

Analysis of the National Budget for FY2012-13

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1. THE CONTEXT: SETTING THE BENCHMARKS

1.1 Setting the Benchmarks

One of the distinctive features of FY2013 budget is that this particular one is set to be the last budget to be fully implemented during the tenure of the present government. The budget for the upcoming fiscal year had to be prepared in the backdrop of diverse and opposing signals emanating from the economy as it approached the finishing line of FY2012. On the one hand, there was the encouraging performance of the National Board of Revenue (NBR), steady growth demonstrated by the country's agriculture sector and the robust inflow of remittances; on the other hand, the outgoing fiscal year experienced serious strains in terms of fiscal management, inflationary trends, public and private sector (including foreign direct investment (FDI)) investment performance, balance of payments situation, and slowdown of economic growth.

In view of the emergent challenges, macroeconomic and budgetary management in FY2013 will need to address the daunting tasks of fiscal consolidation, reversal in investment downturn (both public and private), restraining inflation, and revitalising the lost momentum of economic growth.

1.2 Outlook for GDP Growth for FY2013

As is known, the gross domestic product (GDP) growth target for FY2013 has been set at 7.2 per cent. This will demand a significant improvement on this year's provisional growth performance (6.3 per cent) – a rise of almost one percentage point. Of the 7.2 per cent overall growth in FY2013 – agriculture is to contribute 0.8 per cent (0.5 per cent in FY2012), industry sector's contribution is projected to be 3 per cent (2.8 per cent in FY2012), and that of the services sector is planned to be 3.4 per cent (2.9 per cent in FY2012)¹ (Table 1.1). As may be recalled, over the period of the past ten years, average addition to the GDP growth rate was to the tune of 0.2 percentage point per annum. In view of this, rise of almost one percentage point in one year will be a challenge that will call for significant improvement in many key performance indicators.

TABLE 1.1: GROWTH RATES AND CONTRIBUTION TO GROWTH

Sector	Growth (%)			Contribution to Growth (%)		
	FY11	FY12	FY13	FY11	FY12	FY13
Agriculture	5.1	2.5	4.4	1.0	0.5	0.8
Industry	8.2	9.5	9.9	2.4	2.8	3.0
Services	6.2	6.1	7.1	3.0	2.9	3.4
GDP	6.7	6.3	7.2	6.7	6.3	7.2

Source: Estimated from the Bangladesh Bureau of Statistics (BBS) data and the Sixth Five Year Plan (SFYP).

A crucially important contributing factor will have to be investment share of which in the GDP will need to rise by 4.6 percentage points – from 25 per cent of GDP in FY2012 to 29.6 per cent of GDP in FY2013². This would imply that a 32.4 per cent growth in investment will be required in nominal terms (by Tk. 75,460 crore in one year). Private investment will also need to be increased by 3.6 percentage points: from 19.1 per cent in FY2012 to 22.7 per cent

¹ The projection is based on the growth targets set at Sixth Five Year Plan (SFYP).

² According to CPD estimates, public investment is likely to be lower at 5.9 per cent of GDP. Provisional estimate of investment as a share of GDP is 25.4 per cent which may also come down to 25 per cent of GDP.

in FY2013, requiring an increase in investment, in nominal terms, by about 35 per cent (Tk. 61,280 crore). Over the last ten years, average increase in private investment as a share of GDP was only about 0.2 percentage points per annum. If the public sector's investment share in GDP is to rise from about 5.9 per cent to about 6.9 per cent, then a full implementation of the envisaged Annual Development Programme (ADP) (Tk. 55,000 crore) will be required. Over the last three years (FY2009-FY2012) share of public investment in GDP rose from 4.7 per cent to 5.9 per cent. This formidable jump in public, private and overall investment performance in one single year appears to be a daunting task, particularly in view of the targets for private sector credit growth mentioned in the budget and the demonstrated capacity of the development administration (Table 1.2).

