Independent Review of

IRBD

Bangladesh's Development

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

An Analysis of the National Budget for FY2021-22

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The CPD IRBD 2021 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

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Introduction

- The budget for fiscal year (FY) 2021-22 is the 50th budget of Bangladesh. The Centre for Policy Dialogue (CPD) would like to congratulate the government of Bangladesh and the Hon'ble Finance Minister for presenting the budget during the difficult time of COVID-19.
- The national budget for FY22 has been announced at a time when the country is going through the second wave of the pandemic. Since the outbreak of the pandemic in Bangladesh in March 2020, the economy has been facing the most challenging period ever in the history of Bangladesh.
- The budget for FY22 has been prepared in the context of a number of emerging signs in the economy. Despite challenges the economy has been able to maintain some stability and experienced some positive trends in FY21. However, a number of weaknesses have also been visible during the outgoing fiscal year.

Macroeconomic Management of FY2021

- ***Despite exhibiting signs of improvement, the annual revenue mobilisation target is unlikely to be attained***
  - There is a turnaround in tax collection - 10.5 % during the July-April FY21 as opposed to (-) 9.3 % for the corresponding period of FY20)

- Non-tax sources posted an impressive growth (29.9 %)
- Total revenue mobilisation recorded 13.4 %growth during the first ten months of FY21 against the annual target of 43.7 % - will need to grow by an astounding 122.8%in the remaining two months of FY21!

Revenue mobilisation scenario during Jul-Apr FY21

Particulars	Growth (in per cent)			
	Annual Target	Jul-Apr FY20	Jul-Apr FY21	Required May-Jun FY21
Tax revenue	56.3	-9.3	10.5	182.2
Non-tax revenue	-21.9	36.4	29.9	-127.3
Total revenue	43.7	-4.5	13.4	122.8
Foreign grants	105.1	-45.3	-69.7	120.8
Total revenue and grants	44.1	-4.6	13.3	122.8

❑ *Weak implementation of public expenditure continues*

- Up to April FY21, implementation rate of total public expenditure was 42.0% - marginally lower than last year (43.9%)
- Such low levels of budget implementation when the economy is ravaged by the adverse impacts of the pandemic, and is experiencing a second wave, is a matter of grave concern
- It reflects both weak programming of the budget as well as weak administrative capacities in the area of budget execution

Implementation status of public expenditure

Particulars	Implementation rate (in per cent)	
	Up to April FY20	Up to April FY21
Operating activity except loan	50.4	50.2
Loans and advances (Net)	-426.6	-58.5
Development activity	33.2	29.0
Net food operation	2,286.0	683.2
Total expenditure	43.9	42.0

Public Finance

- ***ADP expenditure remains sluggish***
  - As per IMED data, only 48.7 % of the original ADP allocation was utilised during the July-April period of FY21
    - Implementation rate of the 'Taka component' of ADP was 49.4 %, while that of 'Project Aid' amounted was 47.5 %
  - Pace of implementation remains the lowest in the Health Services Division among the top ten ministries/divisions, with only a rate of 31.3 %during the July-April period
  - Given the increased pressure on the public health service sector in view of the COVID-19 pandemic, the current scenario is in stark contrast to the citizen's expectations and the realities of the demands on the ground

Public Finance

- ***Budget deficit is likely to be within the programmed limit***
  - During July-April FY21, the overall deficit (including grants) 42 % lower than the corresponding figure for the July-April period of FY20
  - While the revenue collection during the July-April period of FY21 recorded a double-digit positive growth rate, the public expenditure did not increase in a corresponding manner
  - High net sales of NSD certificates had largely financed the major part of the budget deficit till April, 2021 - 69.2 % growth
  - Use of net foreign financing also improved as a source of deficit financing in FY21
  - The debt-GDP ratio of Bangladesh was 35.9 per cent at the end of FY20
  - There should be ample scope for the policymakers to pursue an expansionary fiscal policy in view of the pandemic

Independent Review of IRBD Bangladesh's Development

Industrial production

- ***Growth in industrial production was subdued, especially for small industries***
  - During the July-December FY21, the growth rate of QIIP for large and medium industries was 5.7 % - 14.3 % for the same period of FY20
  - A substantial fall was observed in the growth rate of QIIP (1.8%) for small scale industries - 10.6 % for the same period of FY20
  - This is indicative of the slow pace of recovery in manufacturing and industrial production
  - A drastic difference is discernible in the rate of recovery across the sectors
    - Production of textile and apparels, two of the largest manufacturing industries, registered negative growth rates of (-) 5.2 % and (-) 7.2 %, respectively
    - In contrast, production of leather and associated products registered an extraordinary growth rate of 32.6 %, despite the negative growth of export earnings to the tune of (-) 6.2 % during the corresponding period

Inflation

- ***Food inflation is creeping up***
  - General inflation at the national level remained somewhat stable during the first ten months of FY21
  - FY21 started with a food inflation of 5.43 % at the national level, which gradually crept up to 5.73 % in April FY21
  - In contrast, non-food inflation at the national level decreased to 5.22 % in April FY21 from 5.79 % in July FY21
    - Within non-food items, inflation related to medical care and health expenses increased to 8.64 % in April FY21 from 7.47 % in July FY21
  - Rising trends in food inflation and that related to healthcare is worrisome, particularly in view of the ongoing COVID-19 pandemic, as these are expected to adversely impact the low-income population disproportionately

Monetary aggregates

❑ ***Private sector credit did not pick up despite stimulus packages***

- Industrial term loan: (-) 30.8% lower during H1 of FY21
- Loans to SMEs: (-) 0.3 % during H1 of FY21
- Agricultural credit was on a decline throughout the fiscal year and recorded a 9.6 % growth during July-February of FY21
- Non-farm rural credit: (-) 2.2 % during July-February of FY21
- Despite average interest rate on lending being at a historical low point (7.5%), private investment did not pick up

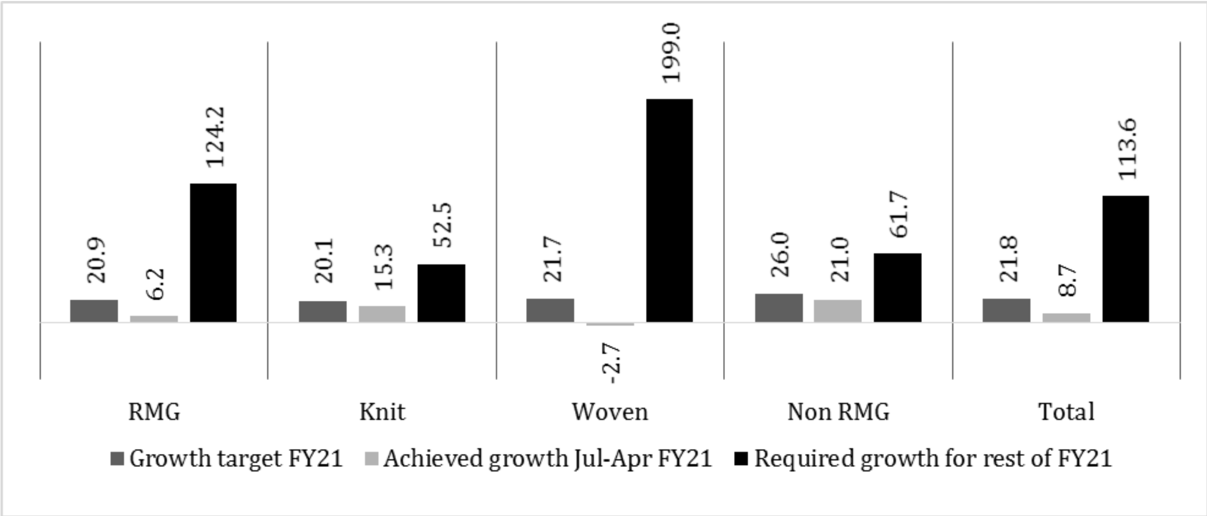
Growth of monetary aggregates (in %)

Indicators	Mar 21	Jun 21 (Jul 20 MPS target)	Jun 21 (Revised target)
1. Net foreign assets	29.7	5.8	20.1
2. Net domestic assets	8.7	18.3	13.6
2.1 Domestic credit	11.4	19.3	17.4
2.1.1 Credit to the public sector	28.3	44.4	31.7
2.1.2 Credit to the private sector	8.8	14.8	14.8
3. Broad money	13.2	15.6	15.0
4. Reserve money	11.3	13.5	13.5

❑ *A limited scale rebound is observed in export earnings*

- Total export earnings increased by 8.7 % during the July-April period of FY21 against the annual growth target of 21.8 % - likely to remain significantly below the pre-pandemic level of $40.5 billion
- Estimates carried out by the CPD indicates that the share of Knit-RMG export in total export has been on the rise, which is a positive structural change in terms of domestic value addition component

Current scenario of export (July-April FY21)



