Independent Review of
IRBD
Bangladesh's Development
বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

CPD's Recommendations for the National Budget FY2022-23

(Draft)

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Contents

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The CPD IRBD 2022 Team alone remains responsible for the analyses, interpretations and conclusions presented in this report.

CPD's Recommendations for the National Budget FY2022-23

SECTION I. INTRODUCTION

The national budget for FY2022-23 (FY2023) is going to be placed before the National Parliament in the backdrop of a number of unprecedented challenges that inform Bangladesh's macroeconomic management in the prevailing context. The country is still in the phase of recovery from the COVID-induced adverse implications that visited the economy over the past two years. The prices of essential items have been on the rise, both because of imported inflation and various domestic factors. All components of the external balances – trade, current account and overall – have been experiencing significant pressure, with rising foreign borrowings and anticipated growing pressure on future debt servicing liabilities. The government is also having to take cognisance of its election pledges, which has been demonstrated in recent times by way of policy statements as regards introduction of universal pension scheme, formulation of draft anti-discrimination law, introduction of child budget and implementation of the national social security strategy adopted earlier. The budget will also need to take cognisance of the ramifications of Bangladesh's dual graduation – LDC graduation with the need to make transition to skills and productivity-based competitiveness, and the middle-income graduation with the transition to more stringent, non-grant, non-concessional terms of borrowings. The budget will also need to be aligned with the aspirations expressed in the government's Vision 2041 with the ambition of meeting SDG targets by 2030 and graduating to an upper middle-income country by 2031 and a high-income country by 2041.

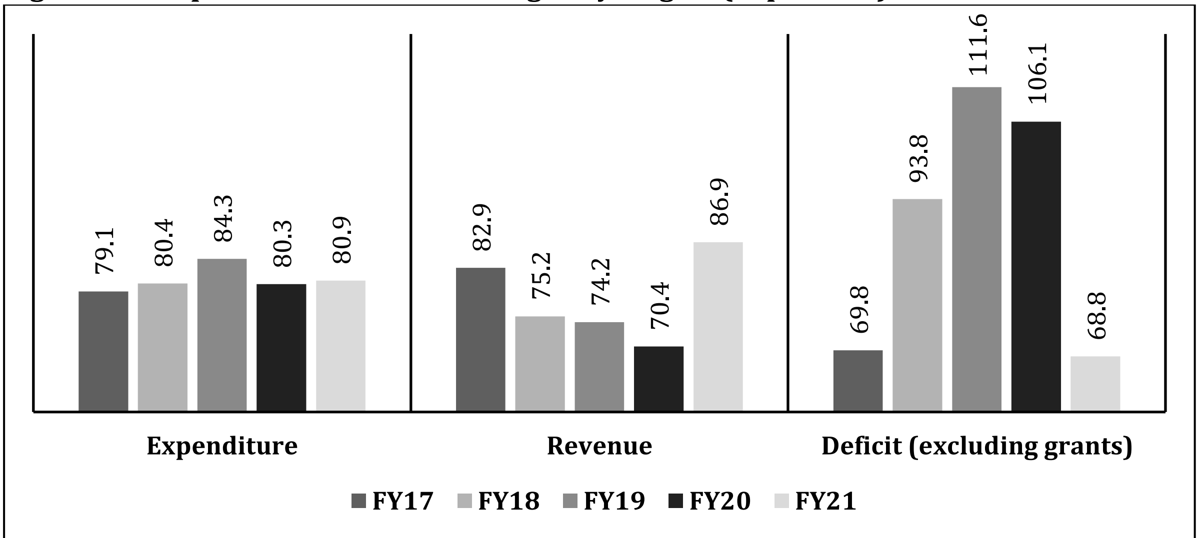
Taking cognisance of the aforesaid immediate, short and medium-term challenges confronting macroeconomic management, CPD FY2023 budget proposals focus on three areas: (a) fiscal framework issues which deal with the stance FY2023 budget should take in view of the emerging challenges; (b) sectoral and issue-specific budgetary proposals to deal with rising prices and bloating subsidy bill; and (c) the medium-term issues of sustainable COVID recovery, enhanced social welfare and sustainable dual transition.

SECTION II. CREDIBLE FISCAL FRAMEWORK

The FY2023 budget comes at a time when the overall macroeconomic stability in Bangladesh is under considerable pressure due to the high prices of essentials, deteriorating current account balance on account of higher growth of import payments and negative growth of remittance inflow and a depreciating Bangladeshi taka. Higher commodity prices in the global market and the conflict in Ukraine have added to this pressure. Hence, the budget for FY2023 must break free from its formulaic mould and should be adjusted accordingly to tackle the pressure emanating from both domestic and external fronts. Indeed, the fiscal framework for the next national budget must be accompanied by clearly stated assumptions of the government related to future trends in international prices.

Over the last decade, the budgetary target setting in Bangladesh has emerged primarily as a numbers game – with each year's targets surpassing the previous year's – notwithstanding the extent of actual attainment. As can be seen from Figure 2.1, targets for public expenditure have remained consistently unmet and generally hovered around the 80-85 per cent mark as a share of the total allocation. While revenue mobilisation recorded a sudden improvement in FY2021, it is largely thanks to the withdrawal of funds from state-owned enterprises, which had accumulated surplus of varying amounts– a feat unlikely to be repeated[1]. Consequent to COVID-19, the budget deficit in FY2020 exceeded the programmatic target, in the backdrop of insubstantial growth in revenue earnings. In FY2021, the deficit was significantly below the target, as the business-as-usual scenario resumed, with the expenditure shortfall surpassing the revenue shortfall. The latest available data from MoF shows that the government has a budget surplus to the tune of Tk. 1,130 crore during the first six months of FY2022 (excluding grants). This is not desirable at a time when the economy is just about to turn around from the shocks induced by the COVID-19 pandemic, and there is a need for ensuring implementation of expenditure targets.

Figure 2.1: Implementation rate of budgetary targets (in per cent)



Source: Calculated from MoF data (various years).

In case of budget implementation, the significant difference between programmatic targets and actual attainments can be attributed to: a) unrealistic target setting at the time of budget

[1] The 5G spectrum auction on 31 March 2022 fetched nearly Tk. 10,600 crore which will provide some boost in the revenue mobilisation for FY2022. Also, the higher import payments owing to rising prices at the global level entail enhanced revenue mobilisation.

formulation, b) lack of institutional capacity and c) external factors (e.g., COVID-19) beyond the control of implementing agencies. Taking these factors as well as the trade-off between inflation and growth[2] into cognisance, the national budget for FY2023 should be formulated in a way that will be able to meet the needs of the time.

In view of the above discussion, the following recommendations are placed for consideration of policymakers in formulating the budget for FY2023:

- Instead of setting lofty targets that has a high risk of missing the annual marks by the end of the fiscal year by a large margin, fiscal targets should be set in a realistic manner that takes into account current macroeconomic trends. This is true for all components (and sub-components) of the fiscal framework, including revenue mobilisation, public expenditure, budget deficit and financing of the deficit.
- In the FY2022 budget, the personal income tax (PIT) structure has generally remained unchanged from the one introduced in the FY2021 budget. CPD had argued that reducing the highest tax rate (from 30 per cent to 25 per cent) was against the cause of promoting tax justice. The highest tax rate should be reinstated at 30 per cent for top earners in the FY2023 budget.
- In the FY2022 budget, corporate income tax (CIT) has been decreased for publicly traded companies (22.5 per cent from 25 per cent), non-publicly traded companies (30 per cent from 32.5 per cent), one-person companies (25 per cent from 32.5 per cent), association of persons (30 per cent from 32.5 per cent). However, to ensure uniformity, the tax rate for one-person companies should be set at 30 per cent, in line with the non-publicly traded companies' rates.
- In view of the emerging challenges of LDC graduation, with the need to make a transition to skills and productivity-based competitiveness, a thorough reexamination of the export incentive structure should be undertaken.
- There should be a medium-term plan and timeline as regards phasing out the various tax exemptions provided in view of the pandemic. Particularly the large industries should be brought under a planned phasing out process.
- For the forthcoming FY2023 budget, a feasible completion timeline for reforms that are currently in the works (e.g., the Customs Act and the Direct Tax Act) should be chalked out so that the implementation process can begin at the soonest and in earnest.
- In order to increase the number of actual taxpayers, the NBR, using their e-TIN database, should identify and pursue individuals and business entities that are registered in the system but do not submit tax returns and who are registered and submit returns but do not effectively pay taxes. A mechanism should be set up to contact the relevant entities via phone calls, SMSs or emails to follow up on their return submissions or tax payments.
- NBR should launch a comprehensive online payment system for VAT, income tax and customs together with an interface with iBAS++ and ensure harmonisation and taxpayer data sharing

[2] A fiscal contraction, through running a budget surplus, can help to control inflation by lowering aggregate demand. However, it is quite likely to stifle growth and undermine the recovery of jobs. A budget deficit can increase growth by boosting aggregate demand while also putting upward pressure on inflation. Overheating the economy can have an ultimately negative effect, intensifying stagflation (i.e., a period of high inflation with low or negative economic growth) and increasing average unemployment over time.

across various wings of the NBR as has been envisaged in the PFM Action Plan 2018-23 at the earliest.

- Tax evasion should be curbed by all means to generate resources for the priority sectors. To this end, the NBR should promote electronic-based measures, including e-TDS, e-filing and cross-checking transaction data from multiple sources. Closer interaction with the Anti-Corruption Commission (ACC) should be ensured.
- Steps should be taken for speedy disposal of tax-related cases, pending with tax tribunals and with the courts.
- The existing provisions (e.g., clauses related to special tax treatment for investments in building/apartment, BIFF bond and economic zone or hi-tech parks) for legalising undisclosed income discourages honest taxpayers while the tax evaders are encouraged. Such provision should not be continued from the next fiscal year. To tackle the problem of undisclosed income, a Benami Property Bill may be introduced, as was suggested earlier by the CPD.
- Available evidence from international sources suggests that the major part of the illicit financial flows (IFF) was on account of trade-related mis-invoicing. Transfer Pricing Cell (TPC) should work closely with Bangladesh Financial Intelligence Unit (BFIU) and Customs Intelligence and Investigation Directorate (CIID) to curb trade-based money laundering (TBML). To carry out its responsibilities in an effective manner, TPC should be adequately endowed with the required financial, technical and human resource, and forensic investigation capacities in the upcoming budget.
- CPD reiterates its earlier proposals urging the NBR to initiate wealth and property tax in Bangladesh. Also, an inheritance tax, informed by global best practices, may be introduced. Besides mobilising additional revenue, such initiatives could also provide an opportunity to build a more equitable society, particularly in view of the proposed anti-equity law placed before the parliament.
- In view of Bangladesh's LDC graduation in 2026, the NBR needs to urgently conceptualise and implement a medium-term strategy for increasing revenue collection from alternative sources that will be able to substitute for the potential decline in revenue from import tariffs in the post-LDC graduation period.
- The government should lay out the plans for finalisation and enforcement of the reforms in the area of revenue mobilisation, including direct tax, customs, and VAT. The 'PFM Action Plan 2018-2023 to implement The PFM Reform Strategy 2016-2021' and National Strategy for Preventing Money Laundering and Combating Financing of Terrorism should be updated in view of the latest implementation progress.
- Priority for public expenditure should be set clearly. The COVID-19 recovery and rising prices of essentials should guide the design of the fiscal framework. To this end, food production, social safety net programmes (including the public works programmes), subsidies for agriculture, energy and power sectors, and health and education sectors should receive adequate attention.
- More budgetary allocations should be earmarked for rising demands for subsidies and social safety net programmes. The subsidies can act as a buffer to temporarily halt the pass-through of rising global prices to the domestic economy.