TABLE 1.2: MONETARY SECTOR TARGETS (PER CENT)

Monetary Aggregates	FY12 Budget	FY12 RB	FY13	FY14	FY15
Broad Money (M2)	16.0	17.0	16.0	15.5	15.5
Domestic credit	21.1	19.5	17.7	17.2	16.8
Credit to private sector	20.0	16.0	16.0	16.0	16.0
Public sector credit	25.1	31.8	23.0	20.7	19.0

Source: Budget documents.

1.3 Inflation Outlook for FY2013

The rate of inflation in FY2013 is planned to be contained within 7.5 per cent, similar to the target that was set for FY2012. However, throughout FY2012 inflation continued to remain a major concern for the policymakers and the levels turned out to be significantly higher, to reach double-digit. As per the budgetary targets, inflation rate will need to be reduced by 3.8 percentage points in FY2013 to attain the target of 7.5 per cent. Whilst thanks to good Boro harvest and downward swing in the global food prices, food inflation may be somewhat moderated in FY2013, the prospects of this moderation is likely to be affected by the fact of the non-food (core) inflation being sticky downwards and also the likely upward revision of the administered prices of power, fuel and gas.

2. PUBLIC FINANCE FRAMEWORK

The national budget for FY2013 has envisaged an expenditure package of Tk. 191,738 crore which is 18.9 per cent or Tk. 30,525 crore higher than the revised budget for FY2012. As a share of GDP, the proposed public expenditure (18.4 per cent of GDP) in FY2013 is about 0.8 percentage points higher than that of FY2012 (17.6 per cent in the revised budget). The estimated growth target of 21.6 per cent for revenue mobilisation indicates a faster growth on the earnings side when compared with the expenditure side. At the same time, development expenditure is expected to grow faster (31.7 per cent) than non-development revenue expenditure (8.4 per cent). The proposed ADP, to the tune of Tk. 55,000 crore, is equivalent to 28.7 per cent of total public expenditure; this is 25.5 per cent in the revised budget for FY2012. According to a CPD projection, at the end of the year (FY2012) it may be limited to 23.4 per cent.

Overall budget deficit has been projected at 5 per cent of GDP for FY2013 which is estimated to be around 5.1 per cent in the revised budget for FY2012. As would be recalled, for financing of the deficit, the government relied on borrowing from the banking system in FY2012. In FY2013, an attempt has been made to restore the balance in financing the budget deficit. High foreign financing target (56.7 per cent growth over the revised budget for

FY2012) has been set with anticipated gross foreign aid flow of USD 3.2 billion. Borrowing from non-banking sector will also be almost double. In contrast, government's net bank borrowing is planned to decrease by (-) 21.0 per cent. As it appears, the programmed fiscal framework has been prepared in a manner that has followed ideal principles of public finance.