External sector

- ***Some turnaround is noticed in the import payments scenario***
  - Growth of import payments reached 6.1% in Jul-Mar FY21 which was (-)4.8% in same period last year - primarily driven by intermediate goods
  - More than 77% of the incremental payments were made against imports of intermediate goods, thanks to crude petroleum and petroleum products which contributed almost entirely to the incremental growth of total imports
  - Given the declining food stock situation in Bangladesh, payments for food grains import increased by 20.9% during the July-March period of FY21
    - Mainly due to a whopping 3059% growth in rice import
  - However, import payments for capital machineries declined by (-) 12.8%
  - It is to be noted that, during the same period of the previous fiscal year, capital machinery declined by (-) 30.6%
  - This, once again, points towards the depressed investment scenario prevailing in the backdrop of the pandemic

External sector

- ***Surplus in overall balance and continued rise in foreign exchange reserve attributable to phenomenal inflow of remittances***
  - Current account had a surplus of USD 0.1 billion during Jul-Mar FY21
    - *thanks to extraordinary remittance inflow (35.1 % growth in 10 months)*
  - Regrettably, net FDI inflow has fallen by (-) 8.0 % during Jul-Mar FY21
  - Overall balance recorded a surplus of nearly USD 7.0 billion - only USD 0.6 billion for the corresponding period of FY20
  - Foreign exchange reserves reached USD 45.0 billion at the end of April 21
  - Exchange rate of BDT against USD remained stable throughout the July-April period of FY21 thanks to periodic interventions by the Central Bank

Introduction

The trends of macroeconomic correlates in the ongoing FY21 reveal a number of contrasting developments when compared to previous year (FY20)

Negatives	Positives
Pace of public expenditure	Growth in revenue mobilisation
Growth in industrial production for small industries	Growth in industrial production for large industries
Rising food inflation	Declining non-food inflation
Disquieting trends in overseas migration, import of capital goods and FDI inflow	Positive developments in export earnings, remittance inflow and foreign exchange reserves
Subdued private sector investment as reflected in growth of term loan, credit uptake and imports of capital machineries	

Macroeconomic Framework of Budget FY2022

Macroeconomic Framework

The macroeconomic framework and 8FYP

Indicator	FY20(p)	RBFY21	BFY22	8FYP target				
				FY21	FY22	FY23	FY24	FY25
GDP growth (%)	5.2	6.1	7.2	7.4	7.7	8.0	8.3	8.5
Gross investment (as % of GDP)	31.8	32.3	33.1	32.6	32.7	34.0	34.9	36.6
Private investment (as % of GDP)	23.6	24.2	25.0	24.4	24.5	25.3	26.1	27.4
Public investment (as % of GDP)	8.1	8.2	8.1	8.2	8.2	8.7	8.9	9.2
Expenditure (as % of GDP)	14.9	17.5	17.5	17.1	16.9	17.6	17.9	19.1
CPI inflation (%)	5.7	5.4	5.3	5.1	4.9	4.8	4.7	4.6
Private sector credit growth (%)	8.6	14.8	15.0	14.2	14.5	14.3	14.2	14.0
Export (growth in %)	-17.1	12.0	15.0	12.1	10.3	10.5	10.6	10.8
Import (growth in %)	-8.6	11.0	14.0	10.0	10.0	10.5	11.0	11.5
Remittance (growth in %)	11.2	35.0	15.0	8.0	7.0	7.0	7.0	7.0

- It appears that the budgetary framework anticipates most of the macroeconomic correlates to perform better than the targets set in 8FYP
  - Except for GDP growth and inflation
- The macroeconomic framework in FY21 is largely flawed and far from reality!
- Hence, the projections for FY22 are also weakened!

Macroeconomic Framework

- The budgetary framework of MoF projected a 6.1% GDP growth in FY21 – no basis of such projection is discussed
  - Provisional estimates from BBS for FY21 are not available as yet
  - Even final estimates for FY20 are still unavailable!
- **Private investment** has been estimated to be 25.0% of GDP in FY22
  - In FY22, Tk. 117,000 crore (approx.) will be additionally required for private investment (15.6% increase in nominal terms) based on the MoF estimates for FY21 (Tk. 747,135 crore)
- **Growth of credit to private sector** has been set at 15.0% in FY22 – almost same as FY21
  - As of March 2021, private sector credit growth was only 8.8%
- **Growth target for export earnings** has been set at 12.0% in FY21
  - Up to May FY21, total export growth was 13.6%

Fiscal Framework of Budget FY2022

Fiscal Framework

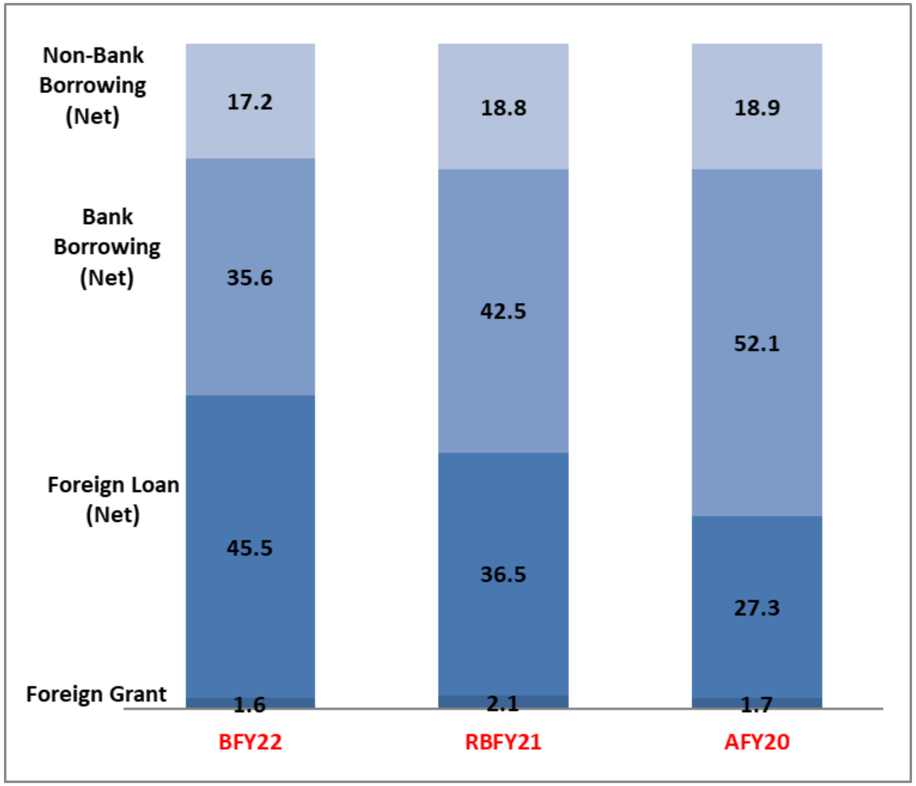
Broad fiscal framework for FY22

- **Public expenditure** (12%) projected to grow **faster** than **revenue mobilisation** (10.7%) when compared to their respective RBFY21 targets
  - CPD projects a revenue shortfall of about Tk. 80,000 crore in FY21. This takes the actual revenue mobilisation growth target to 30.5%
  - Total budget expenditure is set at 17.5% of GDP (same as RBFY21)
  - Revenue income will be 11.3% of GDP (11.4% in RBFY21)
- **Development expenditure** (14.0%) programmed to grow **faster** than **Operating expenditure** (11.7%)
- **ADP**: 37.3% of total public expenditure (36.7% in the RBFY21)
- **Budget deficit** has been projected at 6.2% of GDP (6.1% in RBFY21)
- The envisaged deficit is likely to be financed by significant increase in foreign borrowing and reduced bank borrowing!

<u>The proposed targets in FY22 Budget are far from reality if most likely actual figures at the end of ongoing fiscal year (FY21) are taken into consideration. This has significantly weakened the fiscal framework of that informs FY22 Budget</u>

Budget Deficit and Financing

- Share of **domestic financing 52.8**% in FY21 (61.4% in RBFY21)
- Tk 76,452 crore (35.6% of total) will come from the bank borrowing – lower than RBFY21
- Tk. 32,000 crore from net sale of NSD certificates
- Entire incremental budget deficit will be financed through foreign aid
- Gross foreign aid requirement will be around **USD 13.8 bln** (USD 10.1 bln in RBFY21)



- **Utilisation of foreign aid will hinge on ability to implement the planned ADP projects (76.1%) and COVID-19 related special assistance (18.5%)**
- While foreign debt and debt servicing are well within acceptable limits, there is a need for a clear picture for emerging debt scenario. Foreign debt servicing payments has risen by 50% in two years.

