY2021. Clearly, a major reason for the large gap in revenue collection is because of the COVID-19 pandemic, but more importantly, this also points to the need to address some of the underlying weaknesses in institutional structure, which needs to be strengthened through urgent reforms.

In the case of public expenditure, a much-needed measure during the pandemic to boost the economy, there was hardly any effort to go for a strong expansionary fiscal policy. Instead, public expenditure during July-December of FY2021 exhibited a downward trend. This is true for both the ADP and non-ADP expenditures. Lower public expenditure, in the backdrop of the revenue mobilisation during this period, has led to a lower budget deficit as of December 2021 compared to that of December 2020. Such a tepid expenditure pattern fails to meet the need to boost demand and supply in view of the ongoing pandemic.

It is good that the agriculture sector has remained resilient during the pandemic. However, the external sector has shown a mixed performance in the first three quarters of FY 2021. Following the outbreak of the pandemic in March 2020, exports had experienced a drastic fall due to demand collapse and, more particularly, the cancellation of readymade garments (RMG) orders by the global brands and buyers. The situation has, however, improved slightly towards the later part of 2020 and the beginning of FY2021. However, the level of export earnings is still flat. Also, import continues to be sluggish for both intermediate imports and capital goods imports. This is worrisome since it indicates lower domestic demand and lack of new investment. Remittance flow, on the other hand, has shown robust growth. Due to higher remittance flow, the balance of payment situation improved significantly during July-December of FY2021 compared to the same period of FY2020.

In the above context, there is a need for sustained efforts at stimulating the economy through appropriate policy measures. The national budget for the upcoming FY2022 will have to be designed in such a way that budgetary measures should not only address the immediate needs but also help a sustainable recovery of the economy from the pandemic.

2.2 Macroeconomic stance for the FY2021-22 budget

The unexpected outbreak of the pandemic led to the initiation of a number of stimulus packages by the government in FY 2020 and also in FY 2021 to help people address the immediate shocks and mitigate the economic losses. The stimulus packages, which are equivalent to about 4.4 per cent of Bangladesh's annual GDP, were no doubt helpful, but these only had limited impact in terms of addressing the enormous challenges faced by the poor and the small businesses. For the poor, the amount of direct cash and food support that were distributed proved to be highly inadequate. Moreover, the distribution mechanism is also fraught with multiple problems. And for the micro and small businesses, the liquidity support from the commercial banks at a subsidised interest rate proved to be cumbersome and could not be accessed by a large part of deserving entrepreneurs.

Hence, the Ministry of Finance (MoF) will have to plan for higher public expenditures for addressing the affected people and sectors of the economy on the one hand and mobilise adequate resources to undertake such expenditures on the other. Though the government had planned for an expansionary fiscal and monetary policy in FY2021, the fiscal framework as of December 2021 does not vindicate this, as mentioned above and discussed in more detail in Section 3 of the report.

In view of the ongoing situation, CPD reiterates the need for an expansionary macroeconomic stance in the budget for FY2022 which accommodates the needed additional public spending. While this will imply pursuing a higher fiscal deficit in the FY2022 budget, this is the appropriate policy stance in the current circumstances. Of course, the MoF will have to design deficit financing in a prudent way so that any likely inflationary pressure is contained. There is a likelihood that such deficit financing could crowd out loanable funds for the private sector. However, private sector credit has been low during the ongoing fiscal year, and this crowding out should not be a major concern. Also, the government should put more efforts into higher foreign aid to underwrite the fiscal deficit. Increased budget deficit should be justified by prudent reallocation and reprioritisation of public expenditure needs in FY2022.

As was the case in FY2021, the upcoming budget will also have to allocate resources in a way that would address needs of both the immediate and the recovery phase. In the immediate term, it will need to focus on health risk mitigation and ensuring food security through expanded safety nets. In the recovery phase, which should be pursued parallelly, the budget will have to make allocations and undertake measures in view of the demands of entrepreneurs, enterprises, businesses and commerce. The experience of FY2021 should be a guide for the MoF in formulating the second budget during the COVID-19 pandemic.

Unfortunately, despite being hit hard by the pandemic, the health sector received only a marginally higher allocation in the FY2021, with the share remaining less than one per cent of the GDP. The spending so far has been much lower, even in this backdrop, primarily because of the weak spending capacity of the health ministry. The urgency of improving the implementation capacity of the relevant ministries and departments cannot be overemphasised. The ongoing pandemic has created a significant number of new poor and is apprehended to accentuate inequality, as have been borne out by many studies, including studies carried out by CPD. Consequently, a higher allocation for social protection in the FY2022 budget is critically important. COVID-19 has particularly impacted the education sector most adversely, and the risk of deteriorating future human capital is very high. Unless the government addresses the situation by providing online education facilities for all students, the recovery of the anticipated losses will take a long time. The medium to long term costs to the economy and society will be significant if these concerns are not addressed adequately and the urgency they deserve. The budget for FY2022 should allocate adequate resources for digital support and technologies for continuing education at educational institutions across the country. Finally, the implementation of ongoing fiscal and administrative reforms should be continued alongside the efforts towards addressing the fallouts of the pandemic.