- Earlier government measures to cut down 'unnecessary and luxury' public expenditure (e.g., government vehicle purchase, foreign trips) should be reinstated.
- In view of containing the budget deficit, the ADP for FY2023 should be carefully formulated. Whilst finance for the ongoing projects should be made available in the ADP, caution should be exercised in considering new projects for inclusion in the ADP of FY2023.
- Responsible government agencies should focus on public infrastructure projects that are closer to completion.
- More emphasis should be given to the utilisation of foreign aid. This will help the management of the budget deficit as well as the balance of payments.
- The government should set up an independent committee to evaluate the increasing financial requirements for the public infrastructure projects. Good governance for these projects must be ensured. To this end, the government should make all development project proformas (DPPs) publicly available for independent scrutiny. To this end, the government should also consider conducting a comprehensive public expenditure review at the earliest.
- The government will also need to formulate a medium-term debt management strategy in view of the changed composition of loans availed by the government. The changing scenario of the foreign loan regime in view of Bangladesh's development needs, available resources for the country, payment frequency, and the implication of the dual graduation should be taken into cognisance to this end.

SECTION III. ADDRESSING THE RISES IN THE PRICES OF ESSENTIALS

As the low-income and vulnerable population groups in Bangladesh were struggling to recover from the adverse impacts of the COVID-19 pandemic, the unabated rise in the prices of essentials has put them into further misery. Over the last two years, a large number of low-income people have been dealing with COVID-19-induced shocks in the form of loss of income and employment opportunities, decreased expenditure on food and other essentials, additional loan burden, dissavings, and distress selling of assets (Rahman et al., 2021; Bhattacharya et al., 2021; BIGD and PPRC, 2021). Although the official data on inflation paint somewhat of a tolerable picture[3], as has been pointed out by several research findings and media reports, this does not reflect the ground realities[4]. Indeed, people belonging to the fixed income earning groups are grappling to maintain their living standards. It will not be far-fetched to say that the official information on inflation does not capture the actual structure of spending of general consumers and tends to undermine the sufferings of the lower- and middle-income groups.

A number of reasons can be attributed to the skyrocketing prices of essentials. At the global level, commodity prices have been creeping up[5] owing to, inter alia, supply-demand mismatch, supply chain interruptions, such as shortage of shipping containers and vessels, changes in consumer preferences, and higher energy prices (ECB, 2021). In addition, the recent conflicting situation involving Russia and Ukraine has exacerbated the situation. In the case of Bangladesh, the hike in domestic diesel and kerosene prices and increased money supply through the stimulus packages can be connected to the escalating price level, besides the rising global prices (ADB, 2022). Curiously, the extent of the price hike in Bangladesh was often greater compared to the global market (CPD, 2022). A number of media outlets have reported several reasons behind this phenomenon, including lack of competition at the import stage and syndication, intentional stockpiling of commodities, deliberate scaling down of supply, increased number of intermediaries in the value chain from producers to consumers and importers to retailers, illegal toll collection on the highways during the transportation, and weak monitoring by the administration (Suman, 2022; Kashem and Ali, 2022; The Daily Inqilab, 2022 and USDA, 2022).

The current situation has become onerous even for the middle-income segment of the population. As the high level of prices is expected to continue for the remainder of FY2022 and at least the early months of FY2023 (ADB, 2022), reining in the prices of essentials should be the most urgent and critically important macroeconomic policy objective in Bangladesh.

To this end, the following suggestions are put forward for consideration of policymakers in the upcoming budget of FY2023:

- Government should carefully examine the duty and tax structures of the essential commodities, both at import and domestic levels, and make downward adjustments with a view to provide some respite to low and limited income-earning consumers. The increased

[3] As per Bangladesh Bureau of Statistics (BBS) data, nationally, overall inflation was 5.7 per cent in February 2022 (on a 12-month moving average basis) while food and non-food inflation stood at 5.4 per cent and 6.1 per cent respectively.

[4] In fact, the data on prices of daily necessities provided by the Trading Corporation of Bangladesh (TCB), a government agency itself, exhibit much higher level of inflation when compared to the BBS data.

[5] IMF's commodity price index rose from 137.4 in January 2021 to 191.0 in January 2022 (For details: https://www.imf.org/-/media/Files/Research/CommodityPrices/Monthly/Table1aMARCH.ashx). FAO's food price index rose to a record high of 159.3 in March 2022 – indicating a whopping 33.6 per cent growth over the index value of 119.2 prevailing in March 2021 (For details: https://www.fao.org/worldfoodsituation/foodpricesindex/en/). FAO also forecasts a reduction (2.0 per cent) of global trade in cereals in 2021-22 owing to the Ukraine-Russia conflict.

price level of most of the other commodities should be able to compensate for the potential revenue loss to this end.

- Tax-free income threshold for personal income should be raised to Tk. 3.50 lakh in view of the added pressure of the rising food inflation and income erosion induced by the pandemic. The next slab for personal income tax, which is 5 per cent for an additional Tk. 1 lakh, should be increased to Tk. 3 lakh to provide a cushion for the middle-income earners.
- Government should extend the scope of direct cash/kind assistance programmes for low-income population groups.
- Volume of essential commodities sold through the open market system (OMS) should be increased. Government should set higher targets for foodgrains procurement and food distribution programmes. To this end, adequate resources should be allocated in the FY2023 budget. Furthermore, the distribution of these commodities must be managed efficiently and without corruption so that only the eligible can obtain the essential items at lower prices.
- Competition Commission's role should be strengthened. Required skilled professionals should be hired to this end, particularly with a view to monitoring markets for essential commodities on a regular basis. The Commission should create a database, monitor the operations of prominent market players on a regular basis, investigate market control and manipulation (if any), and take appropriate actions. An adequate budget should be earmarked for the Commission to perform these duties. To this end, the Ministry of Commerce should also work in tandem with the Commission.
- Government should provide additional support for subsidised credit programmes for the agriculture sector (both crop and non-crop) to incentivise production during the next fiscal year.
- Government should continue providing stimulus to the small and medium enterprises to help them survive the difficult times.

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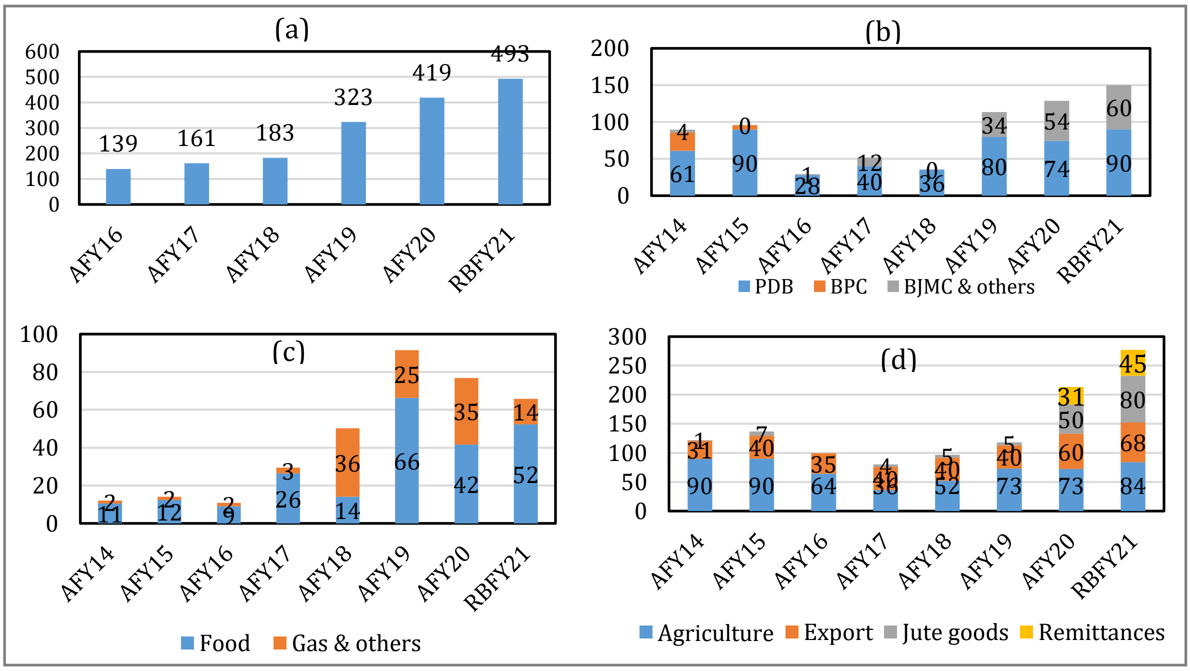
SECTION IV. SUBSIDY ISSUES

The subsidy management has emerged as a challenging area from the perspective of the broader fiscal management as Bangladesh embarks on the post-COVID 19 recovery phase. Subsidy, as is known, is provided in many forms: cash loan support and fiscal incentives to different sectors including agriculture, export, jute goods, power and energy. Over the years, the total subsidy budget has been on the rise, from BDT13,924 crore in FY2016 to BDT49,330 crore in FY2021 – an increase of 50.8 per cent per year (Figure 4.1). The highest amount is spent on fiscal incentives served to different sectors (56.2 per cent in FY2021), followed by cash loans for BPDB, BPC and BJMC (30.4 per cent) and subsidies for food and gas & others (13.3 per cent in FY2021).