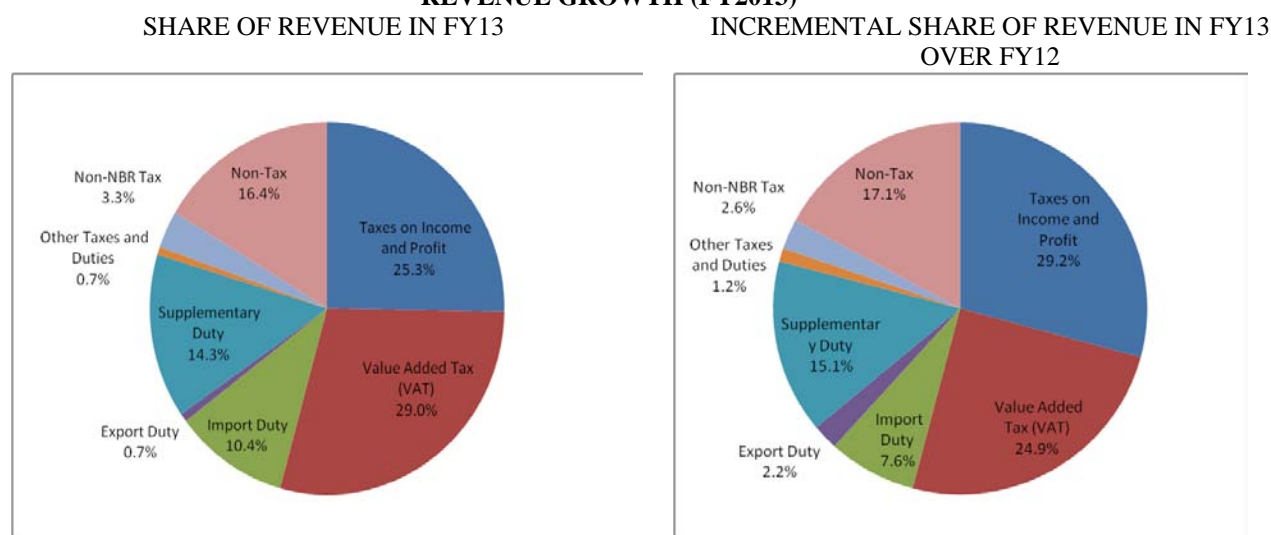
2.1 Revenue Earnings

Budget for FY2013 has targeted a revenue earning of Tk. 139,670 crore which implies that an additional Tk. 24,785 crore will need to be mobilised in FY2013 when compared to the revised budget target of FY2012. As a result, revenue-GDP ratio and tax-GDP ratio are expected to increase to 13.4 per cent and 11.2 per cent respectively in FY2013 from previous year's revised matched figures of 12.6 per cent and 10.5 per cent. The planned revenue collection structure is prepared with almost unchanged revenue income structure (100.0 per cent) among the three heads – NBR tax (80.3 per cent), non-NBR tax (3.3 per cent) and non-tax revenue (16.4 per cent).

2.1.1 NBR Components

As it stands, in order to achieve the revenue earning targets set for FY2013, NBR will have to play the key role and contribute the largest share (80.2 per cent) of the additional revenue. 29.2 per cent of incremental revenue will come from income tax – the highest in the last four years (Figure 2.1)! Overall, the NBR growth target for FY2013 has been set at 21.5 per cent higher than the revised budget figure of FY2012. The growth rate was 21.1 per cent in FY2012 (revised).

FIGURE 2.1: PROJECTED SHARE AND INCREMENTAL CONTRIBUTION OF SOURCES IN REVENUE GROWTH (FY2013)



Source: Estimated from the Ministry of Finance (MoF) data.

Within the NBR component, tax collection efforts from value added tax (VAT) and supplementary duty will need to be intensified to attain the targets of 18 per cent and 23.1 per cent respectively. In view of the proposed fiscal measures, expected improvement in revenue collection efforts, and high price levels, it would appear that these targets should be within the reach. In the backdrop of falling import payments, the target for customs duty in FY2013 has been set at a somewhat conservative level (15 per cent) against the revised budget for FY2012.

2.1.2 Non-NBR Components

The growth targets for non-NBR tax and non-tax revenue are set at 16.6 per cent and 22.8 per cent respectively, which are lower than their benchmarks figures of FY2012 (18.7 per cent and 38.4 per cent). Within Tk. 22,846 crore of revenue earnings targeted from non-tax sources, 38 per cent is expected to come from 'Other Non-Tax Revenue and Receipts'. The likelihood of reaching this target will hinge on receiving the expected telecom spectrum fee. The current trend of revenue collection by non-NBR and non-tax components could result in a shortfall in the ongoing FY2012. Shortfall in benchmark (FY2012) would mean higher than stipulated growth targets for FY2013. Revenue collection from a number of heads under non-tax revenue (e.g. 'Rents, Leases and Recoveries'; 'Tolls and Levies') need to improve in order to attain the target.