SECTION III. REVENUE MOBILISATION

Despite reeling from the shocks of the COVID-19 pandemic, total revenue collection posted a respectable growth of 8.6 per cent during the July-December period of FY2021, thanks to a whopping 40.2 per cent growth in non-tax revenue earnings (Table 3.1). The total revenue growth for the corresponding period of FY2020 (pre-COVID-19 months) was only 6.2 per cent. Although some improvement is visible in terms of growth of revenue mobilisation, it is still inadequate to attain the highly ambitious targets set in the budget for FY2021. Indeed, a staggering 74.2 per cent growth is required for the remaining period of FY2021 in order to achieve the total revenue mobilisation target. Collection of tax revenue will need to grow by 105.3 per cent during the remainder of FY2021, an impossible task.

Table 3.1: Revenue mobilisation growth scenario up to December FY2021 (in per cent)

Particulars	Target FY20	Actual FY20	Target FY21	Actual Jul-Dec FY20	Actual Jul-Dec FY21	Required Jan-Jun FY21
Tax Revenue (a+b)	**50.5**	**-2.3**	**56.3**	**5.7**	**4.0**	**105.3**
a. NBR Tax	**48.9**	**-1.7**	**53.6**	**6.0**	**4.8**	**98.7**
a.1 Income Tax	69.3	12.0	38.0	29.6	-5.2	80.4
a.2 VAT	44.8	-6.0	56.6	-2.7	15.0	93.1
a.3 Import Duty	50.3	-2.3	59.4	7.7	6.6	115.8
a.4 Export Duty	-53.3	-32.5	-28.3	-99.1	-100.0	-27.4
a.5 Excise Duty	-4.2	-1.8	60.5	10.1	-52.8	97.7
a.6 Supplementary Duty	25.3	-2.1	-31.0	-14.8	8.0	137.7
a.7 Other Taxes	45.8	-18.3	62.8	13.9	-74.7	275.9
b. Non-NBR Tax	**97.5**	**-19.0**	**152.4**	**-1.5**	**-18.7**	**425.2**
b.1 Narcotics and Liquor	42.9	-3.5	62.6	4.7	-12.5	152.1
b.2 Vehicles	-14.6	-6.5	-49.2	8.9	-15.9	-99.5
b.3 Land Revenue	110.5	0.2	150.3	32.7	16.1	327.2
b.4 Stamp Duty	163.0	-28.3	293.5	-9.0	-28.7	940.0
b.5 Surcharge	-29.2	-13.8	-9.7	-9.4	-3.8	-14.4
c. Non-tax Revenue	**45.5**	**63.1**	**-21.9**	**9.9**	**40.2**	**-58.6**
c.1 Dividend and Profit	31.8	30.8	-49.7	-36.5	10.5	-65.6
c.2 IFT and others	47.0	66.8	-19.5	14.0	41.7	-57.8
Total Revenue (a+b+c)	**50.0**	**4.4**	**43.7**	**6.2**	**8.6**	**74.2**

Source: Author's calculations based on the data from the Ministry of Finance (MoF).
Note: NBR: National Board of Revenue.

In view of the recent spike in COVID-19 cases, both in Bangladesh and overseas, the fiscal framework for FY2022 will need to take cognisance of the pandemic's short-term impacts as also the medium-term repercussions. Growth of export earnings is in the negative terrain while the growth of import payments is rather subdued. Indeed, further slowdown of economic activities is apprehended due to the recently imposed nationwide 'strict lockdown'. All these will likely put under risk even the current slow pace of recovery. Consequently, any significant uptake in revenue mobilisation is also highly unlikely.

The Ministry of Finance needs to be prudent and take into account the medium-term impacts and outcomes of policy measures while introducing or adjusting fiscal measures and allocating budgets to specific sectors. In view of the above, the revenue mobilisation strategy for the FY2022 budget should be designed considering the following four approaches:

i) Instead of setting ambitious targets which may miss the annual target by a significant margin by the end of the fiscal year, the targets for revenue mobilisation should be set in a realistic manner taking cognisance of the potential shortfall in FY2021.

ii) Immediate term readjustments in tax provisions should be made considering the urgency of both addressing the risks and mitigation of the vulnerabilities. In order to extend support to economic recovery over the medium term, persuasion of fiscal policy should be made in a judicious manner. There must be a clear demarcation between short-term and medium-term measures.

iii) As introducing new taxes or raising tax rates may be difficult, more emphasis should be given to the enforcement of tax measures and curbing tax evasion.

iv) Implementation of medium-term reform plans should receive high priority on the part of policymakers.

In light of the aforementioned strategies, the following recommendations may be considered while formulating the budget for FY2022:

a) In the budget for FY2021 personal income tax (PIT) rates were reduced. Providing benefits to monthly income earners of Tk. 4 lakh and above clearly went against the cause of promoting tax justice at a time when the resource was scarce. The budget for FY2022 should correct this by reinstating the highest tax rate to 30 per cent.

b) Reduction of the corporate income tax rate from 35 per cent to 32.5 per cent for non-publicly traded companies and reduction of withholding tax from 1.0 per cent to 0.5 per cent on all types of export proceeds, including those of the RMG enterprises, introduced in the budget for FY2021, are two provisions which may be continued in FY2022. Also, given the crisis inflicted by the COVID-19 pandemic, tax holiday facilities for the seven newly emerging manufacturing sectors earmarked in the FY2021 budget, alongside the existing 26 sectors, should not be discontinued in the upcoming budget.