The allocated amount of subsidy in RFY2021 was 1.64 per cent of the GDP, while the total actual expenditures on the same were 1.27 per cent and 1.53 per cent of GDP in FY2018 and FY2019, respectively. The increase in the total subsidy expenses is attributable to an increase in fiscal incentives (from 0.46 per cent in AFY2019 to 0.92 per cent of GDP in RFY2021); thanks to a significant increase in incentives for the jute goods and the recent introduction of cash incentives on inward remittance flows. Likewise, the food subsidy expenses have increased significantly (by more than four times) since FY2019. On the other hand, the major part of cash loan support (75 per cent of the total cash loan since FY2014) has been allocated to the BPDB, a government agency. However, in the backdrop of the highly significant liabilities in the power and energy sector (Tk. 43,214 crore in FY2022) – mainly due to the rise in petroleum and LNG prices –, the allocation for cash loan support to this sector could experience a steep increase in coming days.

Various studies have questioned the extent to which the various subsidies have actually been effective in terms of actual contributions, particularly in addressing the prevailing market failure and improving equity in targeted sectors and economic activities (Steenblik, 2008). The proposed budget for FY2023 should highlight the rationalisation of subsidy and subsidy management from medium to long-term perspectives.

Figure 4.1: Overview of cash loan, subsidy and fiscal incentive (in billion Tk)



Source: Ministry of Finance.
Note: (a) Total, (b)Cash Loan, (c) Subsidy, (d) Fiscal Incentives

Following recommendations may be considered as regards subsidy allocation in the FY2023:

a) ***Prioritise payment of higher subsidy for fertiliser:*** Allocation of subsidy for the agriculture sector needs to be increased, particularly for accommodating the higher import price of fertiliser. International fertiliser price has experienced a record rise in recent months due to COVID 19 restriction, temporary banning of fertiliser export by China (to meet its domestic demand), banning of fertiliser export by Russia (due to the ongoing Russia-Ukraine war) and higher raw material costs, mainly of gas (Lopez, 2022; World Bank, 2021). An additional subsidy amount of Tk 18,500 crore would be needed to be allocated in FY2023 budget in view of price rise if the subsided fertiliser price for the farmers is to be kept at the present level. It is to be noted that various forecasts indicate that the international price of fertiliser is likely to remain higher at least till the end of 2023, which implies that this higher subsidy against the higher price may need to be continued in subsequent years as well. Budget for FY2023 should be informed by the current and anticipated fertiliser price in the global market.

b) ***Strengthen market monitoring to ensure access to inputs at subsidised price:*** It was reported that farmers had to buy fertiliser at a higher than the stipulated subsidised price; same was seen for other subsidised agro-inputs (Prothom Alo, 2021). Weak market monitoring, particularly at retailers' and distributors' ends, is perhaps the reason for this situation. Ministry of Agriculture should be asked to strengthen monitoring of the supply channel, from dealers and distributors to farmers, to ensure efficient distribution of fertiliser and other inputs.

c) ***Maintain the current level of subsidy on inward remittances:*** The recent 0.5 per cent increase (in January 2022) in direct incentives on remittance flows in addition to earlier 2 per cent (in total 2.5 per cent) have contributed positively in the form of remittance flows to Bangladesh. This has benefitted remittance-receiving households through increased purchasing capacity amid high inflationary pressure. Given the rising fiscal expenditure owing to the rise in cash incentives, the government should prioritise curbing the migration cost and lowering the remittance sending cost from selected countries. At present, there is a significant gap between the rate for remittance kerb market rate. CPD had earlier advocated of gradual depreciation of Taka. However, in view of the current high commodity price, exchange rate stability should be given priority and other measures to encourage transfer of remittance through formal channels should be emphasised.

d) ***Allocate more resources for food subsidy:*** Given the significantly high level of agricultural commodity prices in the world market and high domestic inflationary pressure, subsidised food distribution among the targeted group of people needs to be increased in the next fiscal year. Hence, the allocations for food subsidy, through direct in-kind support and price support, need to be increased.

e) ***Restructure subsidy in view of LDC graduation:*** LDC graduation will mean that certain forms of industrial and export subsidies will be WTO-incompatible. Accordingly, for example, the direct export subsidy allocation, such as cash incentives to major export-oriented sectors, will need to be gradually reduced. Bangladesh should consider innovative incentive schemes similar to the ones in India, China, and Vietnam to support the export industry. For example, India provides incentives for manufacturing investment and Vietnam and China for skill and technology upgradation (The Business Standard, 2022). At the same time, government should design a mid-term strategy to decide to what extent such subsidies will be fiscally sustainable. Instead of subsidising in the form of cash incentives and tax concessions, the government should consider providing in-kind benefits (such as active labour market programmes, social safety net programmes, health insurance and support for ease of doing business).

f) ***Undertake comprehensive reforms of the SoEs:*** A large part of SoEs has been a continuous drag on the economy for the past years. Only in FY2019, the net loss of four SoEs, BCIC, BTMC, BSFIC, and BJMC, reached BDT 2,416 crore. Government should undertake a comprehensive review of SoEs, consider liquidation of losing SoEs and handing over of SoEs assets to the SEZ and EPZs for the development of special economic zones for SMEs and other industries.

g) ***Renegotiate contractual arrangements for paying capacity payment to independent power producers:*** Excessive electricity capacity payment is causing a huge expenditure burden on the government agency, the BPDB. Consequently, BPDB has been saddled with significant losses (BDT 4,352 in FY2020; BDT 8,664 crore in FY2021). In order to reduce the subsidy pressure in the power sector, government should instruct the Ministry of Power Energy and Mineral Resources (MoPEMR) to renegotiate the contracts as regards capacity payment negotiated earlier with the independent power producers. The GoB should instruct the MoPEMR not to sign any new contracts or renew contract in the power sector with provisions for capacity payment.

h) ***Gradually phase out fossil-fuel based energy:*** According to recent media reports, BPDB and BPC have been incurring a loss of BDT 24 crore and BDT 63 crore per day, respectively, in view of increased global energy prices (UNB, 2022). The power and energy sectors will need to be provided significant subsidies in FY2023 as short-term measure so that the loss incurred by power and energy sector is not passed on to consumers and producers. Government may consider withdrawing VAT and other duties at the import stage to lessen the import price of petroleum and LNG. Government could think of borrowing short term loans from multilateral agencies (IDB, World Bank) or bilateral sources (KSA, Qatar) to pay the import bill for energy (i.e., petroleum). In the medium to long term government should put focus on exploring natural gas by exploring off-shore and on-shore potential sources. Adequate resources should be allocated in FY2023 budget towards this. The budget should have provisions for subsidising and incentivising investment in renewable energy-based power generation.

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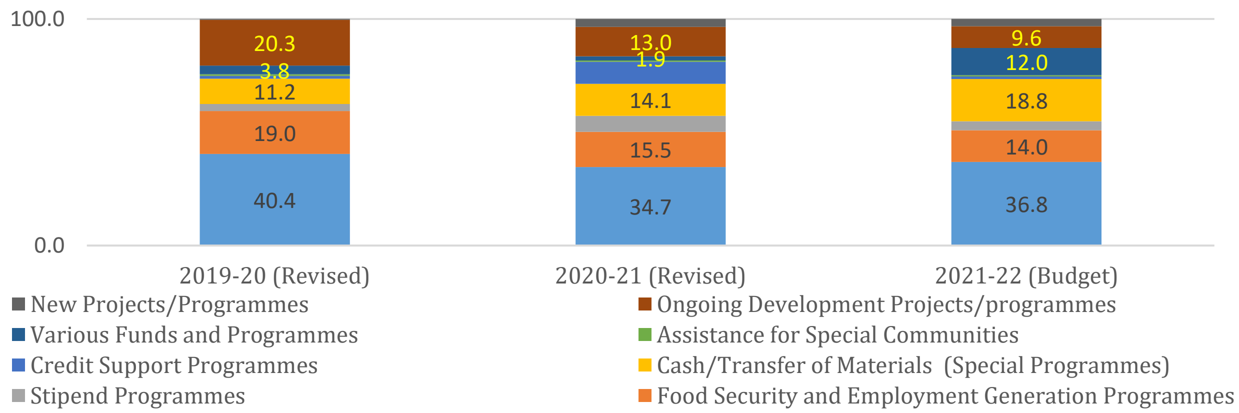
SECTION V. BUDGET FOR COVID-19 RECOVERY

a) Social Safety Net Programme

Social protection-related activities have been undertaken in Bangladesh under various social safety net programmes following the 'life cycle approach' advocates in the National Social Safety Strategy. Three key areas covered under social safety net programmes are - (a) Child and family social protection schemes; (b) Social protection for women and men of working age; and (c) Social protection for older women and men: pensions and non-health benefits. It is reckoned that the current structure and composition of the social safety net programmes are not adequate in view of government's policies and pledges in light of current and future needs of the country. *First*, Bangladesh is in the process of graduating from the LDC group by 2026. Its social safety net programmes do not align with post-LDC developing countries (The World Bank, 2006). *Second*, Bangladesh aspires to become an upper-middle-income country (threshold income level of US$4096) by 2031 and a high-income country (US$12535) by 2041. In view of these, its current programme needs significant restructuring and upgradation to match those of upper-middle/high-income countries. *Third*, the rising number of ageing populations over the coming years which will gain momentum will necessitate refocusing of social protection on the needs of the old age population. *Fourth*, in view of ensuring the health and income security of workers, the issue of social insurance-related programmes ought to be given the highest priority. In this backdrop, the government's announcement of the introduction of a universal pension scheme (UPS) from the next fiscal would be a positive development.

At present social safety net related activities cover a total of 143 different programmes under nine categories (Figure 5.1). During FY2022 total allocation for social safety net programmes was BDT 107614 crore which was 17.8 per cent of total budget and 3.1 per cent of GDP. The allocation has been increasing over the years. Major share of SSNPs is allocated for various allowances (36.8 per cent in FY2022) followed by cash transfers (18.8 percent) and food security and employment creation (14.0 per cent). However, share of allocation for various categories has experienced changes over the years - it has reduced for various allowances, and for food security, credit support programmes while share has increased in case of cash transfers, various funds/programmes. It is to be noted that pension to government employees accounts for 67. 3 per cent of total allowances and 24.9 per cent of total SSNPs. If pension of public sector workers is excluded, the relevant shares will come down significantly (Table 5.1).

Figure 5.1: Allocation pattern of social safety net programmes and social empowerment



Source: MoF, Author's representation based on the data from 2017-2022.

Table 5.1: Share of pension in various allowances

Particulars	Beneficiaries (Persons in lac)			Budget (Taka in crore)		
	BFY2021	RFY2021	BFY2022	BFY2021	RFY2021	BFY2022
Various allowances	107.3	107.2	122.8	33739.3	33191.2	39637.3
Pension for Retired Government Employees and their Families	6.3	6.3	7.5	23000	23000	26690
Per cent of pension of various alliances	5.9	5.9	6.1	68.2	69.3	67.3

Source: MoF, 2022.