COVID-Induced New Poor

- ***COVID-19 has created new poor***

  - Various surveys have demonstrated
  - CPD Survey in February 2021
    - ✓ Employment loss (60%) at some point in time
    - ✓ February 20 – February 21: 12% of the salary reduced
    - ✓ Hidden unemployment created in agriculture
    - ✓ Many moved from service sector to agriculture
    - ✓ Income inequality has increased

Fiscal Measures of Budget FY2022

Fiscal Measures

- ***Personal Income Tax (PIT) structure remains generally unchanged***
  - Transgenders' tax-free limit raised to Tk. 3.5 lakh – *will promote social inclusion*
  - The highest PIT rate should be reinstated at 30% for top earners - *reducing the highest tax rate (from 30% to 25% in FY21) was against the cause of promoting tax justice*
  - The second slab for PIT which is 5% for additional Tk. 1 lakh should be increased to Tk.3 lakh to provide cushion to low income earners
  - Payees with highest wealth (Tk. 50 crore) have to pay **wealth surcharge** at a higher rate of 35% (from 30%) – *a potential source of revenue generation. Right step in view of promoting equity*

Fiscal Measures

❑ *Major changes in Corporate Income Tax structure*

- CIT decreased for publicly traded companies (22.5% from 25%), non-publicly traded companies (30% from 32.5%), one person companies (25% from 32.5%), association of persons (30% from 32.5%). - *measure will provide relief to corporate entities with expectations that this will encourage more tax compliance*
  - **Tax rate for one-person companies should remain at 30%** *- to ensure uniformity*
- Rates for banks, insurances (37.5%-40%), cigarette companies (45%+2% surcharge), telcos (40%-45%) remained unchanged
- CIT for MFS institutions have been raised to 37.5%-40% from 32.5%. However, no MFS institution has reported earning profits in recent period.
  - Fair competition for lowering the cash-out rate may be hampered *- the burden is likely to be passed on to end-users (mostly unbanked/marginalised people)*
- CIT imposed on private universities and private medical colleges at 15%. Minimum amount of tax may be raised, if there any! *Non-profit entities and educational institutes should not be taxed mostly*
- Minimum turnover tax for personal businesses have been reduced to 0.25% from 0.5%. – *welcome move*
- Fish farmers (with over Tk. 20 lakh turnover) to pay income tax at 15% rate. - *revenue generating measure*

Fiscal Measures

- **Tax deducted at source (TDS)** for suppliers' payments has been raised by a significant margin

Payment to suppliers	Current rate	Proposed rate	Rise
up to 15 lakh	**2%**	**3%**	**50%**
<15 lakh to 50 lakh	3%	3%	0%
<50 lakh to 1 crore	**4%**	**5%**	**25%**
<1 crore to 2 crore	5%	5%	0%
<2 crore	**5%**	**7%**	**40%**

  - About 22% of TDS income was sourced from suppliers' payments in FY18 while TDS accounts for more than 60% of total earnings from income tax - *a major source to generate additional revenue*

- TDS is exempted for workers without taxable income participating at Workers Profit Participation Fund (WPPF) only up to Tk. 25,000. –*should be exempted for all workers without taxable income irrespective of the amount of funds received*

Fiscal Measures

- ***Tax holiday expanded for a wide range of sectors***
  - Currently 33 manufacturing industries are enjoying such benefit
  - On top of **existing 22 ITES** enjoying tax exemptions, the provision has been expanded to cloud services, system integration, e-learning platform, e-book publications, mobile apps development service and IT freelancing until 2024 – *timely move to encourage more young IT entrepreneurs*
  - **Mega industry** (e.g. three and four wheelers producers who invest at least Tk. 100 crores for ten years) or **home appliance producers** which promote **Made in Bangladesh**
  - Establishment of **vocational and technical institutions** which impart training to develop skilled human resource
  - Entrepreneurs of **Light Engineering** and **IT Hardware**
  - Investment for establishing **hospitals** in cities other than Dhaka, Narayanganj, Gazipur, Chittagong
  - **Women Entrepreneurs in SME sectors** to receive tax exemption up to Tk. 70 lakh
- All these initiatives have long-term revenue implications. Use of these provisions will need to be carefully monitored

Fiscal Measures

❑ *Untaxed/undisclosed money provision*

- Special tax treatment extended for investments in securities and for undisclosed property and cash will end by 30 June 2021. Nor mentioning anything about this should be interpreted as not providing any such opportunity hereon
- However, clauses related to special tax treatment for investments in building/ apartment, BIFF bond and economic zone or hi-tech parks will continue
- CPD urges to announce an SRO withdrawing all such provisions and these to be discontinued with a view to disincentivise tax avoidance/tax evasion

Fiscal Measures

Modernisation of Agriculture Sector and protecting the domestic producers

- Zero tariff continuation on major **agricultural inputs imports**, **essential food items**, and duty rationalization on other daily commodities imports – *welcome move*
- Increased tariff on **carrot, mushroom, industrial salt** and **meat** imports and
- Minimum value fixation for carrots, mushrooms, green chilies, tomatoes, oranges and capsicum – *will protect domestic farmers*
- CD reduction on agricultural inputs for local meachinery production, VAT exemption at manufacturing and trading stages for weeder and winnower, Advance Tax (AT) exemption at local stage on thresher machine, power reaper, power tiller, operated seeder, combined harvester, rotary tiller, weeder and winnower– *will encourage mechanization of agriculture*
- However, CPD observes that for **rice huller and wheat crusher**, total tax incidence has been increased to 43% from 37%

Fiscal Measures

Developments in health services

- Continuation of VAT exemption facility at import, manufacturing and trading stage and also tariff exemption on **COVID-19 test kit, PPE and vaccine**, on **meditation service,** local VAT exemption on **autism related services, sanitary napkin** production, SD withdrawal from locally manufactured "Long Pan" – *welcome decision to promote medical services, support of the disadvantaged, will ensure health protection of women, will make sanitation cheaper for rural people*
- More raw materials included for the local production of Active Pharmaceutical Ingredients (API) in the existing concessions – *will be helpful for the pharmaceutical industry*

Tax on Tobacco and Tobacco related products

- Prices and duties of cigarettes under high and premium slabs have been raised
- Whereas others remained unchanged (lower and medium slab cigarettes, bidi, jarda, gul etc.) - *considering the health consequences of these harmful products, both **price and SD** on the bidi, jarda and other low slab products should be raised as well*

Fiscal Measures

Promotion of domestic industrialisation

- Advance Tax (AT) on **imported raw materials for manufacturing industries** has been reduced to 3% from 4%. AT was reduced 1 percentage point in FY21 - *will further encourage local manufacturing industries*
- For local **LPG cylinder manufacturers,** only 5% VAT continues in FY22, reduced VAT on **paper cone manufacturing,** VAT exemption extended for: **refrigerator** (till FY23 and also duty concession for raw materials), polypropylene staple fiber (till FY24), **air conditioner** (till FY25), **motor vehicle** (till FY26), duty concession on certain **raw materials of TV manufacturing** industry and **refrigerator and compressor manufacturing** industries; 15% VAT only on net commission of locally produced **tiles and sanitaryware** - *will encourage the sectors to grow and to reduce VAT burden on dealers and distributors*
- VAT exemptions: for **manufacturing of blender, juicer, mixer, grinder, electric kettle, rice cooker, multi cooker, pressure cooker** *(local production stage)*; in manufacturing of **washing machine, microwave oven and electric oven** *(production level)*; on manufacturing of **puffed rice, fresh fruit** (trading stage) and Exemption of Advance Tax (AT) at local stage: on certain **raw materials of iron products**, **scrap vessel** and raw materials used for **manufacturing of PVC and PET resin** – *will reduce dependency on foreign goods*

Fiscal Measures

Promotion for SMEs

- 1% exemption rate for the import of capital machineries
- Duties and minimum values on import of some finished products have been raised
- Concessional facilities provided for import of raw materials
- Duty-free access for some of the raw material imports of the endangered conch industry - *all will help protect small and medium industries*

Development of local mobile handset industries and ICT sectors

- Continuation of VAT exemption on **manufacturing and assembling of mobile phone** (till FY24) and duty concessions on **raw materials of phones** and increased tariff on **feature phone imports -** *will expand and protect local manufacturing, assembling and backward linkage industries of cellular phone production*
- New exemption on **local manufacturing of computer accessories,** Concessionary import of computer accessories and raw materials of ICT industry and– *will protect domestic computer / laptop and ICT product manufacturers*
- inclusion of **e-learning** and **e-book** as ITES – *welcome move*

Fiscal Measures

Automobile sector benefitted

- Duty rationalisation of some raw materials for **motorcycle manufacturing/assembling** – *will help development of the industry*
- Tariff reduction on imports of **hybrid vehicles** – *to encourage the use of environment friendly hybrid vehicles*
- Tariffs reduced on **microbus imports** and 'Moped'– *likely to encourage the use*

Duty concessions for export-oriented industries

- Inclusion of **photosensitive rotary screen**, **temperature sensor** and loaded PCB in the concessionary rate – *will protect the textile industry*
- No duty rationalization for **non-cotton textile raw material** imports
- Concessionary rate for the import of two raw materials for the footwear industry – *will help export diversification and encourage the potential footwear industry*

Beneficial changes at import stage

- Import concessions for core raw materials (Cold Rolled Iron / Steel)*– will protect **local fire-resistant door manufacturing** industry*
- 3% RD on the import of finished iron wire products *– will protect **iron wire industry***
- Reduced CD of plastic framework and coated calcium carbonate *– to develop **cable and internet cable manufacturing** industry*
- CD decreased on additives (one of the lube blending industry raw materials) *– will protect the **lube blending industry***
- CD increased on recycled lube base oil and lubricating oil*– will discourage import of environmentally harmful products*
- Concessionary facilities for import of 4 raw materials (artificial corundum, aluminum oxide, coated / impregnated paper and paperboard, coated textile fabrics) *– will facilitate **sand paper manufacturing** industry*
- CD reduced on parts of LED light manufacturing/assembling industry*– will ensure alignment between manufacturing and assembling industry*
- Reduced CD for 3 raw materials – *will promote manufacture of **gypsum board and particle board industry***
- Extended import VAT exemption for **ocean-going vessels** to 25 years old vehicles from existing provision of 22 years old vehicles *–will facilitate sector's business environment*