c) In view of the ongoing second wave of the pandemic, exemption of import duties and taxes related to health services which were introduced in the FY2021 budget should be continued in FY2022. Medicines for COVID-19 treatments which have to be imported should also be tax-free, considering these as life-saving drugs.

d) With the food grain stock being the lowest in recent years, the government needs to put particular focus on ensuring food security for the low-income people. The government has already taken the decision to distribute cash support, instead of food, under the various existing safety net programmes (The Financial Express, 2021). For the FY2022 budget, reduction of import-related tariffs (such as advance income tax and VAT) on essential food items (such as onion, lentil, garlic, ginger and soybean oil etc.) should be considered.

e) For education and business purposes the necessity and usage of mobile internet-based services have increased substantially in the backdrop of the pandemic for students and those undertaking various business activities using digital platforms. In view of this, the government should withdraw the existing 15 per cent supplementary duty, and the 1 per cent surcharge levied on mobile internet while keeping the prevailing rate of VAT at 5 per cent unchanged. This will provide some respite to the low-income consumers and make mobile internet more accessible and affordable for education and business purposes.

f) Nevertheless, a medium-term plan should be formulated as regards phasing out the various tax exemptions provided during the pandemic. Stakeholder consultations should be an integral part of formulating this plan. Such a plan will provide the business community as well as the revenue mobilisation entities some predictability amidst uncertain times.

g) A viable completion timeline should be introduced, or at the least chalked out, for reforms that are under consideration, such as the Customs Act and Direct Tax Act, in the budget for FY2022. Doing so will enable the implementation process to start early.

h) In view of Bangladesh's LDC graduation in 2026, obligations and compliance requirements as a developing country should be identified, and gradually reforms in the taxation system should be put in place.

i) Digitalisation of the revenue mobilisation process can be improved through an e-TDS system for which CPD has been advocating for a number of years. The introduction of the e-TDS system will enable NBR to issue tax certificates against an e-TIN linked to the 'tax-deducted-at-source (TDS)' collection system, thus making the evasion of TDS difficult.

j) The present system of mere submission of TIN number for license/registration etc. should be replaced (at least in selective cases) by the requirement of submission of tax token for the most recent years.

k) CPD would like to reiterate its earlier proposals urging the NBR to initiate wealth and property tax in Bangladesh. Introduction of an inheritance tax, informed by global best practices, may also be taken into account as such initiatives do not only mobilise additional revenue but also pave the way towards building a more equitable society.

l) CPD would like to recommend that NBR introduces taxes for proxies for pollution, by tax region, in alignment with what was mentioned in the "Public Financial Management (PFM) Action Plan 2018-2023 to implement The PFM Reform Strategy 2016-2021". This may be viewed as a new and desirable source of tax revenue.

m) The provision of whitening of black/undisclosed money facility through voluntary disclosure of undisclosed income should be discontinued in the budget for FY2022. Despite the fact that this has led to infusion of some additional revenue to the national coffer, such practices discourage honest taxpayers and incentivise tax evasion in the medium to long run. Instead, a Benami Property Bill may be introduced as was suggested earlier by CPD.

n) A mechanism should be put in place to contact relevant entities who are registered in the system but do not submit tax returns and also those who are registered and submit returns but do not actually pay any taxes. Phone calls, SMSs and emails may be helpful in this regard for the NBR to increase the number of effective taxpayers. Such a mechanism can be set up easily using the e-TIN database.

o) As envisaged in the PFM Action Plan 2018-2023, NBR should launch a comprehensive on-line payment system for VAT, income tax and customs together with an interface with iBAS++. Also, harmonisation and taxpayer data sharing across various wings of the NBR should be ensured at the earliest.

p) As per data from international sources, the major part of Bangladesh's illicit financial outflows is on account of trade mispricing. Transfer Pricing Cell (TPC) of NBR, Bangladesh Financial Intelligence Unit (BFIU) and Customs Intelligence and Investigation Directorate (CIID) should work closely to deal with trade-based money laundering. For effective implementation of the responsibility of the TPC, the national budget for FY2022 should ensure adequate allocation for technical and human resources and forensic investigation capacities.

SECTION IV. DEFICIT FINANCING

At a time when the government should opt for increasing public expenditure to accelerate economic recovery, it appears to have taken measures that are not commensurate with the needs of the time. As of December FY2021, the overall budget deficit excluding grants stood at Tk. 8,408 crore, which was significantly lower than the deficit that prevailed in the corresponding period of FY2020 (Table 4.1). Although the revenue mobilisation scenario had marginally improved during the July-December period of FY2021 compared to the same period for FY2020, total public expenditure had actually declined. Both ADP expenditure and non-ADP expenditure have seen downward trends for the period of July-December in the current fiscal year. The budget deficit was financed mainly by domestic borrowing, although foreign borrowing also exhibited a considerable increase during July-December of FY2021. Within domestic borrowing, both bank and non-bank sources experienced downward trends. Compared to the corresponding period of FY2020, sales of NSD certificates have shown a growth of 256.9 per cent during the first half of FY2021.

Table 4.1: Budget deficit and financing up to December FY21 (in crore Tk.)