Despite a large number of SSNPs, with significant coverage, these are yet to cover the total eligible population in all areas. As ILO report (2020-2022) mentions, the highest proportion of population is covered under old age support (39 per cent of total old age people) followed by children (29.4 per cent), mothers with newborn (20.9 per cent) and persons with disabilities (18.3 per cent). The NSSS has proposed inclusion of new SSNPs and reforms in existing programmes in support of children. The Blooming Children Report of the GoB (MoF, 2018) had earlier proposed to increase the budget for children to 20 per cent of the total development budget. However, the allocation currently stands at 15 per cent (MoF, 2020). Workers are not included under the SSNPs and only a small share of workers with injury are covered under relevant programmes (12.5 per cent). Workers are the least protected under the country's social protection system. As a matter of fact, workers tend to be least protected globally (18.6 per cent) compared to other categories of people eligible for different social protection schemes.

National Social Security Strategy of Bangladesh 2015 made a number of pledges with regard to the social safety net for different categories of people. The pledges include strengthening the social security system for the urban poor, strengthening programme for working people (15-59), operational strengthening education and training, strengthening job creation programs, introducing unemployment, accident, sickness and maternity insurance under the national social insurance scheme, etc. As per the NSSS, the government has planned to provide an allowance of BDT 3000 per month to the elderly above 90 years which is yet to be implemented. The Ministry of Social Welfare was assigned to prepare a list of the beneficiaries which also has not yet been prepared.

The Ministry of Social Welfare provides allowances to 8.85 million disadvantaged people under the social security program. The actual number of disadvantaged people is much higher than this (as per NSSS 2015, 3.57 crore of the poorest and most vulnerable people were targeted to be covered under SSNP), and the money given to them is significantly lower than the actual needs. It goes without saying that the amount of monthly allowance (BDT500) for the elderly, and marginalised women are rather low considering the requirements. A total of 2.5 million women and 5.7 million elderly people are covered under this safety net programme in the rural areas in 162 Upazilla out of 495 Upazilla in Bangladesh where 33 per cent Upazilla are covered under this programme.

Compared to other cohorts, the social security coverage of the workers is very low. Only 12.5 per cent of the injured workers actually benefit from this allowance. There are a total of 68.2 million workers who should be included under the universal pension scheme. Working pregnant women, sick workers, injured workers, and unemployed workers should also be gradually brought under the coverage of SSNPs to help them tide over periods of deprivations and sickness.

The National Budget for FY2023 may take into consideration of the following recommendations.

- ***Bring the SSNP under a single window:*** Government should bring the 143 social safety net programmes under a single, consolidated and integrated umbrella in order to move from social safety network to social security. These programmes can be categorised under three areas – (a) Child and family social protection schemes; (b) Social protection for women and men of working age; and (c) Social protection for older women and men: pensions and non-health benefits.
- ***Raise the amount of allowance:*** Given the high-level food price inflation and rise in the living cost, the government should increase the amount of allowance, particularly for the elderly, widows and marginalised women. According to the newspaper report, government is going to increase the allowances by BDT100 and the coverage by 11.5 lakh. It is proposed that government should raise the allocation to BDT1000 and coverage by 20 lakh people. This should increase the coverage of widow, oppressed women, and physically handicapped people. The programme should cover eligible beneficiaries of all upazilla (currently covered 162 upazilla).
- ***Expand coverage of urban poor:*** Government should consider increasing the coverage of urban based destitute people. In the national budget for FY2023, the government should raise the allocation targeting slum dwellers, floating people, pregnant women, and similar marginalised groups.
- ***Digitalise the beneficiary list:*** Restructuring of the beneficiary list should be prioritised for effective implementation of SSNPs. Digitalisation of the database with national identification number or other national documents for proper targeting of the beneficiaries will reduce mistargeting and corruption and complexities.
- ***Introduce and restructure various child protection programme:*** In view of the need to address the needs of the children, particularly in the backdrop of the Covid with its adverse impacts in terms of health, nutrition, education and overall welfare, a number of measures are prepared for FY2023 budget. (a) universalise Mother and Child Benefit Programme (MCBP) for early childhood development. The programme will require a monthly allocation of Tk. 800 for the 14.0 million children (0-4 years) where the GoB will need to allocate an additional amount of Tk. 9.50 thousand crore by consolidating the existing six relevant programmes. The programme can be launched in the upcoming FY2023 budget with an increased monthly allocation; (b) establish a separate child directorate for monitoring and implementing child-related programmes which will eventually play an important role in universalising the MCBP; (c) allocate resources to develop a comprehensive database on children with interoperability of the existing platforms maintained by relevant ministries and other entities; (d) introduce universal mid-day meal programme for primary school students based on the experience of the already mentioned pilot programmes.
- ***Introduce social protection for workers:*** Government should introduce social protection for workers in the following four areas: (a) maternity protection, and paternity and parental leave benefits; (b) sickness benefits; (c) employment injury protection; and (d) unemployment protection. *Maternity protection* includes income security (through cash benefits), leave policies and effective access to good-quality maternal healthcare for pregnant women and mothers of newborns. *Employment and labour market interventions*

such as employment protection and non-discrimination, childcare solutions after woman's return to work and good occupational health and safety measures and breastfeeding facilities at the workplace are important to give adequate protection to pregnant women and new mothers. *Sickness benefits* aim at ensuring income security during sickness, quarantine, or sickness of a dependent relative. Employment injury protection includes providing support to workers through prevention, treatment and rehabilitation. Unemployment protection schemes provide income support for involuntarily unemployed and underemployed people and offer assistance for return to work, in line with international labour standards.

- ***Take initiative to implement UPS:*** Universal pension scheme (UPS) which has been announced recently and is to be introduced from the next fiscal year is a welcome initiative. It is expected that strong institutional and operational structure will be developed in order to properly manage such an important scheme.

b) Stimulus Packages

The government has declared 28 stimulus packages worth BDT 1919.19 billion, of which the Bangladesh Bank is overseeing 10 packages directly. By February, 2022 overall disbursement progress was about 70 percent. However, disbursement among the low-income or marginalised businesses is lower than the average level - only 60 percent. The packages for low income and marginalised people include salaries for employees of hotels/motels, interest-providing and credit guarantee schemes for CMSME loans. It is to be noted that disbursement during the first phase was faster compared to that in the second phase.

A number of stimulus packages has made hardly any progress (Table 5.2). These include working capital loans for A, B and C types of industries (1.7-2.7 per cent), and credit guarantee schemes (3.2 per cent). Sluggish progress is observed in case of pre-shipment credit refinancing (11.3 per cent), low-interest working capital loans to micro, small and medium enterprises, including cottage industries (34.2 per cent), working capital loans for adversely affected large industry and service sector (33.4 per cent), agricultural refinance scheme (40.2 per cent). In contrast, considerable progress has been made in case of payment of salaries and allowances to the workers-staffs of the active export-oriented industries (98.7 per cent) and support under the Export Development Fund (EDF) (92.7 per cent). In other words, credit support for export-oriented and large-scale enterprises has experienced better progress, primarily because of their better credit-worthiness with banks. In contrast, the credit support for the CMSMEs and for the informal sector including the agriculture sector experienced sluggish progress perhaps because of their low level of credit worthiness to banks. Hence, credit-based stimulus packages were difficult to reach marginal groups and CMSMEs due to poor bank-client relationships.

Table 5.2: State of implementation of selected stimulus package under the supervision of Bangladesh Bank (as of February 2022)

SN	Packages	Amount (billion BDT)	Implementation (billion BDT)	Implementation rate (%)	Remarks
1	Working capital loans for adversely affected large industry and service sector.	330	327.24	99.16	(1st Phase)
		305	101.08	33.14	(2nd Phase)
	Working capital loans for “A”, “B” and “C” type industries	70	1.22	1.74	(1st Phase)
		25	0.67	2.68	(2nd Phase)

SN	Packages	Amount (billion BDT)	Implementation (billion BDT)	Implementation rate (%)	Remarks
2	Interest subsidy for commercial banks against suspended interest for April-May, 2020.	20	13.9	69.5	
3	Working capital for paying salaries, and allowances of the employees of hotels, motels, and theme parks.	10	0.007		
4	Providing low-interest working capital loans to micro, small and medium enterprises, including cottage industries	200	153.86	76.93	(1st Phase)
		200	68.42	34.21	(2nd Phase)
5	Agricultural refinance scheme	50	42.95	85.9	(1st Phase)
		30	12.06	40.2	(2nd Phase)
6	Payment of salary and allowances to the workers-staffs of the active export-oriented industries.	50	49.35	98.7	
7	Pre-shipment credit refinancing scheme.	50	5.69	11.38	
8	Refinance scheme for low- income earning professionals/farmers/small businessmen.	30	23.74	79.13	
9	Export Development Fund (EDF)	USD 7.0 billion	USD 6.49 billion	92.71	
10	Credit Guarantee Scheme (CGS) for CMSMEs.	20	0.64	3.2	

Source: Bangladesh Bank, 2022.

Recommendations

a. ***Give priority to disbursing support under stimulus packages:*** It is found that new phase of the stimulus package for certain target economic activities has been introduced and loan disbursement has been continued although the earlier phase has not yet been fully implemented. The Bangladesh Bank should be asked to not allow new stimulus packages until the earlier packages are fully disbursed.

b. ***Meet loan disbursement targets:*** Bangladesh Bank should be asked to put pressure on the commercial banks to meet their loan disbursement targets particularly those that are earmarked for agriculture, CMSMEs, and other economic activities which have wide ranging welfare implications. Banks should be asked to encourage their branches to disburse loans by exploring the need of potential clients.

c. ***Promote agri-refinance scheme:*** Agriculture refinance scheme needs to be promoted by the Bangladesh government to incentivise introduction of new technology for planting and harvesting taking into account of the high demand for subsidised credit in order to ensure adequate supply of agricultural crops in the market.

d. ***Implement Basel III:*** Bangladesh Bank should be asked to implement the Basel III in the banking sector in order to mitigate the risks facing financial sector and improve financial sector governance. Whilst the Bangladesh Bank has relaxed capital adequacy ratio in view of the pandemic, banks should be required to ensure that risk factors are properly dealt with.

e. ***Ensure repayment of loans:*** Repayment of loans distributed under the stimulus package needs to be given due importance. Bangladesh Bank should be asked to closely monitor the state of repayment of the loan and ensure compliance with Bangladesh Bank regulations.

f. ***Set up an independent banking reforms commission:*** In view of the state of the banking sector, the government should set up an independent banking reforms commission.

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SECTION VI. FISCAL POLICY FOR MAXIMISING SOCIAL WELFARE

Fiscal policy is an important tool for correcting market failures and maximising social welfare. In a free market equilibrium, merit goods are under-produced and under-consumed. This deprives society of the positive externalities that are associated with merit goods. Hence the production and consumption of merit goods need to be encouraged through government interventions in order to maximise social welfare. Two of the most important merit goods are health and education. Often these are neglected sectors in developing and low-income countries. Analysis of the past fiscal policies of Bangladesh shows that neither health nor education have received any importance in the national budget.