Fiscal Measures

- Overall observations as regards Indirect Tax Measures
  - Rationalisation of tariffs
  - Support to domestic import-substituting industries
  - Encourage export diversification
  - Incentivisation to promote investment
- These measures will likely to lead to fall in revenue collection over the medium-term will be helpful for stimulating the economy
- However, monitoring will need to be strengthen to discourage misuse

Reform initiatives

- The Finance Minister has mentioned a number of reform measures related to direct tax, VAT and Customs development. However, these are long overdue
- The draft of the Income Tax Act 2021 has been prepared by modifying the Income Tax Ordinance, 1984
  - Speedy passing of the draft Income Tax Bill is important to modernise the tax collection system
- NBR has already taken some initiatives, such as the upgradation of ASYCUDA World, Consolidation and integration of iBAS++, piloting of electronic return filing (e-return) implementation of NSW project, introduction of E-TDS System, introduction of automated customs risk management, automation of bond management, introduction of authorized economic operator system etc.
  - However, these projects were to be fully implemented by now. There should have been deadlines set for their full operationalisation
- As of now, about 3,000 EFD/SDC have been installed
  - NBR plans to install another 7,000 machines by June 2022.
  - However, this will cover only 3.9% of business entities that have received online VAT registration. CPD had drawn attention to the need for a faster installation of these for expansion of the VAT-net

Budgetary Allocation in FY2022

Budgetary Allocation

Sector	FY22	
	Share in budget	Share of GDP
Public Service	18.7	3.3
Education and Technology	15.7	2.7
Transport and Communication	11.9	2.1
Interest	11.4	2.0
LGRD	7.0	1.2
Defence Services	6.2	1.1
Social Security and Welfare	5.7	1.0
Health	5.4	0.9
Agriculture	5.3	0.9
Public Order and Safety	4.8	0.8
Energy and Power	4.6	0.8
Housing	1.1	0.2
Recreation, Culture and Religious Affairs	0.8	0.1
Industrial and Economic Services	0.7	0.1
Others (Memorandum Item)	0.8	0.1

Increased from RBFY21 (green) — Decreased from RBFY21 (red)

- Public services sector accounts for 26.8% of total incremental expenditure; followed by education, and technology (thanks to Rooppur Power Plant)

Budgetary Allocation: ADP

- The **top 5 sectors** have received **76.3%** of total ADP allocation
  - **Transportation and Communication Sector** once again has received the highest allocation (27.4% of total) for the highest number of projects (290). **Power and Fuel** have received second highest share in ADP allocation
  - These two sectors account for about 48% of total ADP allocation
  - Rooppur project accounts for 40.3% of total allocation for Power and Fuel sector

Sector	No of projects in ADP FY22	Share (%) ADP FY22
Top five sectors	**743**	**76.3**
Transportation and Communication	290	27.4
Power and Fuel	83	20.4
Housing and Community Facilities	188	10.5
Education	117	10.3
Health	65	7.7
Other 10 Sectors	**683**	**22.1**
Development Assistance	NA	1.7
Total	1426	100.0

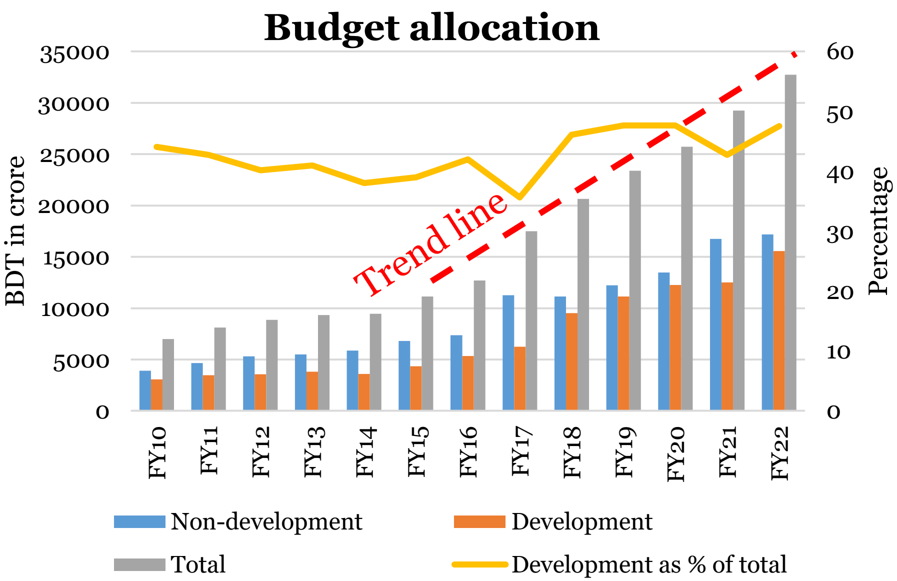
Budgetary Allocation: ADP

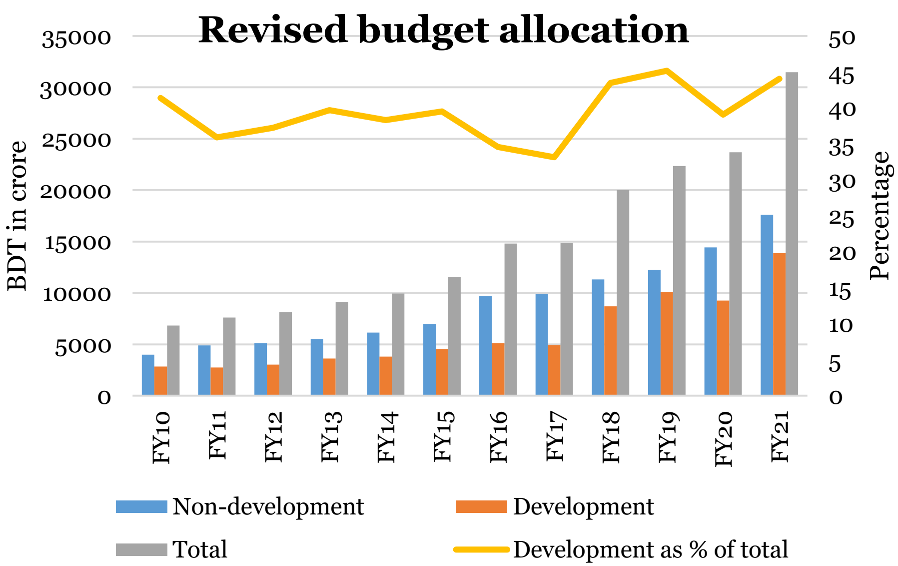
- Physical infrastructure-related sectors have continued to dominate with inadequate attention to **Health, Agriculture, Social Welfare** and **Labour & Employment sectors**
- The share of Health sector in ADP FY22 (7.7%) has increased from 6.4% in ADP FY21 – however, given the pandemic situation the increase remains below what is needed
- It includes only **two continuing projects** related to COVID-19 titled "COVID-19 emergency response and pandemic preparedness" and "COVID-19 response emergency assistance" co-financed by World Bank and Asian Development Bank
- No new project has been proposed to particularly address COVID-19
- Also, no COVID-related project was found in the list of 'Unapproved projects without allocation'

- Share in ADP allocation has declined marginally **for Agriculture** sector, from 4.1% in FY21 to 3.4% to FY22 at a time when ensuring food security remains a high priority

Budgetary Allocation: Health

- Total budget allocation for health has increased **only by 12%,** from BDT 29,247 crore in FY21 to BDT 32,731 in FY22, which was lower than the 14% average annual increase in total budget allocation for health between FY11 and FY22
  - Increase in total budget allocation for health in FY22 followed a linear trend line, indicating that the **rise was business-as-usual and nothing out of the ordinary**, despite the fact that the healthcare sector is reeling from the shocks of COVID-19
  - Development budget allocation has increased by 24.46%, whereas non-development budget allocation increased 2.54%
  - Share of development budget allocation in total budget allocation has increased from 43% in FY21 to 48% in FY22
  - Share of revised development budget allocation in total budget allocation has increased from 39% in FY20 to 44% in FY21