Description	BFY20	AFY20	BFY21	Up to Dec FY20	Up to Dec FY21
Deficit					
Revenue Collection	377,811	263,062	378,002	122,509	133,106
Total - Expenditure	523,191	415,523	567,999	158,260	141,514
ADP	202,721	154,238	205,145	44,184	33,300
Non-ADP	320,470	261,285	362,854	114,076	108,214
Overall Deficit (Excluding Grants)	-145,380	-152,461	-189,997	-35,751	-8,408
Financing					
Foreign Grants	4,168	1,957	4,013	1	26
Foreign Borrowing-Net	63,848	45,116	76,004	-327	3,022
Foreign Loan	75,390	57,085	88,824	5,900	6,228
Amortisation	-11,542	-11,968	-12,820	-6,226	-3,206
Domestic Borrowing	77,363	105,083	109,983	36,073	5,388
Bank Borrowing (Net)	47,364	81,718	84,980	48,182	24,164
Non-Bank Borrowing (Net)	30,000	23,365	25,003	-12,109	-18,776
NSD Certificates (Net)	27,000	15,089	20,000	5,972	21,313
Others	3,000	8,276	5,003	-18,081	-40,089
Total Financing	**145,379**	**152,156**	**190,000**	**35,747**	**8,436**

Source: Author's calculations based on the data from the Ministry of Finance (MoF).

As the second wave of the pandemic has forced the government to opt for a nationwide lockdown, there is a need for increased public expenditure to support the affected marginalised people in the country. Indeed, this is a high time when public expenditure should dictate the fiscal framework. The budget deficit may be financed with higher borrowing. With the lower outstanding public debt, Bangladesh can certainly afford a higher budget deficit if the budgetary allocations are made where they are needed the most. In view of the above discussion, the following proposals may be considered for the upcoming FY2022 budget:

a) Although Bangladesh has already received significant commitment as regards external funding support from different multilateral and bilateral sources, disbursement of the funds has been lagging behind. The World Bank (WB), International Monetary Fund (IMF), the Asian Infrastructure Investment Bank (AIIB) and Asian Development Bank (ADB) are four external sources that have promised a sizeable amount of USD 6.03 billion in loans. However, disbursement stood at only USD 1.79 billion as of March 2021, which amounts to only 29.78 per cent of the commitment (The Business Standard, 2021). It is important for the government to pay special attention to ensure speedier disbursement of this pledged fund. To this end, the government should ensure a fast pace in preparing project proposals, receiving the Executive Committee of the National Economic Council's (ECNEC) approval and conducting final negotiations. In the upcoming budget, the government needs to look deeper into the process of fund disbursement from external sources.

b) In particular, supports received for emergency assistance for health sector projects need to be implemented on an emergency basis, in the backdrop of the second wave of the pandemic. Thus, the government in the budget for FY2022 needs to give equal importance to receiving funding opportunities and ensuring proper use of the funds.

c) For financing the budget deficit in FY2021, the government had set the target of collecting Tk. 109,983 crore from domestic sources, of which Tk. 20,000 crore is expected to come from the sale of NSD certificates. As of now, the collection from this particular source has already exceeded its budgetary target. In view of the experience, the government may need to increase the budgetary target set for sales of NSD certificates for financing the deficit in the budget for FY2022. However, existing regulations related to the sale of NSD certificates (e.g., purchasing limit, the requirement of e-TIN and NID while purchasing, interest rate etc.) should be kept unchanged and properly enforced.

d) Bank borrowing should provide the residual amount required for budget deficit financing. As the banking system currently has a substantial amount of excess liquidity, commercial banks should be able to serve the required borrowing; stepping in by the central bank is unlikely to be required. Hence, the risk of inflationary pressure will also be low.

SECTION V. PUBLIC EXPENDITURE

During the period of the COVID-19 pandemic, public expenditure under the national budget for 2021-22 should highlight four areas. These include: (a) ensuring better health facilities for COVID patients; (b) enhancing social safety net programmes for poor, new poor and marginalised people; (c) raising allocation for employment-enhancing infrastructure development projects; and (d) supporting agriculture, SMEs and export-oriented industries for their recovery and thereby keeping the existing jobs. Since the pandemic is likely to be a prolonged one, it is expected that policymakers will take into account the importance of three 'R's while preparing the budget for the next year: (a) readjustment; (b) recovery; and (c) reforms.

5.1 Proposals for the health sector: Ensuring better health facilities for covid patients

During the current fiscal year (FY2021), the government has raised the allocation for the health sector. Unfortunately, the ministry of health and family planning (MoHFP), particularly the Health Services Division (HSD) were unable to spend the allocated budget. Till March 2021, the HSD spent only 21 per cent of its allocated budget, which was much lower than even the average national ADP expenditure (41.92 per cent).[1] It is one of the poorest performers in terms of implementation of ADP during this period (7th from the bottom out of 57 ministries/divisions). Indeed, over the last ten years (FY2011-2020), its annual spending never crossed the level of 83 per cent of total budget allocation. Failure to spend the allocated budget has been a major obstacle to ensuring better treatment facilities for covid patients across the country. Against this backdrop, the national budget for FY2022 should take two-pronged approaches – (a) faster implementation of the ADP projects by maintaining quality and standard and (b) Enhancing the ability to spend more to implement important projects. Despite the announcement last year, most of the frontline health professionals and workers have yet to receive the incentives– only 7.7 per cent of the total 23,285 public sector frontline health professionals and workers have received the incentives so far.[2] Such weak enforcement of the commitment is rather disappointing given the importance of the job being carried out by health professionals and workers tirelessly during these pandemic times.