2.2 Public Expenditure

A sector-wise analysis of total expenditure (development and non-development) reveals that the highest growth in terms of resource allocation has taken place in the 'Public Services' sector over the revised allocations of FY2012. Total allocation for Public Services is set to increase by 38.5 per cent, driven partly by subsidies (including for export), allocation for public-private partnership (PPP) and lump allocation for development programmes financed from the revenue budget (Table 2.1). In contrast, allocation for Agriculture has remained almost unchanged compared to the revised budget of FY2012. Interest Payments remains the sector with second highest allocation, which is also likely to post significant rise (by 17.7 per cent). The allocation of Defence increased by 5.4 per cent in Taka terms, but its share has fallen from 7.6 per cent (revised budget FY2012) to 6.7 per cent (FY2013).

TABLE 2.1: SECTOR-WISE DISTRIBUTION OF TOTAL EXPENDITURE

Sector	Share in FY13 B	Share in FY12 RB	Change in FY13 B over FY12 RB	
	%		Crore Tk.	%
Public Services	12.6	10.8	6704.0	38.5
Fuel and Energy	5.0	4.9	1587.0	19.9
Transport and Communication	6.9	6.5	2856.0	27.3
Interest Payments	12.2	12.3	3506.0	17.7
Social Security and Welfare	5.7	6.4	652.0	6.3
LGRD	7.4	7.4	2207.0	18.4
Education and Technology	11.5	11.6	3392.0	18.1
Health	4.9	5.1	1183.0	14.5
Public Order and Safety	4.8	5.3	626.0	7.3
Defence Services	6.7	7.6	662.0	5.4
Industrial and Economic Services	1.4	1.0	1208.0	77.4
Housing	0.8	0.8	89.0	6.5
Recreation, Culture and Religious Affairs	0.8	1.0	63.0	4.1
Agriculture	7.5	8.9	110.0	0.8
Others (Memorandum Items)	11.7	10.4	5680.0	34.0
Total Expenditure	100.0	100.0	30525.0	18.9

Source: Estimated from the Ministry of Finance (MoF) data.

2.2.1 Revenue Expenditure

Non-Development Revenue Expenditure (augmented) in FY2013 is set to rise by only 8.5 per cent compared to the revised budget of FY2012 (Table 2.2). Accordingly, as a share of GDP it will decline to 10 per cent from 10.5 per cent in the revised budget of FY2012. Share of three major heads under Revenue Expenditure (i.e. Interest Payments, Pay and Allowances,

Subsidies and Current Transfers) declined to 81.4 per cent in FY2013 (82.1 per cent in revised budget FY2012).

TABLE 2.2: ECONOMIC CLASSIFICATION OF REVENUE EXPENDITURE

Expenditure Category	Growth FY13 B over FY12 RB (%)	Share FY13 B (%)	Share FY12 RB (%)	Incremental Share FY13B (%)	Change FY13 B over FY12 RB (Crore Tk.)
Pay and Allowances	6.6	22.0	22.4	17.4	1418
Goods and Services	11.8	12.5	12.1	17.0	1380
Interest Payments	17.7	22.3	20.6	43.1	3506
<i>Domestic</i>	19.1	20.7	18.9	42.6	3459
<i>Foreign</i>	2.8	1.6	1.7	0.6	47
Subsidies and Current Transfers	2.6	37.0	39.2	12.0	974
Block Allocation	32.9	1.5	1.2	4.9	395
Acquisition of Assets and Works	10.5	4.6	4.5	5.6	454
Total Augmented Non-Development Revenue Expenditure	8.5	100.0	100.0	100.0	8127

Source: Estimated from the Ministry of Finance (MoF) data.

About 43.1 per cent of total incremental revenue expenditure will be on account of the envisaged rise in Interest Payments, particularly from domestic interest payments (42.6 per cent). Interest Payments is expected to increase by 17.7 per cent in FY2013 over the revised budget target. Interest Payments for domestic borrowings is expected to make a significant growth of 19.1 per cent, while foreign interest payments will increase by 2.8 per cent. In contrast, Pay and Allowances and Subsidies and Current Transfers are expected to grow by only 6.6 per cent and 2.6 per cent – both are set at a lower level, and may require an upward revision at the end of the year.