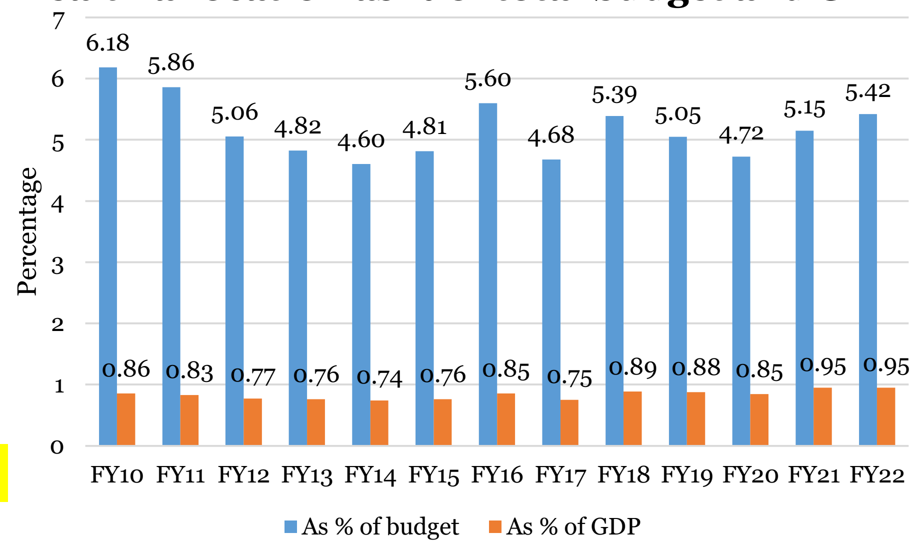




Budgetary Allocation: Health

- ❑ Allocation for health as a share of the total budget has increased from 5.15% in FY21 to **5.42% in FY22 but declined compared to RBFY22**
  - ➢ **Lower than the allocation of 6.18% of budget in FY10** when there was no pandemic
- ❑ **Allocation for health as a share of GDP remained the same (0.95%) between FY21 and FY22**

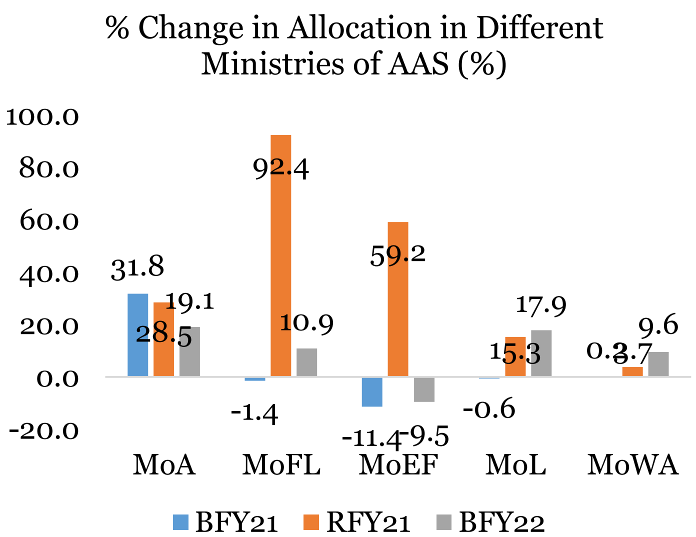
Health allocation as % of total budget and GDP

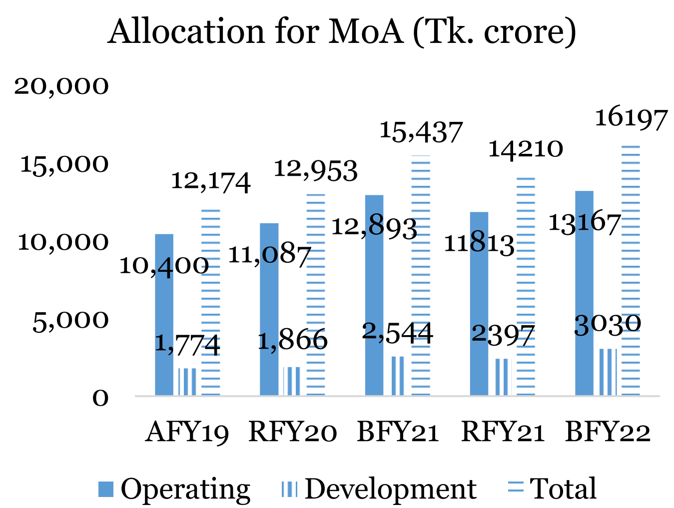


- ❑ **Budget allocation for health has been less than 1% of GDP for the past 13 years indicating that healthcare was never a priority sector for the government; in 2017 at least 30 LDCs spent more than 1% of GDP on health**
- ❑ Surprisingly, even the COVID-19 pandemic was not reason enough for the government to prioritise the healthcare sector in FY22
- ❑ Out-of-pocket expenditure on health in Bangladesh is not only the **highest in South Asia**, but also **increasing over time**

Budgetary Allocation: Agriculture

- Overall allocation for Agriculture and Allied Sectors (AAS) is Tk. 31912 crore in BFY22 which is 7.4% higher than RFY21 (Tk. 29,725 crore in RBFY21)
    - However, the share of AAS in total budget has decreased (3.6 percentage point) compared to that in RBFY21
- MoA received the highest share of allocation within the AAS (50.8% which has significantly increased-44.5% from RBFY21).
    - The share of MoEF has also increased (3.8% in FY22 and 3.2% in RFY21)
- MoL has received a significantly higher budget allocation (22.2% in BFY22 than 19.4% in BFY21 due to increased allocation in development budget
    - This is perhaps because of the ongoing ADP projects to digitally record land areas and others





Budgetary Allocation: Agriculture

- ❑ Distribution of projects indicate that agriculture sector is burdened with carry-over projects
    - ➢ More than 50% are continuing projects and 28% are concluding projects
    - ➢ About 19% are carryover projects
- ❑ A number of concluding projects (by June, 2022) will make positive contribution to food production/storage including production of high quality pulses, repair of storages, warehouse and household silos etc
    - ➢ Adequate allocation should be made for a number of concluding projects related to crop production through solar irrigation, fish production and fish farming technology expansion etc
- ❑ If the allocation for carry over projects such as livestock development, horticulture crop production, is not adequate, there will be adverse impact on production and employment
    - ➢ Necessary allocation should be made to complete those projects as quickly as possible

Distribution of ADP Projects under AAS

Types	Number	%
New Projects	3	1.9
Continuing	80	51.3
Concluding	44	28.2
Carry Over	29	18.6
Total	156	100

Carry Over Projects

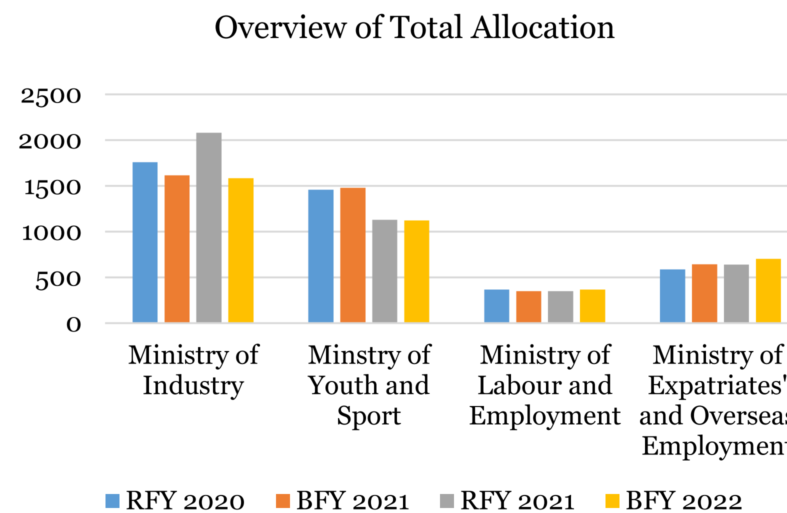
Project Name	Completion rate by FY22
Integrated Livestock Development Project in Coastal Chars 01/07/2018—30-06-2021	90%
Strengthening flower marketing system through market infrastructure, storage and transportation facilities 01/10/2018—30-06-2021	54%
Safe horticultural crop production and post-harvest technology expansion project (1st Revised) 01/07/2018—30-06-2021	37%

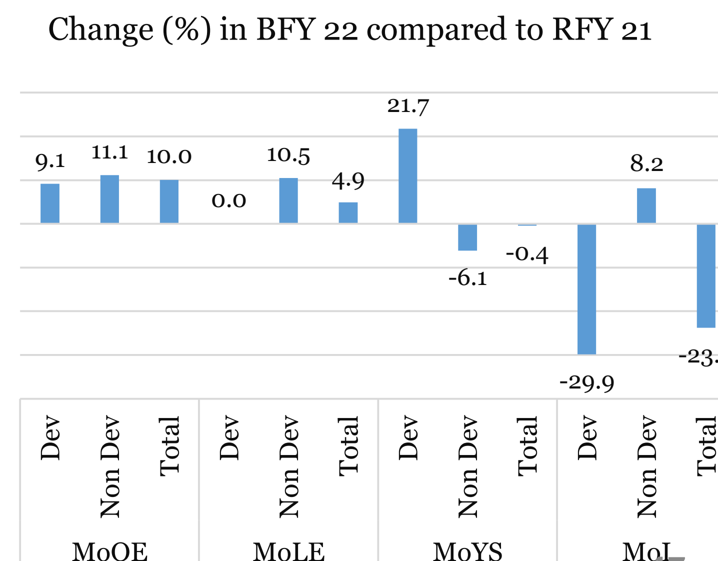
Continuing Projects

Development of micro-irrigation through the use of solar energy 01/10/2018—30/06/2023	48%
Building modern food warehouse 01/01/2014—31/10/2023	46%
Sustainable coastal and marine fisheries programme 01/07/2018—30/06/2023	34%
Sustainable forest & livelihood 01/07/2018—30/06/2023	43%