In view of these, the government may consider the followings:

a. The budget allocation for the health services division (HSD) should be increased with the expectation that the division will be able to spend the amount by addressing its internal weaknesses and challenges as regards the slow pace of utilisation of funds. The additional allocation needs to be utilised for expanding treatment facilities for covid patients across the country (i.e., setting up isolation units with necessary treatment facilities, oxygen supply, increasing the number of ICU beds and required facilities). Given the allegation of corruption in public procurement (TIB, 2020), the overall tendering process in the health sector needs

[1] The HSD has spent only Tk.25.15 billion out of Tk 119.79 billion allocated under the RADP FY2021.

[2] It was announced last year that doctors, nurses and other healthcare staff working public hospitals in Dhaka will receive Tk 2,000, Tk 1,200 and Tk 800, respectively, as daily allowances for the period during which they will stay in quarantine. At the same time, doctors, nurses and other healthcare staff working outside of Dhaka will receive Tk 1,800, Tk 1,000 and Tk 650, respectively.

to be made more transparent, competitive and efficient.[3] The MoHFP should set a specific timeline for each project for completion of procurement related activities.

b. Government should have the necessary funds ready to procure vaccines from different sources at the earliest. Discussion with different sources of vaccines (GAVI, Russia, China, India, England and USA) need to be carried out. Given the shortages of vaccine doses in the country (available vaccine doses will be finished by the first week of May 2021),[4] timely procurement of vaccines from these possible sources is urgently required.

c. Considering the limited success against new strain of virus, necessary preparation for domestic supply should be made for the next two/three years. The ongoing discussion as regards local production of vaccines, in collaboration with foreign companies (e.g., producers in Russia), and creating storage facilities of vaccines under the six-country South Asia cooperation led by China, for use locally and within the regional countries, need to be finalised. Besides, public procurement from other sources (e.g., GAVI) needs to be given equal importance.

d. The fund (Tk.1.4 billion) earmarked for providing incentives to health workers and professionals engaged in treating covid patients should be released immediately for the overwhelming majority of health professionals and workers (92.3 per cent of total eligible health professionals and workers) who are yet to receive the incentives.

e. Given the long-term nature of covid related health hazards, the government should allocate necessary funds for FY2022 for health professionals and workers serving in public health facilities who are engaged in COVID-19 treatment. The government may consider similar incentives for health professionals and workers who are providing treatment facilities in private clinics and hospitals through direct payment to respective personal accounts.

f. To promote COVID-19 treatment facilities in the private sector, subsidised credit may be extended for setting up necessary infrastructural facilities such as oxygen supply, increasing the number of ICU beds and setting up ICU units in different private hospitals/clinics across the country.

g. The necessary allocation should be made in HSD's revenue budget to recruit nurses, healthcare staff, doctors and volunteers for different public hospitals both within and outside major cities in order to treat covid related patients.[5]

5.2 Proposals on social safety net: Enhanced social safety net programmes for poor, new poor and marginalised people

Social safety net programmes targeting the poor, new poor, marginalised people and people with limited income which were implemented during the first lockdown in March-May, 2020 and the

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[3]https://thefinancialexpress.com.bd/health/tib-finds-corruption-irregularities-in-heath-sector-1605008657

[4] Indeed, the programme of vaccination for the first timers has been stopped as of 26 April, 20211 in view of shortage of vaccine doses.

[5] The recruitment of the doctors, nurses and health practitioners will be required to fill up the posts vacant in public hospitals and clinics as well as those in newly established hospitals being establsihed under the ADP 2021.

following periods, have played an important role in mitigating the sufferings of people. Under the stimulus package announced during 2020, the government has allocated Tk.10,683 crore for the social safety net related activities which was 8.6 per cent of the total stimulus package. Despite the urgency on the part of the poor and marginal people to receive support, most of the funds were not disbursed immediately. Till November 2020, disbursement/implementation of the SSNPs was less than satisfactory in terms of the funds distributed: (a) distribution of free food (43 per cent); (b) distribution of rice (100 per cent); (c) distribution of cash among the targeted population (70 per cent); (d) increase coverage of allowance programmes (3 per cent); (e) construction of houses for homeless people (n/a); and (f) support for unemployed and poor workers of export-oriented sectors (n/a). The government later announced a second stimulus package of Tk.1200 crore allowance for old age, widow, divorcee, and vulnerable people. In the backdrop of limited employment and income opportunities, slow implementation of SSNPs has meant that the poor and the marginal people are not getting the required support in due time.