6.1 Protecting public health through fiscal policy

The total budget allocation for the health sector increased only by 12 per cent, from BDT 29,247 crore in Fiscal Year (FY) 2021 to BDT 32,731 in FY2022, which was lower than the 14 per cent average annual increase in total budget allocation for the health sector between FY2011 and FY2022. Allocation for the health sector as a share of the total budget has increased from 5.15 per cent in FY2021 to 5.42 per cent in FY2022. However, this was lower than the allocation of 6.18 per cent of budget in FY2010 when there was no pandemic. Actual expenditure in the health sector decreased by 6 per cent from BDT 18,677 in FY2019 to BDT 17,532 crore in FY2020. In Bangladesh, the budget allocation for the health sector has been less than 1 per cent of Gross Domestic Product (GDP) for the past 13 years indicating that healthcare was never a priority sector for the government. On the contrary, in 2017 at least 30 Least Developed Countries (LDCs) spent more than 1 per cent of GDP on health (World Bank, 2022). On top of this, out-of-pocket expenditure on health in Bangladesh is not only the highest in South Asia, but also increasing over time.

In this context, it is necessary to not only increase the budget allocation and budget utilisation of the health sector, but also implement a number of fiscal measures to promote improved public health and in turn maximise welfare for society. In the following exposition, fiscal measures for a few selected items are suggested.

6.1.1 Tax on tobacco and related products

In Bangladesh, the cigarette industry's pricing encourages purchase of relatively cheaper cigarettes. The complicated tiered tobacco tax framework supports differential pricing. Such differential pricing defeats the intended purpose of taxation as a tool for achieving beneficial public health outcomes. Hence Bangladesh's tobacco tax structure needs to be streamlined. Cigarette affordability should be reduced as a result of tax-induced price increases. For tobacco and tobacco-related products, the government should eliminate the tiers of taxation and replace them with a single system. Additionally, a specific tax, which is fixed per pack, should be implemented instead of an ad valorem tax, which is determined as a percentage of retail price. The government will find it much easier to administer a uniform specific excise system of taxes on tobacco. It would also let the government relinquish jurisdiction over the administration of cigarette recommended retail price (RRPs), which is putting strain on the tax authorities. The government lacks the resources to monitor and enforce RRPs across the country. The cigarette industry capitalises on this lack of monitoring to maximise their profits. Hence, it is suggested that the government lets the market establish the relevant price and collect tax revenue through a sufficiently high uniform specific tax that is unrelated to the tobacco product's price and only reliant on the number of sales.

We propose a uniform specific excise duty of BDT 10 per cigarette stick on all cigarettes to be implemented in FY2023 (Table 6.1). Such a uniform specific tax on all cigarettes should be increased by at least BDT 5 per stick each year, to account for annual inflation and income growth.

Table 6.1: Proposed tax structure for cigarettes (per pack of 10 cigarettes)

Current tax structure in FY2022						Proposed tax structure for FY2023				
	Retail price		SD				Retail price		Specific excise duty	
Tier	Pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in per cent)	Per pack of 10 (in BDT)	Per stick (In BDT)	Tier	Per pack of 10 (in BDT)	Per stick (in BDT)	Per pack of 10 (in BDT)	Per stick (in BDT)
Low	39+	3.9	57	22.23	2.22	All	Market based	Market based	100	10
Medium	63+	6.3	65	40.95	4.10					
High	102+	10.2	65	66.30	6.63					
Premium	135+	13.5	65	87.75	8.78					

Source: CPD compilation data from the Ministry of Finance (Kamal, 2021).

In line with the proposed tax structure for cigarettes, the tax structure for Bidi, Jarda, and Gul should also be reformed. This will protect low-income groups from health hazards and reduce the burden of health expenditure on the government. Instead of the current tier classification of Bidi into filtered and non-filtered, and additional groupings based on the size of the pack, we propose specific excise tax of BDT 3 per stick for all Bidi to be implemented in FY2023, and allow the price of Bidi to be determined by the market (Table 6.2). Such a uniform specific tax on all Bidi should be increased by at least BDT 1 each year, to account for annual inflation and income growth.

Table 6.2: Proposed tax structure for Bidi

Current tax structure in FY2022						Proposed tax structure in FY2023				
	Retail price		SD				Retail price		Specific excise duty	
Type of bidi	Per pack (in BDT)	Per stick (in BDT)	Per pack (in per cent)	Per pack (in BDT)	Per stick (in BDT)	Type of bidi	Per pack (in BDT)	Per stick	Per pack (in BDT)	Per stick (in BDT)
Non-filtered 25 stick handmade bidi	18	0.72	30	5.40	0.22	All	Market based	Market based	75	3
Non-filtered 12 stick handmade bidi	9	1.33	30	2.70	0.23				36	
Non-filtered 8 stick handmade bidi	6	1.33	30	1.80	0.23				24	
Filtered 20 stick handmade bidi	19	1.05	40	7.60	0.38				60	
Filtered 10 stick handmade bidi	10	1.00	40	4.00	0.40				30	

Source: CPD compilation data from the Ministry of Finance (Kamal, 2021).

Finally, the existing tax structure on Jarda and Gul should also be reformulated in cognisance of the severe health risks posed by the long-term consumption of such items. We propose a BDT 6 specific excise duty on per gram (gm) of Jarda and Gul to be implemented in FY2023, and to allow the price of Jarda and Gul to be determined by the market (Table 6.3). Such a specific tax on Jarda and Gul should be increased by at least BDT 1 each year, to account for annual inflation and income growth.

Table 6.3: Proposed tax structure for Jarda and Gul

Current tax structure in FY2022						Proposed tax structure in FY2023				
	Retail price		SD				Retail price		Specific excise duty	
Type of product	Per 10gm (in BDT)	Per gm (in BDT)	Per 10 gm (in per cent)	Per 10 gm (in BDT)	Per gm (in BDT)	Type of product	Per 10gm (in BDT)	Per gm (in BDT)	Per 10gm (in BDT)	Per gm (in BDT)
10gm jarda	40	4	55	22	2.2	10gm jarda	Market based	Market based	60	6
10gm gul	20	2	55	11	1.1	10gm gul				

Source: CPD compilation data from the Ministry of Finance (Kamal, 2021).

In the budget for FY2022, companies manufacturing tobacco products were subject 45 per cent corporate tax, which was the same rate of corporate tax as non-publicly traded mobile operator companies. Since companies manufacturing tobacco products are directly causing severe public health hazards, it is necessary to ensure that such companies pay corporate tax at a rate which is above the corporate tax rate for all other types of companies.

Therefore, in addition to the aforementioned tax reforms, we also propose that the corporate tax on all companies manufacturing tobacco products, such as cigarette, bidi, chewing tobacco, jarda, and gul, to be increased from 45 per cent in FY2022 to 50 per cent in FY2023, and the associated surcharge to be increased from 2.5 per cent in FY2022 to 5 per cent in FY2023 (Table 6.4). In order to achieve the government's long-term goal of a tobacco-free Bangladesh, we also propose that the corporate tax on all on all companies manufacturing tobacco products, such as cigarette, bidi, chewing tobacco, jarda, to be increased to 55 per cent, and the associated surcharge to be increased to 7.5 per cent, in 2026 when Bangladesh graduates from the LDC group.

Table 6.4: Corporate tax on tobacco product manufacturing companies

Type of company	Current tax structure in FY2022		Proposed tax structure for FY2023		Proposed tax structure for FY2026	
	Corporate tax (in per cent)	Surcharge (in per cent)	Corporate tax (in per cent)	Surcharge (in per cent)	Corporate tax (in per cent)	Surcharge (in per cent)
All companies manufacturing tobacco products, such as cigarette, bidi, chewing tobacco, jarda, and gul	45	2.5	50	5	55	7.5

Source: CPD compilation data from the Ministry of Finance (Kamal, 2021).

6.1.2 A hard tax for soft drinks

Carbonated soft drinks and energy drinks are a significant health concern in Bangladesh. Such beverages have a substantial amount of sugar which is a major cause for obesity, diabetes, and tooth decay. Typically, a single can of a soft drink which is around 355 millilitres, contains 39 grams of sugar (Coca-Cola Company, n.d.). This is equivalent to roughly about 10 teaspoons of sugar while the World Health Organisation (WHO) recommends that adults should not consume more than 6 teaspoons of sugar daily to lead a healthy lifestyle (WHO, 2017). Currently, the beverage and carbonated industry is subjected to a 25 per cent SD for carbonated soft drinks, and 35 per cent SD for energy drinks with a 15 per cent VAT applicable for both (NBR, 2018). In Bangladesh, carbonated soft drinks and energy drinks are widely accessible, and hence it is necessary to decrease the consumption of such beverages in order to reduce the associated health risks.

Therefore, CPD recommends that the government should remove the supplementary duty on both soft drinks and energy drinks and replace it with a specific excise duty of BDT 0.1 per millilitre (ml) or BDT 100 per litre (l) on soft drinks and energy drinks produced in Bangladesh in the FY2023 (Table 6.5). Since sweetened beverages are a demerit good, placing a specific excise duty will reduce their consumption and provide the government with a substantial revenue. Furthermore, limiting sugary beverage intake will help Bangladesh minimise the risks of related diseases and health expenditures of the general population. This will also allow the economy to achieve SDG target 3.4 which aims to reduce non-communicable diseases by one-third by 2030 (UN, 2015).

Table 6.5: Proposed tax structure for soft drinks and energy drinks

Current Tax Structure for FY2022			Proposed Tax Structure for FY2023			
Beverage	**SD (in per cent)**	**VAT (in per cent)**	**Beverage**	**Specific excise duty (BDT per litre)**	**Specific excise duty (BDT per millilitre)**	**VAT (in per cent)**
Soft drinks	25	15	Soft drinks	100	0.10	15
Energy drinks	35	15	Energy drinks	100	0.10	15

Source: CPD's compilation based on data from the National Board of Revenue (NBR, 2018).

6.1.3 Tax on sanitary napkins – a gender tax harming women and girls

Menstrual hygiene is a fundamental right and need for women and girls all over the world. But this right is violated when menstrual hygiene products are subjected to all kinds of tax – Value Added Tax (VAT) and duties. The practice of safe hygiene is strongly connected to Sustainable Development Goal (SDG) 3 which aims to ensure good health and well-being for all (United Nations, 2015). Even though sanitary products are a necessity for women and girls to maintain proper hygiene, their price is beyond the reach of most women and girls from low-income groups of Bangladesh.