Budgetary Allocation: Employment Generation

- The FY 2022's budget was expected to put emphasis on employment generation as the pandemic continues to affect the economy through job losses and low wages
  - The budget's assumption is that fiscal incentives at enterprise level will induce entrepreneurs to invest during the ongoing crisis
  - However, experience of FY2021 indicates that investment depends on other factors as well (e.g., ease of doing business; competitiveness environment)
- Allocations for four employment-generation related ministries do not show any tangible change
  - The overall allocation for MoI, MoLE, MoYS, & MoEOE decreased by 10% compared to last fiscal year (revised)
- Although MoI received the highest allocation among the four (Tk. 1584 Crore), its total (-23.8%) & development (-29.9%) allocation have been reduced
  - The development allocation, on the other hand, has been increased for MoYS (21.7%), MoOE (9.1%), while it remains the same (0%) for MoLE





CPD (2021): An Analysis of the National Budget for FY2021-22

Budgetary Allocation: Employment Generation

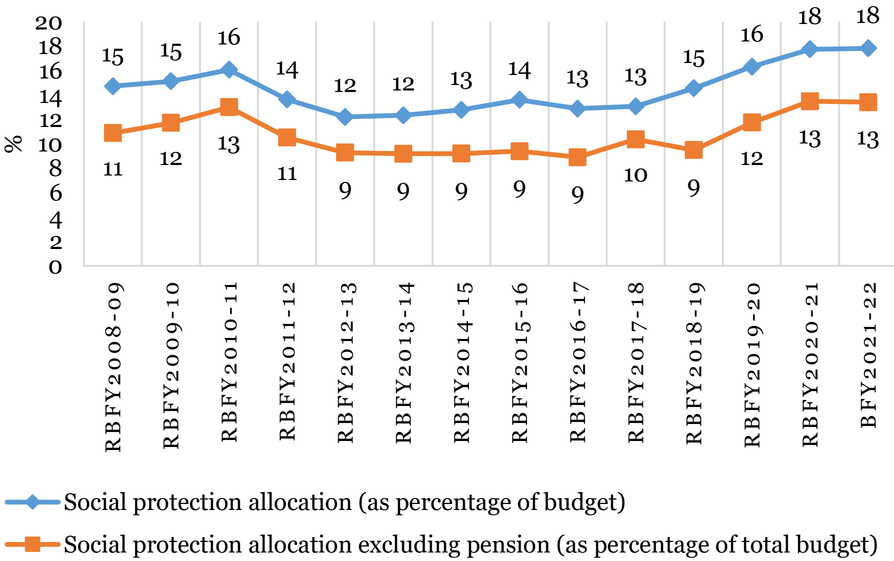
- The initiatives in support of SMEs do not meet and match expectations
  - The SMEs have been suffering from credit crunch while the first stimulus package is already near the end of disbursement (73% of total fund disbursed)
  - Along with the proposed tax cuts for SMEs, a new stimulus package should be designed to provide money in their hand and assist them in salvaging their business during the ongoing crisis
- A number of fiscal incentives have been proposed which would encourage investment/reduce operational costs and thereby promote employment
  - Most of these incentives are enterprise-oriented which will help reduce operational costs. Whether enterprises will be encouraged to take the advantage will depend on the covid situation & its containment and whether they have cash in hand for investment
  - CPD suggested, along with reducing tax for enterprises, a payroll tax cut (e.g., raising the tax-free limit of income tax) for employees should be introduced to create more jobs in the time of crisis to stimulate consumption
- No major initiatives regarding introducing the unemployment benefit/insurance except for the small one for the export-oriented sectors under the social safety net
  - Introduction of unemployment benefit will help the left-out people. This will also stimulate the aggregate demand
  - Initiative targeting the RMG, and other export-oriented sectors is already underway with the funding of the EU. But due to the lack of data and cooperation from the employers, the initiative is yet to make any headway

Independent Review of iRBD Bangladesh's Development

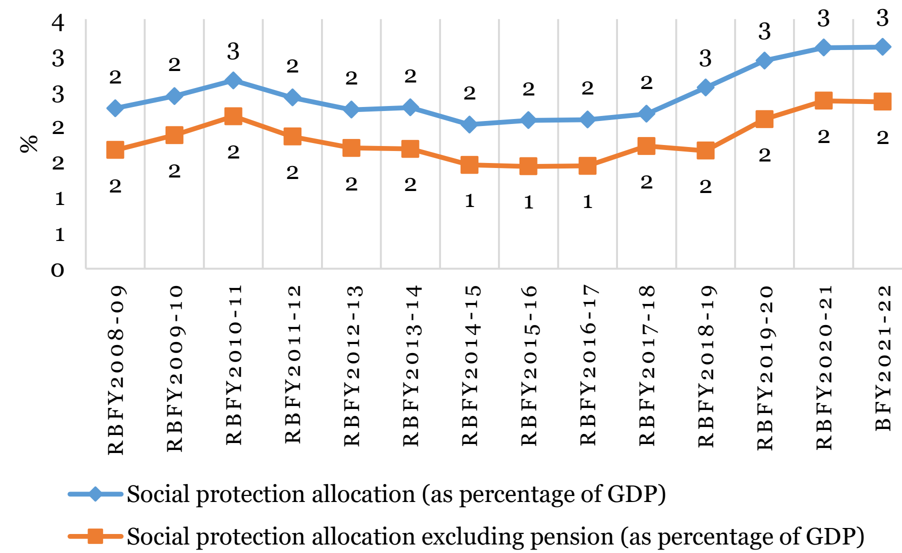
Budgetary Allocation: Social Safety Net

- Overall social safety net budget as a percentage of budget and GDP increased slightly from RBFY21 to BFY22
- **Social safety net budget excluding pension as a percentage of budget decreased 13.49% from RBFY21 to 13.41% in BFY22**
- **Social safety net budget excluding pension as a percentage of GDP decreased** 2.35% from RBFY21 to 2.34% in BFY22

Social protection allocation as a % of budget



Social protection allocation as a % of GDP



Budgetary Allocation: Social Safety Net

Some programmes where allocation decreased in BFY22

Description	RBFY21 (BDT in crore)	FY22 (BDT in crore)	Change (in %)
Work For Money (WFM)	2277	1500	-34
Test Relief (TR) (Cash)	2325	1450	-38
Skills and Employment Programme in Bangladesh	60	49	-19
Development of the Living Standard of the Marginal Communities of Bangladesh	15	7	-52
Multi-Sectoral Programme to Prevent Violence Against Women (4th Phase)	27	18	-36
Income Support Program for the Poorest (Care+ Dream)	626	572	-9
Infrastructure and Livelihood Improvement in Haor & Costal Area	319	208	-35
Flood Management and Livelihood Improvement Project in Char/Haor Area	191	135	-29
Improved Living Standard for Low-income People	70	40	-43
Integrated Livestock Development to Improve the Socio-economic and Quality of Life of the Backward Minorities Living in the Plain-land	41	32	-23
Child Sensitive Social Protection in Bangladesh	15	14	-6
Development Programs for the Distressed and Neglected Women and Children	53	44	-19
Char Development and Settlement Project-bridging	131	77	-41
Rural Infrastructure Development (Non-ADP)	1877	1500	-20

- **Allocation has been cut for programmes protecting livelihoods**, such as Work For Money and Skills and Employment Programme in Bangladesh
- Allocation has also been cut for several **programmes which address the needs of marginalized, vulnerable, and left behind communities**

Independent Review of Bangladesh's Development

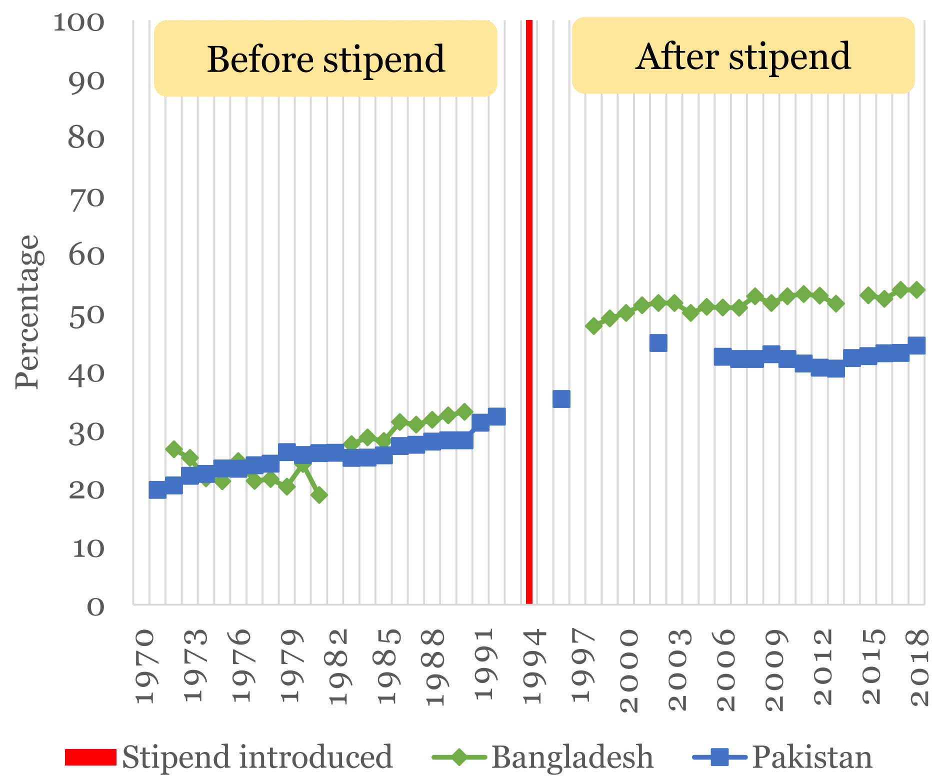
Budgetary Allocation: Social Safety Net

❑ Allocation for 3 kinds of education stipends have been cut in FY22

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

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

Secondary education, general pupils (% female)