2.2.2 Subsidy

Allocation for, and the expenditure on, subsidies for various sectors of the economy were under the spotlight throughout FY2012. It is important to note that, ‘Subsidies and Current Transfers’ reported in economic analysis of non-development revenue expenditure does not include all subsidy expenditures. Regrettably, budget documents also do not provide a detailed account of subsidy expenditures and contingent liabilities for FY2013. Total revised subsidy in FY2012 has been mentioned as Tk. 30,154 crore, which is 47 per cent higher than the proposed subsidy of Tk. 20,477 crore. Clearly, subsidy projection for FY2012 was not synchronised with the government’s plan for the power sector. It was mentioned earlier that at least Tk. 10,000 crore subsidy payments would be transferred from the current fiscal year to FY2013. Accordingly, total subsidy demand for FY2012 is estimated to be about Tk. 40,000 crore. However, no clear specification on transferring subsidy burden is provided in the budget speech. The transfer of this year’s subsidy payments to the next year is in conflict with the plan of much lower subsidy expenditure projected for the coming year. This implies that the government will have to undertake energy price adjustments, as agreed with the International Monetary Fund (IMF) (as a part of the Extended Credit Facility (ECF) conditionalities), to allow ‘full pass-through’ of international prices for petroleum products in the domestic market by December 2012.

2.2.3 Annual Development Programme (ADP)

The ADP for FY2013 has been targeted at Tk. 55,000 crore (5.3 per cent of the projected GDP). The new ADP will be 34.1 per cent higher than the revised ADP (RADP), and 19.6 per cent higher than the original ADP of FY2012. According to CPD estimates, the proposed ADP for FY2013 could turn out to be 1.5 times of this year's actual ADP expenditure.

Project aid component of the new ADP is targeted at 39.1 per cent (which was 36.6 per cent in the RADP and 40.6 per cent in the original ADP of FY2012). Five priority sectors in the ADP for FY2013 have received 63.5 per cent of the total allocation (Table 2.3). Transport sector has received the highest allocation (14.8 per cent) for the highest number of projects (222).

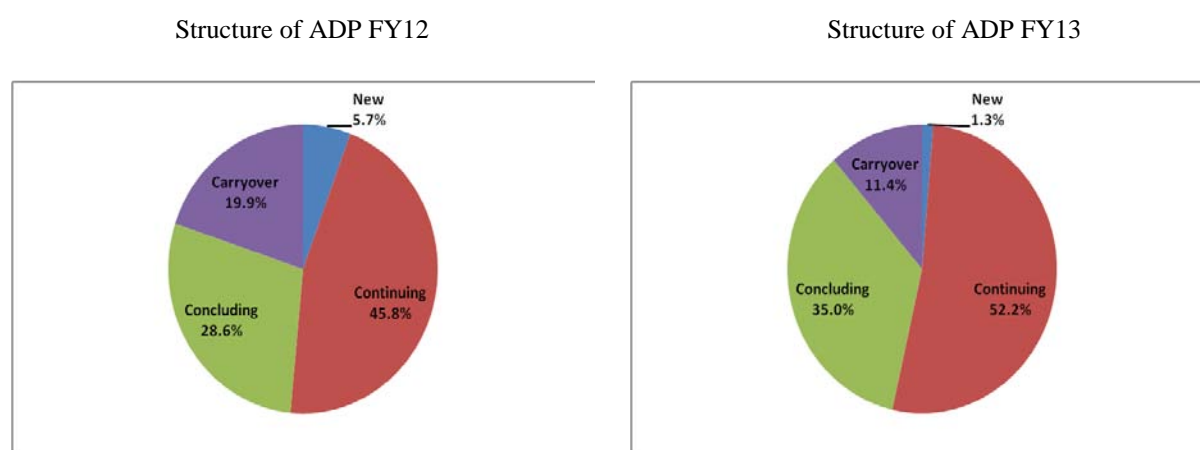
TABLE 2.3: ALLOCATION IN ADP FOR FY2012 (TOP FIVE SECTORS)