Locally produced sanitary napkins, towels, and similar sanitary products for women and girls in Bangladesh are subjected to high prices because of high incidence of tax including VAT, Customs Duties (CD), Supplementary Duty (SD), Regulatory Duty (RD), and Additional Tax (AT) on imports of raw materials. The imposition of local VAT on production and sometimes sales tax is also reflected in the price of these products (WaterAid, 2019). SD on imported raw materials, such as air laid paper is 20 per cent. Additionally, all raw materials used in the production of sanitary napkins were subjected to 15 per cent and 5 per cent, respectively in FY2022 (Bangladesh Customs, 2021). In the budget speech of FY2022, it initially proposed that the VAT and SD at local manufacturing stage on the production of sanitary napkin will be exempted to ensure health protection of women and girls (Kamal, 2021). However, such exemption was not implemented later.

We therefore propose that the total tax incidence (TTI) on imported raw materials used to produce sanitary napkins and diapers should be made zero by exempting all form of VAT, CD, SD AIT, RD and AT to ensure affordable sanitary napkins for women and girls from all levels of income. The TTI on imported sanitary napkins and diapers in FY2022 was 127.72 per cent, which we recommend to be reduced to 31.93 per cent. This is equivalent to one-fourth the existing value (Table 6.6). Given the importance of the product to women and girls it should receive tax exemption and should not be treated as other products.

Table 6.6: Proposed tax structure on import of sanitary napkins and related raw materials

Current tax structure in in FY2022									Proposed
HS code	**Product description**	**CD (%)**	**SD (%)**	**VAT (%)**	**AIT (%)**	**RD (%)**	**AT (%)**	**TTI (%)**	**TTI (%)**
96190000	Sanitary towels (pads) and tampons, napkins and napkin liners for babies and similar items	25	45	15	5	3	5	127.72	**31.93**
48239094	Air laid paper imported by VAT registered sanitary napkin manufacturers	25	20	15	5	3	5	89.32	**0**
35052000	Glues based on starches, dextrins or other modified starches	5	0	15	5	15	5	49.00	**0**
35069110	Adhesives based on rubber or plastic (including artificial resins)	25	0	15	5	3	5	58.60	**0**
39069000	Acrylic polymers, in primary forms and other polyesters, in primary forms.	10	0	15	5	0	5	37.00	**0**
39199020	Performance tape or closure or side tape	25	0	15	5	0	5	55.00	**0**
39201020	Other plates, sheets, film, foil and ethylene imported by VAT registered personal hygiene products manufacturing industries	25	0	15	5	3	5	58.60	**0**
40021100	Latex of styrene-butadiene or carboxylate styrene-butadiene rubber	5	0	15	5	0	5	31.00	**0**
47032100	Semi-bleached or bleached coniferous chemical wood pulp, soda	0	0	15	0	0	5	20.00	**0**
48119090	Other paper, paperboard, cellulose wadding and webs of cellulose fibres	25	0	15	5	3	5	58.60	**0**
54024400	Other yarn, single, untwisted or with a twist not exceeding 50 turns per meter	5	0	15	5	0	5	31.00	**0**
56031110	Nonwovens, of man-made filaments, weighing less than or equal to 25 gram per square meter	25	0	15	5	3	5	58.60	**0**
63079000	Made up articles (including dress patterns)	25	0	15	5	3	5	58.60	**0**

Source: CPD compilation based on data from Bangladesh Customs (Bangladesh Customs, 2021).

6.1.4 Tax on medicines in view of Bangladesh's LDC graduation

In Bangladesh, the expenditure on pharmaceutical products and health services takes up large proportion of people's income every month. The out-of-pocket spending on healthcare as a share of current health expenditure increased from 61 per cent in 2000 to 72.68 per cent in 2019 (The World Bank, 2022). Moreover, the proportion of population pushed below the USD 1.90 poverty line due to out-of-pocket expenditure on healthcare increased from 2.84 per cent in 2005 to 6.98

per cent in 2016 (World Bank, 2021). Under the new VAT and Supplementary Duty Act-2012, the government-imposed 2.4 per cent VAT on pharmaceuticals including medicines at local trading stage and 15 per cent on import of pharmaceutical products and raw materials for production of medicines (GoB, 2019). Moreover, as an LDC, Bangladesh's pharmaceutical industry is currently enjoying the facilities under the Trade-Related Aspects of Intellectual Property Rights (TRIPS) pharmaceutical waiver which provides an exemption from obligations to enforce patents along with data protection for pharmaceutical products. Unless Bangladesh gets an extension on the transition period of the TRIPS waiver after its graduation from the LDC group in 2026, the waiver would be exempted starting from 2026. So, Bangladesh will lose the LDC-specific support measures under this agreement.

Therefore, we propose that the VAT on medicines should be exempted starting from FY2026 to ensure that medicines continue to be affordable to all even after the loss of TRIPS waiver in 2026. Beyond 2026, the government will need to implement a plan to protect the local pharmaceutical industry and help retain its competitiveness in the global market. This will also benefit the people from low-income groups to access medicines and other pharmaceutical products at an affordable price.

6.2 Fiscal policy for incentivising education

The total allocation for the education sector in FY2022 was BDT 71,953 crore, which was only 8.68 per cent higher than the revised budget for FY2021. However, education budget as a share of total budget decreased from 14 per cent in FY2010 to 11.92 per cent in FY2022. Education budget as a share of GDP has remained stagnant during recent fiscal years. The revised education budget as a share of GDP decreased to 2.08 per cent in FY2022 from 2.14 per cent in the revised budget for FY2021. Education budget utilisation has been decreasing over the years, especially for development expenditure.

Therefore, it is necessary to not only increase the budget allocation and budget utilisation of the education sector, but also implement a number of fiscal measures to promote improved education and in turn maximise welfare for society. In the following exposition, fiscal measures for English medium schools, imported books, and female education stipend are proposed.

6.2.1 Removal of existing taxes on education

The right to education is a basic human right and education should be made accessible and affordable for all individuals in a country. While the government has exempted Bengali medium schools, and later private universities, from paying VAT on tuition fees, the VAT on English medium schools continue to be at 5 per cent (NBR, 2019). It is often opined that English medium education is a luxury good and that students who study in English medium schools belong to affluent families and do not stay in the country in the long run. Obtaining education, irrespective of the source, is a basic right and should not be misconstrued as a luxury good. In their early days, English medium schools might have been suited for the privileged. However, in recent years, the dynamic has changed profusely. The number of English medium schools have proliferated over the years in Bangladesh. Many middle-income families are admitting their children to English medium schools to allow them to study in the international curriculum and gain a competitive edge in the labour market. Parents, presumably, prefer English medium education in order to provide their children with benefits that would not otherwise be available to them (Mousymi & Kusakabe, 2017). English medium schools are privatised and are not recognised to have a low tuition fee. Hence the VAT on tuition fees of English medium schools puts an extended burden on the parents of middle-income families. Therefore, CPD recommends that the VAT on the tuition fees for all academic institutions, including English medium schools, should be exempted in FY2023, and the exemption should remain in place for an indefinite period.

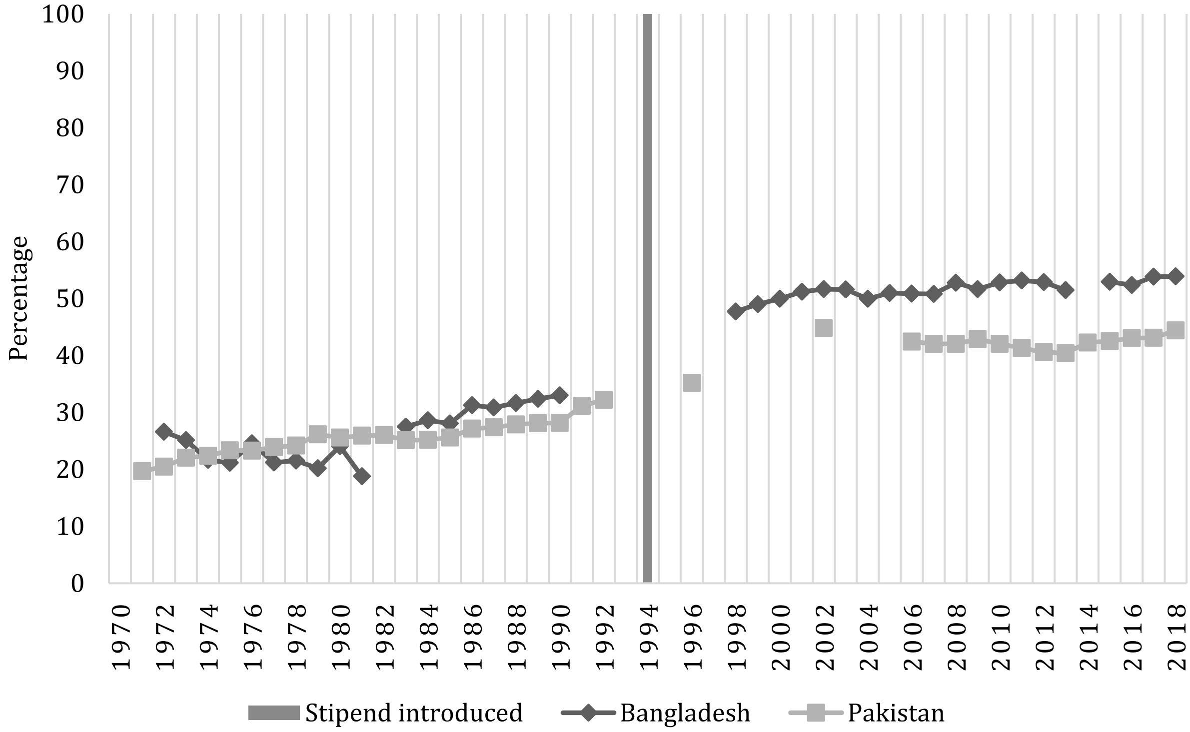
Additionally, since English medium schools, follow the international curriculum, the books assigned as a part of their syllabus are all imported books written by international authors. At present the TTI on foreign printed books is at 73.96 per cent. The total tax incidence includes 25 per cent as CD, 10 per cent as SD, 5 per cent as AIT, 15 per cent as VAT, and 3 per cent as RD. Such high duties on foreign books intended to provide children with quality education defeats the purpose of achieving the SDG four which aspires to "ensure inclusive and equitable quality education and promote lifelong learning and opportunities for all" (UN, 2015). As the syllabus is revised, during every academic year parents have to buy new books for their children studying in English medium schools, while bearing such a high tax incidence. This puts further strain on families' incomes, particularly those from middle-income households. Therefore, CPD recommends that all taxes and duties on foreign imported books should be exempted in FY2023 to ensure that education remains affordable for all.