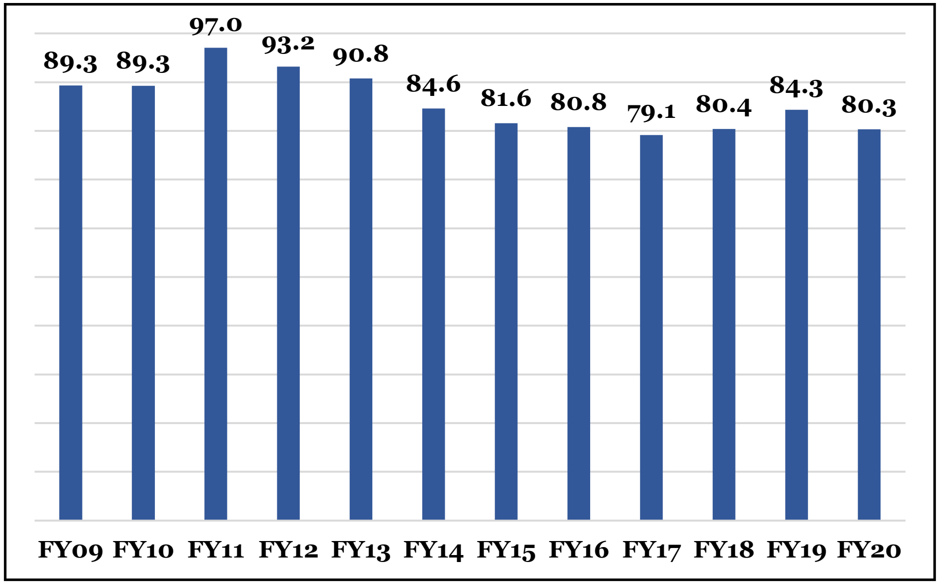
CPD (2021): An Analysis of the National Budget for FY2021-22

Implementation Challenges

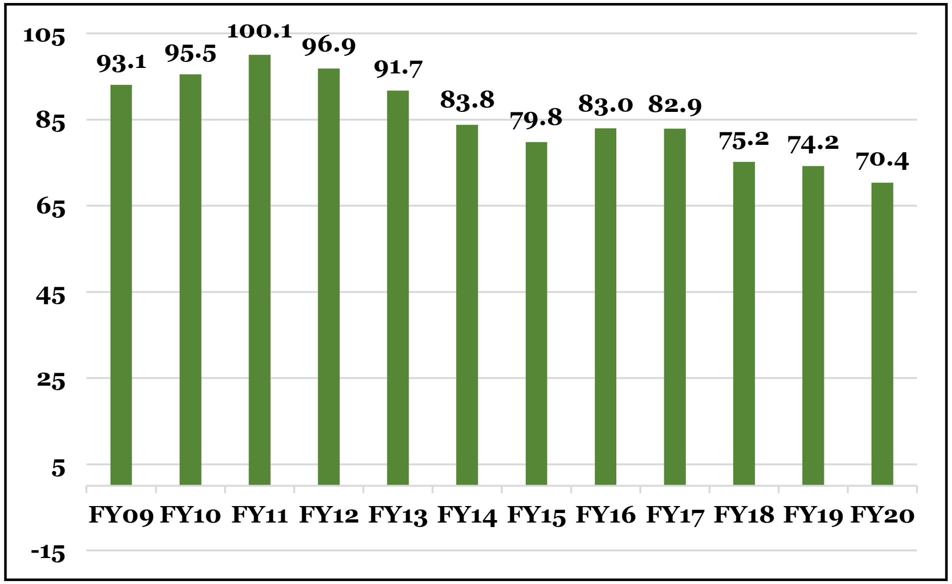
Independent Review of Bangladesh's Development

Implementation Challenges

Implementation Rate (%): Public Expenditure



Implementation Rate (%): Revenue Mobilisation



- Over the years, implementation rate of budget both in terms of revenue mobilization and public expenditure has been declining

Implementation Challenges: ADP

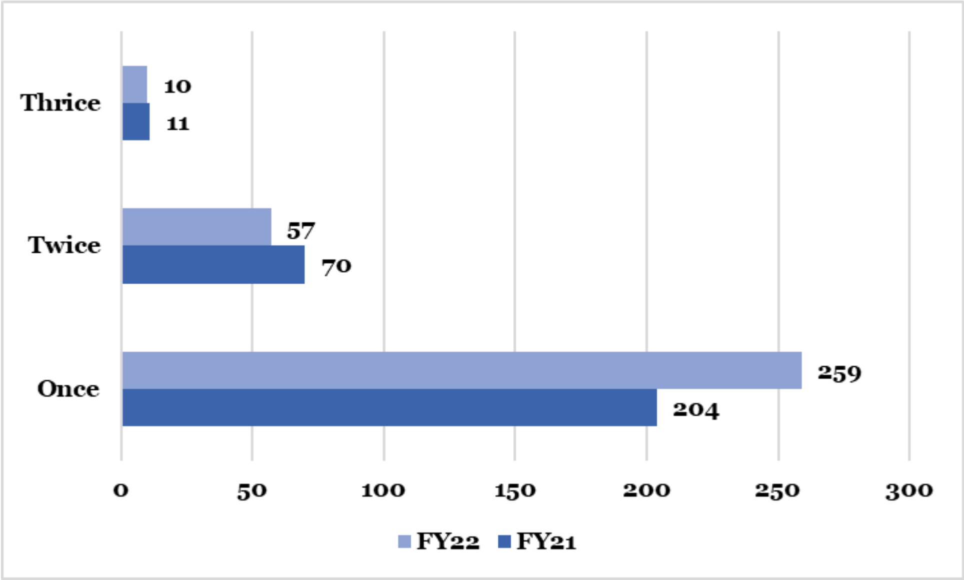
- A total of **441 projects are scheduled to be concluded in FY22**, according to project completion timeline
- Tk. 51321 crore is allocated for 14 mega projects (all infrastructure including fast-track and based on project size) which is 22.8% of total ADP of FY22.
- 8 out of 14 mega projects are scheduled to be completed in FY22
  - None of these projects has received the required allocation for completion in FY22 – not even the Padma Multipurpose Bridge project
- **622** 'carryover' projects account for **25.4%** of the total allocation (18.7% in FY21– highest since at least FY13)
  - Transportation and Communication has 141 of these projects, followed by Housing and Community Facilities (81), Education (66), Industrial and Economical Services (47), and Power and Fuel (38)
  - Thus, total number of projects which should be concluded: **1063**
- Planning Commission has identified **355** projects which may be **completed in FY22**
  - **Many of these are unlikely to be completed in FY22**
- 596 projects are listed without allocation (in a separate list) in FY22

Implementation Challenges: ADP

❑ Time-overrun projects continue!