A number of reasons have been reported in various reports as being the causes of the slow progress in SSNP activities during the pandemic period. These include: (a) inadequate list of beneficiaries which forced the government to slow down the distribution of cash support; (b) important target groups were missing such as informal workers, vulnerable people of coastal areas and returnee migrants; (c) 'inclusion-exclusion' bias without having a proper database of the poor, new poor and marginal people; (d) over-reliance on government-based system in the beneficiary selection process without giving enough importance to the information/database available to local level organisations such as CSOs/NGOs/CBOs; and (e) selection process was to varying extent politically-biased; recommendations of politically powerful local, for inclusion in the list of beneficiaries, were not adequately scrutinised.[6]

During the second lockdown, the sufferings of the poor and marginal people have further accentuated. Considering the livelihood challenges of poor and marginal people due to the lockdown, the government has planned to extend cash and kind support to different categories of people and households. These include – (a) 'food support' to 1.25 crore families; (b) Tk.2500 to each of 35 lakh families for one-time cash support; (c) GR cash support (Tk.150 crore); (d) special support to 12 lakh families by the ministry of women and children affairs; (e) support of 30 kg rice to 50 lakh families; (f) Tk.10 crore to 64 district commissioners who are left out from other support facilities; (g) Tk.20-50 lakh to each city corporations to support slum dwellers; (g) union wise cash support of Tk.25 lakh; and (h) OMS operations throughout the country. However, most of these cash and kind supports will be extended to those who have been enlisted in official databases, including the database prepared by the DCs last year immediately after the pandemic. Overall, the government should put emphasis on expanding public works programmes under different ministries in order to create employment opportunities for the poor and marginalised people across the country.

In view of these, the following points should inform the work to be done:

[6] https://www.tbsnews.net/economy/tk101cr-cash-aid-poor-returning-govt-212188
https://en.prothomalo.com/bangladesh/government/rich-grab-cash-assistance-meant-for-the-poor
Damaged By Cyclones, Tidal Surges: Fragile embankments put lives at risk | The Daily Star
https://cpd.org.bd/covid-19-stimulus-packages-and-performance-of-the-countrys-banking-sector/
https://www.thedailystar.net/frontpage/news/covid-19-stimulus-package-disparity-disbursement-1969109

a. A comprehensive listing of all beneficiaries will be required in order to understand who received these benefits and by how much, who are left out despite being eligible, which areas are being covered more and which are being left out etc. A weekly reporting of the distribution of support needs to be published with the information of disbursement in terms of locations, amount, types of beneficiaries etc. The list of the beneficiaries needs to be published and disseminated at the local government offices for public consumption as well as to ensure transparency in the distribution process.
b. It is reckoned that the programmes may not be able to cover all the target areas and all target people. For example, only 150 upazilas will be covered under the VGD programme, which is only 30 per cent of the total number of upazilas in the country. It is apprehended that the support will be availed of by most people only once. Since the people need the support for a longer period of time, the government should gradually increase the allocations under the various SSNPs and distribute those in a phased manner across the country. The poor, new poor and the marginalised people must get the priority in this connection.
c. A significant number of people belonging to the groups of extreme poor, new poor, marginalised people and people with needs remain outside of the official list of beneficiaries of social support programmes. These include urban-based petty traders, hawkers, self-employed, transport workers, floating people, LGBTQ people, ethnic minorities, char people and other marginalised communities and groups. Above four lakhs returnee migrants who are by and large non-poor but are in need of support should also be brought under the ambit of assistance programmes. They have got stuck in Bangladesh and will hardly be able to join their jobs abroad.[7] Recent studies have found that a considerable number of new poor (14.75 per cent of the total national population according to PPRC-BIGD study, 2021) are likely to remain outside the social safety net programmes. Unlisted poor, new poor, vulnerable, needy and marginalised people need to be included in the official database that was prepared last year. Adequate cash and in-kind support must be provided to these people. Local level organisations, including NGOs, CBOs and CSOs need to be effectively involved in identifying, selecting and distributing support among these people. Accordingly, necessary funds must be allocated through the various SSNPs in their support.
d. Given the spread of the pandemic with multiple waves and likely adverse impact on economic activities, poor and marginal people may be expected to remain vulnerable for a prolonged period. Hence, a two-year targeted SSN programme needs to be developed for the poor, new poor, marginal and people with special needs. As part of the programme, support needs to be extended several times a year through MFS/banking and other means. A database of these people with necessary information as regards their identification (NID, voter etc.), access to banking and mobile financial services etc. need to be created immediately. The new information about those requiring support may be built on the existing database, and it should be an ongoing process through regular updating.
e. The national budget for FY2021-22 should consider introducing unemployment benefit and unemployment insurance schemes for the various categories of vulnerable people. Development partners, IFIs and international commercial banks may be approached to

[7] According to a study by CPD-BILS on 'Impact of COVID-19 on the Labour Market Policy Proposals for Trade Union on Employment, Gender and Social Security for Sustainable Recovery'.

underwrite such programmes (fully or partially) to make the schemes operational.[8] In this connection, EU's contribution to the unemployment insurance scheme, recently launched by the government, is a good example.[9] Under this programme, the government may consider introducing 'health and risk allowance (HRA)' for the emergency service providers such as health workers and other frontline workers and professionals. The government may consider introducing innovative SSNPs as introduced in other countries. For example, Zimbabwe has introduced 'harmonised social cash transfer (HSCT)' for ultra-poor people. The scheme will cover health insurance, food support, and education waivers for those eligible under the SSNPs.

f. Research indicates that several positive impacts of investments in quality early childhood programmes, including preventing the achievement gap, improving health outcomes, boosting earnings and rate of return. At the same time, children's welfare call for addressing attendant challenges from multidimensional perspectives. Regrettably, the child budget has not been mentioned as a separate item in FY2021 budget. As a percentage of the total budget, the share of the child budget has remained almost the same between FY2017 and FY2020. Allocations for social safety net programmes, which are designed for child development, has remained the same in FY2020 and FY2021. CPD has earlier tracked 19 social safety net programmes that were designed for child development. Of these 15 child-centric social safety net programmes, allocations increased for six programmes, decreased for four and remained unchanged for five. A report prepared in 2018 by the MoF entitled "Blooming Children: Prosperous Bangladesh" argued that if the child budget report comes out along with the national budget, the rights and requirements of children will receive due importance from all concerned stakeholders". CPD urges MoF to publish Child Budget along with the budget for FY2022.