6.2.2 Female education stipend

The economic empowerment of women is critical to long-term success for any society. The government, private sector and the non-government organisations have all played their part in the economic empowerment of women in Bangladesh. In 1982, the government of Bangladesh initiated some social safety net programmes especially targeted towards women and girls, such as the female secondary education stipend. Results from a pilot project showed that girls' secondary enrolments increased from an average of 7.9 per cent to 14 per cent in some project areas and dropout rates fell from 14.7 per cent to 3.5 per cent (Raynor, Wesson, & Keynes, 2006). In 1994, the highly successful programme was launched nationwide. Female students received a monthly sum of money ranging from BDT 25 in Class 6 to BDT 60 in Class 10, as well as payments for new books and exam fees, on condition of a minimum of 75 per cent attendance rate, at least a 45 per cent score in annual school exams, and staying unmarried until sitting for the Secondary School Certificate (SSC) or turning 18 years old.

The female secondary education stipend programme in Bangladesh was not only effective in increasing girls' enrolment in schools, but also succeeded in providing a host of benefits, such as increasing the ratio of female students in secondary schools, improving female literacy rate, lowering fertility rate, controlling population growth rate and increasing female labour force participation. As a result of the catalytic benefits of its successful female secondary education stipend programme, Bangladesh managed to advance ahead of Pakistan in terms of several key socio-economic indicators. In 2018, girls comprised on 54 per cent of pupils in secondary schools in Bangladesh, whereas in Pakistan, only 44 per cent of secondary school pupils were girls (Figure 6.1). In 2017, adult female literacy rate was 70 per cent in Bangladesh, but only 46 per cent in Pakistan.

Figure 6.1: Percentage of female pupils in secondary education



Source: CPD illustration based on data from UNESCO (UNESCO, 2020).

Unfortunately, the allocation for three kinds of education stipends were reduced in FY2022. The budget allocation for the Primary School Stipend was decreased from BDT 3,712 crore in the revised budget of FY2021 to BDT 1,900 crore in FY2022, the budget allocation for the Secondary and Higher Secondary Stipend was decreased from BDT 2,832 crore in FY2021 to BDT 1,841 crore in FY2022, and the Stipends for Undergraduate and Postgraduate Level Students was decreased from BDT 96 crore in FY2021 to BDT 80 crore in FY2022. We propose an increase in the allocation for all education stipends to be implemented in the budget for FY2023 (Table 6.7).

Table 6.7: Proposed education stipend structure in FY2023

	Current stipend structure in FY2022			Proposed stipend structure in FY2023	
Name of stipend	**Number of beneficiaries (in crore)**	**Total budget allocation (in crore BDT)**	**Allocation per beneficiary per year (in BDT)**	**Total budget allocation (in crore BDT)**	**Allocation per beneficiary per year (in BDT)**
Student stipend for primary education level	1.400	1,900	1,357	8,400	6,000
Stipends for secondary, higher secondary and madrasah education level students	0.523	1,841	3,524	5,225	10,000
Stipends for undergraduate and postgraduate level students	0.013	80	6,142	195	15,000
Stipends for students of technical education institutions	0.056	330	5,935	834	15,000
Stipends for physically challenged students	0.010	96	9,564	200	20,000

	Current stipend structure in FY2022			Proposed stipend structure in FY2023	
Name of stipend	**Number of beneficiaries (in crore)**	**Total budget allocation (in crore BDT)**	**Allocation per beneficiary per year (in BDT)**	**Total budget allocation (in crore BDT)**	**Allocation per beneficiary per year (in BDT)**
Stipend for improving the livelihood of transgender, Bede and disadvantaged community	0.003	26	9,759	54	20,000
Total for stipend programmes	2.004	4,273		14,908	

Source: CPD compilation based on data from Ministry of Finance (MoF, 2022).

Our proposed stipend reform will benefit more than 2 crore students at all levels, and cost the government an additional BDT 10,635 crore.

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SECTION VII. FISCAL MEASURES TO SUPPORT GREEN TRANSITION

Green fiscal policies are an important component of attempts to address global warming concerns and transition to an inclusive green economy. Such policies can assist in achieving the Paris Agreement by reflecting externalities in prices, aligning government expenditures with environmental goals, and boosting revenues (UN Environment Programme, 2022). Reaching global climate commitments requires a huge amount of investment. In the energy sector alone, about United States Dollar (USD) 3.1-5.8 trillion is required per year till 2050 to reach net-zero (Lenaerts, Tagliapietra, & Wolff, 2022). Removing fossil fuel subsidies has the potential to raise about USD 2.9 trillion annually (UN Environment Programme, 2022), and thus can contribute to the investment required to attain global climate goals.

Bangladesh should take lessons from the global initiatives and efforts pertinent to countering climate change. The government needs to promote a green fiscal policy which should be reflected in the national budget. It is in the interest of the government to work towards green growth since the country will graduate from least developed country (LDC) to developing country status in 2026 and plans to become a higher middle-income country by 2031. Such transition will make environmental compliances mandatory and stringent.

Although the majority of Bangladeshis reside in rural regions at present, there is a clear tendency towards growing urbanisation. Bangladesh's economy is undergoing structural change as it progresses on its development path. Although structural change is beneficial to development, it may be harmful to the environment. As more people relocate to cities, their carbon footprints grow larger. The aggregation of these larger footprints may have significant detrimental impacts on environmental quality. Research has shown that in Bangladesh, urbanisation is linked to higher greenhouse gas emissions and higher annual average temperature change (Murshed & Saadat, 2018). Despite occupying only a small fraction of the world's land, urban areas are responsible for 75 per cent of global greenhouse gas emissions (United Nations Environment Programme, n.d.). When all possible disruptions are taken into account, cities are predicted to be at danger of losing 44 per cent of their gross domestic product (GDP), which is equivalent to USD 31 trillion, due to biodiversity loss and environmental damage (World Economic Forum, 2022). Among various types of pollution, air and plastic pollutions are acute in large cities of Bangladesh. In the following exposition, we discuss the problem of air and plastic pollution in Bangladesh, and recommend fiscal measures which may be adopted in the short and long run to reduce the detrimental impacts on the environment.

7.1 Alarming state of air pollution in Dhaka and other cities

With higher industrialisation, the rate of urbanisation and energy consumption is increasing and is causing emission of carbon dioxide. Air pollution is one of the serious environmental and climate related concerns arising from higher use of energy. As of 31 December 2021, the particulate matter (PM) 2.5 concentration in Bangladesh's air was 15.4 times above the safe air quality guideline of the World Health Organisation (WHO) (IQAir, 2022). Bangladesh's capital city, Dhaka experiences more air pollution than any other city in the country.

Bangladesh is committed to reduce greenhouse gas (GHG) emissions by 6.73 per cent in five sectors namely, power, transport, industry, waste, and land use by 2030 as per its Nationally

Determined Contribution (NDC) document. With additional finance and technology from external sources, Bangladesh will reduce GHG emission by 15.12 per cent (Ministry of Environment, Forest and Climate Change, 2021). In case of transport sector, the share of GHG emission by 2030 will be 8.86 per cent. By 2030, the Government of Bangladesh will reduce to emissions from transport by 12.30 per cent on its own and by another 10.23 per cent with international support. According to the update NDC of Bangladesh USD 14.9 billion and USD 21.6 billion are required to deliver unconditional and conditional commitment respectively. To achieve these GHG emission reduction targets, Bangladesh needs to implement a variety of tax and regulatory measures.

There are not many fiscal measures to support green transition in Bangladesh. Only a few tax benefits and green funds are now available for promoting green and sustainable production and consumption. The *Renewable Energy Policy 2008* introduced a 15 per cent VAT exemption on all renewable energy equipment and related raw materials for producing renewable energy back in 2008. However, currently the VAT exemption exists only for the import and production of photovoltaic cells, solar modules, solar panels, and for the production of solar batteries up to 60 Amperes (as per SRO No. 141-Act/121/138-VAT). The renewable energy policy has a provision for exemption of corporate income tax for companies producing renewable energy for 5 years, which can be extended after the end of the period. An environment protection surcharge (EPS) was introduced in the Finance Act 2014, although this surcharge still has not been fully implemented (Finance Division, 2020). Two Bangladesh Bank funds currently support the green energy transition in Bangladesh: Refinance Scheme for bank and financial institutions, and Green Transformation Fund (GTF) for Export-oriented Industries (Bangladesh Bank, 2020).

7.2 Plastic pollution getting out of hand

Despite its negative impact on the environment and human health, disposable plastic is becoming more popular worldwide due to its multifunctionality and low cost. In Bangladesh, 646 tons of plastic waste are collected every day, with 48 per cent going to landfills, 37 per cent being recycled, 12 per cent ending up in rivers and canals, and 3 per cent thrown in sewers and other parts of cities (The World Bank, 2021). Every year, between 24,032 to 36,047 tonnes of plastic garbage are discarded in 1,212 hot spots near canals and water bodies that are all connected to the river system in Bangladesh. (The World Bank, 2021). Rapid urbanisation has also increased plastic use and pollution. The annual per capita plastic consumption in urban areas of Bangladesh has tripled to 9.0 kilogramme (kg) in 2020 from 3.0 kg in 2005. Single-use plastics like shopping bags, packs, and wrappers have been found to be most mismanaged plastic waste in Bangladesh (The World Bank). Annual per capita plastic consumption in Dhaka is more than three times the national average for urban areas. Single-use plastics obstruct drains that results in urban flooding. Single-use plastic also poses significant risks to humans and the ecosystem.

Per capita plastic waste generated in Bangladesh was only 0.03 kg per day in 2010, compared to the global average of 0.19 kg per day (Jambeck, et al., 2015). However, 87 per cent of the plastic waste generated in Bangladesh was inadequately managed, which led to the country becoming the tenth largest contributor of mismanaged plastic waste in the world in 2010 (Jambeck, et al., 2015). The Ganges River, which runs through Bangladesh and into the Bay of Bengal, was estimated to be the second largest river source of plastic inputs into the ocean worldwide in 2015 (Lebreton, et al., 2017).

COVID-19 has led to a surge in unsustainable production of single use plastics and synthetic materials which have been utilised for making personal protective equipment (PPE) such as body suits, masks and face shields. Fears of virus transmission have also led to a spike in unsustainable consumption of single use tableware and cutlery. Between 26 March 2020 and 25 April 2020, around 14,165 tonnes of single use plastic waste was generated in Bangladesh, which included 455 million surgical masks, 1,216 million polyethene hand gloves, 189 million surgical hand gloves and 49 million bottles of hand sanitizer (Environment and Sioial development Organisation, 2020).