- **Average age** of 1,308 investment projects is **3.5 years**
- **163** (12.5%) of these 1,308 projects are more than 6 years old (due to repeated extensions of projects)
- **31** of these 1,308 projects are 10-15 years old
- **24.1%** of investment projects in ADP for FY22 have already been revised between 1-3 times
- Number of **projects with time extension** increased from **285 in FY21 to 326 in FY22**
- **Revised unapproved projects** in ADP FY22: **56** out of the 1,308 investment projects

ADP Projects with number of revisions



Implementation Challenges: Agriculture

- Given the importance of agriculture production and food security, subsidy in the agriculture sector has been increased by 17.4% vis-a-visRFY21
  - Despite the improvement in subsidy utilization in recent years, a considerable share (9.5%) tend to remain unutilized
  - Efficient and full utilization of subsidy will help reducing production costs and contribute to enhance production

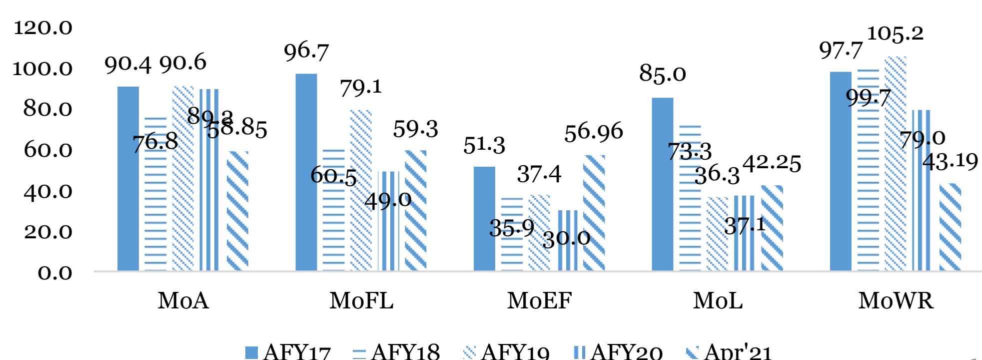
Stimulus Package

- Till Apr’21, 78.7% and 59.0% credit to farmers have been disbursed from Tk. 5,000 crore and Tk. 3,000 crore refinance scheme, respectively
  - About 2 lakh borrowers have received credit from the Tk 5,000 crore fund
  - It is important to ensure full utilization of fund as early as possible
  - Considering the difficulty of farmers, the Central bank should extend loan repayment period up to 3 years

Subsidy in Agriculture (BDT crore)

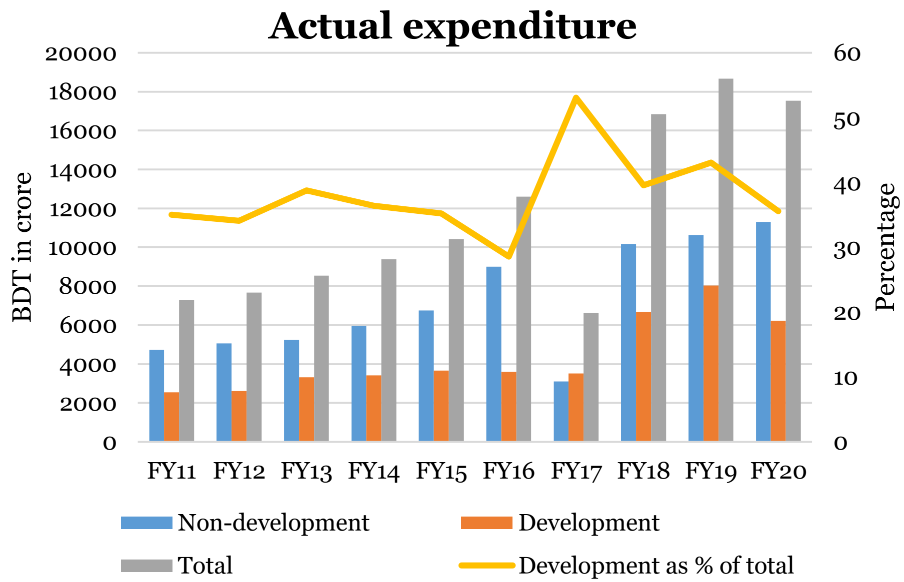
	Allocation	Revised	Utilised	Unustisiled
FY17	9,000	6,000	3,493	2,507
FY18	9,000	6,000	5,268	732
FY19	9,000	8,070	7,763	307
FY20	9,001	8,001	7175	826
FY21	9501	8599		
FY22	10099			

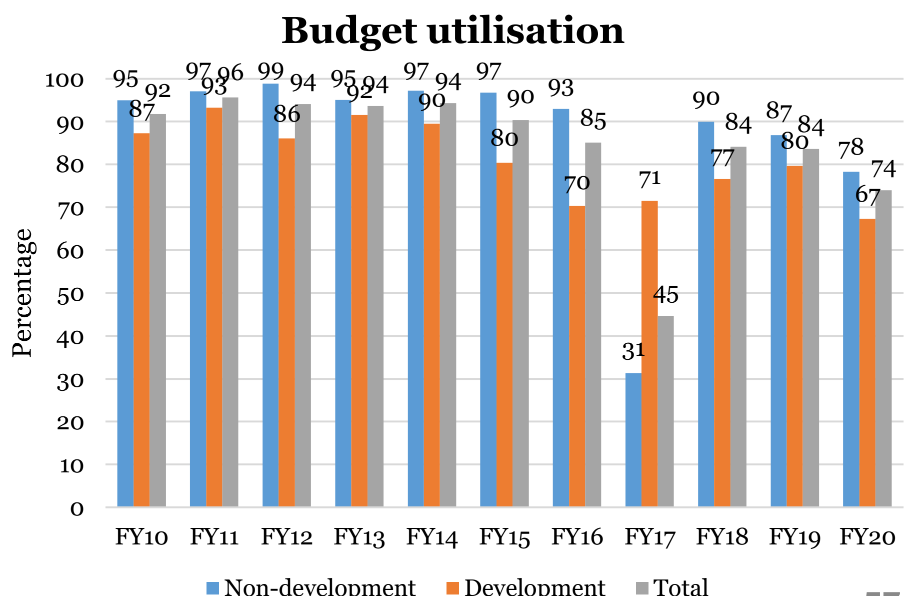
AAS’s ADP implementation as % of RFY



Implementation Challenges: Health

- ❑ **Actual expenditure decreased by (-) 6% from BDT 18,677 in FY19 to BDT 17,532 crore in FY20**
- ❑ **Budget utilisation (actual expenditure as a percentage of revised budget allocation) has worsened significantly over the past decade**
  - ➢ Non-development budget utilization decreased from 95% in FY10 to 78% in FY20
  - ➢ Development budget utilization decreased from 87% in FY10 to 67% in FY20
  - ➢ **Total budget utilization decreased from 92% in FY10 to 74% in FY20**
- ❑ Over the past several years, nondevelopment budget utilization has been consistently higher than development budget utilisation





Implementation Challenges: Employment

- Delayed project implementation means delayed employment generation by crowding-in private investment
- Estimations indicate that current level of allocation will not ensure completion of a number of crucial carryover ADP projects even in FY 22
  - These projects, including “BSCIC industrial park in Raujan, Bhairab, Tangail”, “E-banijjyo korbo, nijer byabsha gorbo” “BEPAZA economic zone in Mirsharai”, etc. would have created employment opportunities if were timely implemented
- In case of concluding projects, most of the employment-generating projects targeted for completion in FY22 are not likely to be completed
  - Some of these projects are “BSCIC Printing Industrial Park”, “Expansion and development of silk cultivation”, “Establishment of 40 technical training centres” etc.
  - A similar trend could be observed for continuing projects as well
  - Adequate allocation and timely implementation need to be ensured

Stimulus Packages

- The total size of COVID-19 response funds currently stand at BDT 1,28,441 crore or USD 15,111 million which is equivalent to 4.2% of the GDP for RBFY21
- A total of 58,115,211 individuals and 104,996 firms have received liquidity support and fiscal stimulus as part of the government's COVID-19 response
- Since about **80%** of the government's COVID-19 response funds are in the form of **liquidity support**, banks have played a central role in view of recovery of the pandemic-affected economy.
- Bangladesh's **fiscal** stimulus package is a meagre 20.41% of its total COVID-19 relief funds or only **0.91%** of its GDP, and falls far short of the 11% of GDP that is estimated to be required to mitigate the socioeconomic impacts of COVID-19.
- **Liquidity support cannot be treated as philanthropy** and so banks cannot provide loans to anyone on humanitarian grounds.
- **Liquidity support is inadequate for small borrowers and new borrowers, as well as those who are the poorest and most vulnerable.** Therefore, more direct cash support should be provided by the government so that these groups can adjust to the shocks of COVID-19.

Concluding Remarks

Concluding Remarks

- *The budget document refers to management of the COVID situation throughout which was not the case during the first COVID budget (FY21). However, the document does not have much to offer in terms of concrete measures and innovative policies to combat COVID-induced challenges*
- In the budget speech it is mentioned that health, agriculture and employment generation have been given priority while allocating resources for ADP. However, actual allocation does not reflect this as these promises have not been supported by adequate resources.
- The budget does not seem to recognise the implementation challenges and hence does not spell out ways to overcome those challenges. Nothing has been mentioned regarding capacity development, stronger monitoring and evaluation, results based framework etc. towards better implementation of budgetary proposals

Concluding Remarks

- *The macroeconomic framework of the budget is far from reality. It takes the revised budget targets, which are unlikely to be achieved, as reference points and assumes that most of the macroeconomic correlates would perform better than the targets set in 8FYP*
- Though there is a section on reforms in the budget document, it only refers to what have been done so far. It does not spell out what concrete reforms would be undertaken to improve the efficiency in the economy. The unfinished reform agenda in many areas such as tax, customs duty, banking sector, health sector and social sector has constrained the achievement of budgetary targets and its ability to cope with adverse impacts of the pandemic
- Given the magnitude of negative impact on various sectors due to COVID-19, CPD had emphasised on the need for medium term strategy for economic recovery. The budget for FY22 has no indication on this. This puts under risk the fulfillment of the promise made in the 50th budget to move towards a resilient future by giving priority to lives and livelihoods

Stay Well, Stay Safe