5.3 Support for agriculture, CSMEs and export-oriented industries

Proposals for agriculture sector

Unlike the first wave of the covid pandemic, the second wave has brought a number of new challenges for the agriculture sector. These include damage to paddy production due to blast disease and heatwave in a number of districts, the lowest amount of public food stock in last 13 years, volatility in domestic rice supply and its adverse impact on retail market price, volatility in the supply of vegetables and other crops due to lock down and delayed import of onion and their consequent adverse impact on market price etc. At present, public food stock is only 4.62 lac MT. This amount is very low to meet the extended social safety net based food distribution programme which is targeted to be implemented in FY2021. The lockdown is having an adverse impact on the poultry and dairy sectors as well due to a lack of marketing facilities. The volatility in the agriculture product market has caused inflationary pressure in recent months. Overall,

[8] Hong Kong government has introduced rehabilitation programme by providing loan at 1 per cent rate of interest loan for unemployed workers.

[9] As part of EU's contribution, EU has extended a grant of €113 million to pay three months of wages to one million workers laid off by RMG factories. This grant is used to initiate the unemployment insurance scheme for workers working in export-oriented industries. Besides, EU has extended support of €334 million to help fight the pandemic of which €263 million will be used for mitigating the economic and social impacts of the pandemic and €93 million will help to provide cash assistance to workers in the export-oriented industries.

Bangladesh's food security in Bangladesh is yet to reach the pre-pandemic level (IFPRI & Cornell University, 2021).

The disbursement of stimulus package for the agriculture sector (Tk. 23,920 crore) was not up to the mark. Disbursement of agriculture refinancing scheme (Tk. 5,000 crore) was to the tune of only 45 per cent, the corresponding figures for refinancing scheme for low-income farmers and small traders (Tk.3000 crore) was only 22 per cent. Procurement of boro paddy/rice in FY 2020 (additional 0.2 million m tonnes) was rather poor, and amount of agriculture subsidies (Tk.9500 crore) that was disbursed was only 76 per cent. The remaining amount of fund needs to be disbursed in the coming months.

In view of these, the government may consider the followings:

a. Considering the loss of crop (approximately 1 lakh ton) due to heat shock, the government has allocated Tk.42 crore for the affected farmers. The ministry of agriculture should identify the 'actual' farmers who lost the crops and take steps to disburse the fund properly. However, the amount of support is very low (Tk.4.2 per kg of paddy) considering the market price of paddy Tk.32-34 per kg). The support will thus not adequate to compensate for the loss of crops. In order to meet the loss suffered by the farmers (about Tk.330 crore), the MoA should discuss with the Finance Ministry to further raise the allocation.

b. Given the volatility in farm income over the last one year, the repayment period of agriculture loans (both working capital and term loan), distributed under the stimulus package, should be extended to three years.[10] In this context, the reduction of the maximum ceiling on farm loan to 8 per cent is a welcome initiative undertaken by the Bangladesh Bank.[11]

c. Given the poor performance of procurement of boro in FY2021 (0.9 million tonnes as against the target of 1.9 million tonnes), necessary funds need to be allocated to incentivise procurement price and stimulate procurement (through hats & bazars) in order to encourage farmers to sell to the government.

d. With a view to reducing the production cost of crop, non-crop, fisheries and livestock sub-sectors, import of the different raw materials should be waived from advance income tax (AIT). These include different agro-processing sectors such as production of poultry feed, fish feed, dairy, and dairy products.

e. Government should make the necessary allocation for timely implementation of two irrigation projects based on solar power (project completion years: 2022 and 2023). Ministry of Agriculture should seek funds for taking more projects to popularise solar power-based irrigation facilities across the country.

f. Given the significantly large number of unemployed people, MoA should design and seek funds for implementing a special project for creating employment opportunities. This can be done by providing training, low-interest credit and marketing support facilities for different types of agriculture products, agro-processing and other support services.

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[10] According to the circular of the Bangladesh Bank, the tenure for the loans under the stimulus package was set at 18 months, including a grace period of six months. Till, December 2020, a total of 143747 farmers have received credit under the package.

[11] Earlier Bangladesh Bank had fixed the rate of interest on farm loan at 9 per cent p.a.

g. Government should continue allocating funds for extending farm mechanisation during the pandemic period. This will hopefully contribute to a reduction of production cost and also take care of the limited availability of farmworkers. It is to be noted that MoA is currently implementing a farm mechanisation project for disaster-prone areas with the support of the Asian Development Bank, which will end in 2024.