Over time, Bangladeshi policymakers have formulated several policies to address environmental challenges including pollution. In case of plastic use, Bangladeshi policymakers have undertaken some measures in the past. In 2002, Bangladesh issued a regulatory order under the 1995 Environment Act banning the use of plastic shopping bags. However, the ban had limited impact due to a lack of enforcement. The country passed the Mandatory Jute Packaging Act in 2010, which was partly successful in reducing reliance on plastic. Guidelines on reducing, reusing, and recycling plastic were introduced in the National 3R Strategy for Waste Management formulated in 2010. Moreover, the Eighth Five Year Plan mentioned the implementation of the Extended Producer Responsibility (EPR) Policy in plastic management, with active participation of local stakeholders such as the Department of Environment, Bangladesh Plastic Goods Manufacturers and Exporters Association, plastic manufacturers, research industries, and city corporation, to take responsibility for minimising disposable single-use plastic. According to the National Action Plan, Bangladesh has set a target of reducing plastic waste by 30 per cent by 2030 (The World Bank, 2021). The country has set goals of lowering virgin material consumption by 50 per cent by 2030. It also aims to recycle 50 per cent of all plastics by 2025, with the goal of reaching a recycling rate of 80 per cent by 2030, and phasing out targeted single-use plastics by at least 90 per cent by 2026 (The World Bank, 2021). The National Action Plan includes detailed steps and strategies for accomplishing these goals.

7.3 Budget recommendations for reducing air and plastic pollution

In view of the above, the government may consider the following fiscal measures to reduce air and plastic pollution and promote green transition of the economy:

- VAT exemption: The government should fully implement the commitments which it made in the *Renewable Energy Policy 2008.* Currently, VAT exemption exists on solar panels and batteries, but there are no exemptions on solar inverters which are a crucial component of solar power plants. Moreover, the import duty on inverters (HS 85044090) was raised by 37 per cent in the last budget of FY2022. An extensive policy that considers VAT exemption on all types of equipment in a renewable power plant, especially solar power plants, should be considered from FY2023.
- Incentive tariff: An incentive tariff can be considered for electricity generated from renewables according to the *Renewable Energy Policy 2008*, which allows electricity generated from renewable sources to be priced 10 per cent higher than the highest purchase price of electricity generated from fossil fuel sources.
- Environment surcharge: The Finance Act of 2014 set a 1 per cent surcharge on the goods produced by industries polluting the environment. This environment protection surcharge should be implemented completely in FY2023.

- Carbon tax: Bangladesh can implement a carbon tax as low as USD 1 (BDT 86) per tonne of carbon dioxide starting from FY2026, in order to gradually meet the government's target set out in the Eighth Five Year Plan which aims to implement a 5 per cent carbon tax on the price of fossil fuels by 2025 and 15 per cent carbon tax on the price of fossil fuels by 2041 (Bangladesh Planning Commission, 2020). Such a carbon tax can bring two benefits for Bangladesh: i) a carbon tax will be a disincentive for fossil fuel-based power producers; and ii) the revenue collected from carbon tax can be utilised for the development of green energy in Bangladesh. Bangladesh has the potential to generate revenues equivalent of about 1 per cent of its GDP by charging USD 30 per tonne of carbon dioxide equivalent (World Bank, 2022). The tax can be levied upstream, such as at the import level or on fossil fuel driven power producers, to make it easier to implement (World Bank, 2022). Initially, the carbon tax may be levied on selected fossil fuels only. However, it would not be feasible to implement a carbon tax on liquified natural gas (LNG), as the country is already paying a lot for the import of LNG. In the long-term, the country can increase the rate of carbon tax and make it a large revenue stream to fuel green transition of the economy. A carbon tax for fossil fuel products in Bangladesh would reduce a substantial amount of carbon emissions and also yield tax revenues which could be utilised to invest in clean technologies and infrastructures that will help offset the loss of output from carbon taxes (Ahmed & Khondker, 2018).
- Gradual phase-out of fossil fuel subsidies: The government should gradually phase out fossil fuel subsidies starting from FY2026 when Bangladesh will graduate from the LDC group. Instead, the government can redirect the funds currently allocated to fossil fuel subsidies to the development of green energy. This can be a long-term solution for Bangladesh, as the current international situation is not ideal for Bangladesh to remove fossil fuel subsidies immediately.
- Feed-in tariff: A formal feed-in tariff policy exclusively for renewable energy needs to be implemented in FY2023 in order to promote renewable energy in Bangladesh. Currently, an informal version of the feed-in tariff policy exists in Bangladesh. However, such a mechanism does not exclusively promote renewable energy. A clear incentive package has to be present in the policy so that it reaches all types of potential renewable energy producers regardless of their generation capacity.
- In order to reduce air polluting originating from the transport sector, the government should reform the advance income tax (AIT) structure on private motor vehicles so that the AIT on fossil fuel driven motor vehicles is 20 per cent to 45 per cent higher than the AIT on hybrid and fully electric vehicles, depending on the size the vehicle's engine and electric motor. More specifically, the AIT on a car or a jeep, not exceeding 1500cc or 75kw should be BDT 25,000 per year for hybrid and fully electric vehicles and BDT 30,000 per year for fossil fuel driven vehicles; the AIT on car or a jeep, exceeding 1500cc or 75kw but not exceeding 2000cc or 100 kw should be BDT 50,000 per year for hybrid and fully electric vehicles and BDT 62,500 per year for fossil fuel driven vehicles; the AIT on a car or a jeep, exceeding 2000cc or 100 kw but not exceeding 2500cc or 125 kw should be BDT 75,000 per year for hybrid and fully electric vehicles and BDT 97,500 per year for fossil fuel driven vehicles; the AIT on a car or a jeep, exceeding 2500cc or 125 kw but not exceeding 3000cc or 150 kw should be BDT 125,000 per year for hybrid and fully electric vehicles and BDT 168,750 per year for fossil fuel driven vehicles; the AIT on a car or a jeep, exceeding 3000cc or 150 kw but not exceeding 3500cc or 175 kw should be BDT 150,000 per year for hybrid and fully electric vehicles and BDT

210,000 per year for fossil fuel driven vehicles; the AIT on a car or a jeep, exceeding 3500cc or 175 kw should be BDT 200,000 per year for hybrid and fully electric vehicles and BDT 290,000 per year for fossil fuel driven vehicles; and the AIT on a microbus should be BDT 30,000 per year for hybrid and fully electric vehicles and BDT 36,000 per year for fossil fuel driven vehicles.

- With the goal of reducing plastic pollution, the government should consider bringing single-use plastic products under taxation in FY2023. Such single-use plastic products may include: cutlery such as forks, knives, spoons, and chopsticks; plates; straws; beverage stirrers; sticks to be attached to and to support balloons; food containers made of expanded polystyrene; beverage containers made of expanded polystyrene; and cups for beverages made of expanded polystyrene. Initially, the plastic tax regime should assume a moderate stance and in subsequent years the tax regime could be made more stringent, and more single-use plastic products should be brought under the ambit of taxation.
- The budget for FY2023 should allocate additional funding for the Joint Rivers Commission to establish a bilateral plastic waste reduction initiative with India. The Government of India should also contribute to this initiative with funding, as well as technical and logistical support, in order to ensure the reduction of plastic waste in the 54 transboundary rivers shared between Bangladesh and India.

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SECTION VIII. CONCLUDING REMARKS

It is evidenced by CPD's budget proposals in the preceding sections that in view of the emergent, emerging and anticipated challenges facing macroeconomic management and for making strides towards achieving immediate, short and medium-term developmental goals of the government, Budget FY2023 ought to be informed by a number of hard policy choices.

For FY2023 budget, CPD has proposed several measures, both concerning the policy arena and in sector-specific areas. In order to contain the budget deficit, CPD has proposed measures to enhance domestic resource mobilisation and raise both capacity and efficacy of public expenditure. These will call for an undertaking of new reforms and implementation of reform initiatives already taken. Targeted investment in institutional strengthening, inter-agency coordination and interoperability of systems for digital interface, and adequate resource allocation for human resource building will be required. To ease the burden of rising prices and shrinking purchasing power of low- and fixed-income earning people, CPD has proposed that measures be taken to selectively reduce taxes at import and domestic stages and stabilise the exchange rate.

CPD's budget proposals are informed by an anticipation of significantly increased subsidy requirements in view of rising global prices of commodities such as oil, food, fertiliser and gas. CPD's argument has been that people's welfare and purchasing capacity rather than the extent of budget deficit should inform the budgetary stance for FY2023, which should be geared to revitalising the COVID-impacted economy and stimulating domestic investment. The interests of consumers, farmers and producers should remain the major concern of policymakers. CPD has argued favouring restructuring of incentives towards export and market diversification and continuation of support to incentivise inward remittance flows. Restructuring of the subsidies should entail both reduction (e.g., subsidies for capacity payment in energy), continuation (e.g., remittance) and enhancement (e.g., food and fertiliser). A key strategical anticipation in this regard is that the high prices are of transitory in nature and that the price levels would revert back to the historical trends if the current scenario involving Russia and Ukraine changes for the better in the near-term future.

To raise well-being of the people, expansion and scaling up of social safety net programmes have been proposed by the CPD, particularly in view of the adverse footprints of the pandemic. The proposals have taken cognisance of the impact of the COVID on health and education sectors and on the country's children. In view of the above, a number of concrete fiscal-budgetary measures have been proposed concerning the expenditure side of the budget. CPD budgetary recommendations have argued for consolidation of SSNPs and introduction of universal coverage for children through the proposed MCBP under the ambit of a separate Child Directorate mandated to integrate and implement all child-focused programmes. CPD has proposed separate programme for workers, including provision for comprehensive health insurance.

CPD feels that whilst the significant resources going for investment in large-scale infrastructure projects are necessary for the economy, the government should set up an independent oversight mechanism to examine feasibility and assess economic and financial returns, financing modality, debt-servicing liability and ensure overall good governance in implementation of the infrastructure projects.

CPD has stressed the need to implement the long-overdue reform measures, including the direct income tax act and reforms of the SOEs, and has reiterated the need to undertake a comprehensive public expenditure review and set up an independent banking reforms commission.

From a medium-term perspective, concrete steps and allocations have been urged in view of the transition from fossil-fuel based energy to renewable energy and the urgency of embedding green growth in development strategy.

The philosophy embedded in budgetary proposals in developing country context is redistribution of income favouring the marginalised groups and communities. In the particular context of Bangladesh, this is even more urgent in view of the rising income and wealth inequalities which have been further accentuated by the COVID and the rising pressure on purchasing power of the common people leading to erosion of real income. CPD hopes that the government will look at FY2023 budget as an opportunity to secure the well-being of the marginalised people, revive the COVID-impacted economy and stimulate private sector investment. It is hoped that the CPD's proposals for reforms and recommendations involving income and expenditure sides of the budget will contribute to the discourse on budgetary proposals at this critical juncture of the country's developmental journey.