Proposals for small and medium enterprises (SMEs)

Small and medium enterprises have been most affected during the first wave of Covid-19 and also afterwards; their challenges continue as Bangladesh suffers from the ongoing second wave of the pandemic. Indeed, the second wave is making their situation even more vulnerable by accentuating the current difficulties. Considering the vulnerabilities suffered by the SMEs, the government had allocated Tk.22,000 crore under the first stimulus package; however, the rate of disbursement was slow compared to other stimulus packages. As of April 11, 2021, about 68 per cent of the dedicated fund has been disbursed. Gender-wise disaggregation shows that 94 per cent of the beneficiaries of loans under this package were male, and only 6.0 per cent were female (CPD, 2021). However, the allocation for female entrepreneurs was above the minimum targeted amount (5.7 per cent of total allocation of funds against the target level of 5 per cent). Apart from this, the government has rolled out a fresh stimulus package of Tk.2700 crore to boost cottage industries and SMEs. In March 2021, Bangladesh Bank released a policy in support of the start-ups under the special funding facility of Tk.500 crore. Besides, the banks could set up their own start-up funds with 1 per cent of their operating profit. Out of this fund, 10 per cent of this fund should be allocated among women entrepreneurs. A Tk.10,000 crore stimulus fund for micro-enterprises is currently at processing stage; the Central Bank would provide the funds to microfinance institutions which would disburse the fund through on-lending at an interest rate of 8 per cent p.a. The MFIs could disburse the credit to micro-enterprises which are not covered under any support programmes. Besides, the SME foundation will provide Tk.100 crore loan to selected SMEs.

a. It is important to ensure speedy disbursement of the subsidised credit among eligible SMEs. Banks specialised on SME financing should be allocated more funds to disburse credit not only to their existing clients but also to new borrowers. Banks should explore innovative approaches to disburse credit for SMEs – these could be done through the selection of new borrowers with recommendations of business associations, local business samities/trade bodies and MFIs. Banks could also consider disbursing a part of their credit to SMEs through MFIs as well.

b. A database of all categories of enterprises, including MSMEs needs to be prepared on an urgent basis. This database should include information on the registration of businesses, location of the business, number of employees, types of products produced, yearly turnover and payment of official fees and taxes (including VAT) etc. Initially, this database could be prepared based on the datasets available with the various public and private organisations. Such a database would help to identify enterprises that have not received any support as yet and also sectors that has traditionally received less attention in the package etc. Based on the database, fiscal and monetary policy support could be directly extended to the enterprises; this will also help better monitor the results.

c. Given the level of vulnerability of SMEs, the loan repayment period for SME loans, under the stimulus package, needs to be extended to three years. This is similar to what is allowed to the export-oriented sectors.

d. Since the pandemic has disproportionately affected women entrepreneurs, a separate stimulus package needs to be introduced in support of women entrepreneurs (CPD, 2021).[12] In this backdrop, the package should provide fiscal and monetary policy support, including waiver from paying registration fees, VAT, electricity bills for a limited period of time. Enterprises located across the country should also be eligible for subsidised credit.

Proposals for export-oriented industries

Export-oriented industries had started to limp back to pre-COVID situation following the first blow of the covid pandemic. Thanks to the first stimulus package, including an incentive package of Tk.10,500 crore for export-oriented industries, the industries were able to pay workers' wages for four months. This helped the recovery of a large number of enterprises. It is to be noted that the pace of recovery is different for different categories of enterprises (e.g., RMG enterprises, as mentioned in Moazzem et al. (2021).[13] Amid the second country-wide lockdown, the GoB has decided to keep the industries functioning. In this time of crisis, countercyclical fiscal measures are usually considered to be effective. However, as the industries have started to recover, such measures are likely to be no longer required. Export-oriented industries need to target new business opportunities which are emerging in view of covid-pandemic.

a. Given the significant size of the global market for non-cotton based apparel products, the Ministry of Commerce should propose that the Ministry of Finance introduced a fresh 10 per cent cash incentive for enterprises. Enterprises which will produce 100 per cent non-cotton based apparels will be eligible for this support. These fiscal incentives may be put in place for the next seven years. The required fiscal expenditure could be accommodated by withdrawing the 1 per cent cash incentive for export of apparels to all markets which is currently in operation. It is important to note that the proposed cash incentive facility will be over and above the tax holiday facility currently in place for non-cotton based apparels exporting enterprises.
b. Export-oriented industries need to be incentivised in order to promote the use of renewable energy-based power in factories. SREDA, through the Ministry of Power, Energy and Mineral Resources (MoPEMR), will request the Ministry of Finance to provide a 5 per cent tax break for factories that generate at least 20 per cent of its total energy requirement by renewable energy (e.g., solar energy).
c. Government should undertake a new project with a view to setting up a new leather industrial park exclusively for export-oriented enterprises. All needed facilities as per international standard should be there. Technical support of the Leather Working Group should be sought in this connection.
d. Government should implement a Carbon tax (7 per cent of gross energy expenses) for industries in a phased manner. This will contribute to reducing carbon emission. Companies should be encouraged to set their own roadmap for reducing their carbon footprint by 2030 in light of the SDGs.

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[12] Due to the pandemic nearly half of women SMEs to shut down for failing to pay rents.[12] Though the government allocated funds for women entrepreneurs under stimulus packages meant for CMSMEs, 58 per cent of them have not heard about it and 93 per cent women enterprises have not applied for any loan under the government support scheme (CPD, 2021). Amid this crisis situation improvement in the access to loans and training of the women entrepreneurs are crying need.
[13] According to the resilience index, estimated for 600 RMG enterprises (Moazzem et al., 2021), while the overall score was 43.4 (out of 100), the values for small, medium and large-scale enterprises were 37.8, 49.2 and 54.2 respectively.

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