Sector	No. of Projects	Share FY12 (ADP)	Share FY12 (RADP)	Share FY13 (ADP)	Growth ADP FY13 over RADP FY12
Transport	222	16.8	15.1	14.8	31.1
Power	54	15.6	17.6	14.4	9.6
Education & Religious Affairs	109	13.3	11.8	13.4	52.9
Rural Development & Institutions	76	9.6	12.3	11.4	24.2
Physical Planning, Water Supply & Housing	126	12.6	10.2	9.6	26.1
Top Five Sectors	587	67.9	67.0	63.5	27.3
Total ADP	1037	100.0	100.0	100.0	34.1

Source: Estimated from the Planning Commission data.

In the ADP for FY2013, only 35 new projects are included with an allocation equivalent to 1.3 per cent of the total ADP (Figure 2.2). 192 carryover projects account for 11.4 per cent of the total allocation (19.9 per cent in FY2012), while 454 projects with 35 per cent of total allocation will need to be concluded in FY2013. Combining these two categories, about 646 projects are expected to be completed by 30 June 2013. In all possibility, many of these projects will not be able to meet with their respective deadlines. Allocation for these is also not adequate for completion by 30 June 2013. According to Planning Commission, 330 of these projects will be completed within the stipulated time. It appears that even attaining this target will be challenging.

FIGURE 2.2: STRUCTURE OF ADP FY2012 AND FY2013



Source: Based on the Planning Commission data.

An examination of the seven priority sectors in ADP shows that, Power (22.4 per cent), Oil, Gas & Natural Resources (19 per cent), and Transport (15.4 per cent) sectors are carrying over a significant amount of their past allocations (Table 2.4). No doubt, slow progress in the implementation of infrastructure-related sectors is hurting investment environment. About 99 per cent of allocation for Oil, Gas & Natural Resources has gone to the 28 projects that need to be completed by FY2013. However, Planning Commission expects only 16 of these will be completed by 30 June 2013.

TABLE 2.4: SHARE OF ALLOCATION IN THE PRIORITY SECTORS (PER CENT)

Project Category	Total ADP FY12	Total ADP FY13	Power	Oil, Gas and Natural Resources	Transport	Education	Physical Planning, Water Supply & Housing	Health	LGRD
New	5.7	1.3	1.5	0.6	0.0	0.2	0.4	0.3	4.1
Continuing	45.8	52.2	27.8	0.3	47.9	67.0	55.5	90.1	67.4
Concluding	28.6	35.0	48.3	80.0	36.6	28.7	37.7	6.2	26.8
Carryover	19.9	11.4	22.4	19.0	15.4	4.1	6.4	3.5	1.7

Source: Based on the Planning Commission data.

The fate of *Padma Bridge* project continues to remain uncertain. The total project cost was estimated to be Tk. 20,507 crore; of which Tk. 16,249 crore (79.2 per cent) was expected to come from project aid. The cost of the project is escalating with passing time. In FY2012, Tk. 2,187 crore was allocated for the project (Tk. 1,707 crore under project aid). The allocation was slashed to Tk. 614.9 crore (Tk. 162.1 crore under project aid) in the RADP for FY2012. In FY2013, Tk. 804 crore (3.9 per cent of total project cost) has been allocated for *Padma Bridge*; of which Tk. 232 crore is allocated under project aid (1.4 per cent of total for the project). World Bank, Islamic Development Bank (IDB), Asian Development Bank (ADB) and Japan International Cooperation Agency (JICA) are still mentioned as the sources of foreign funding.

ADP for FY2013 managed to reduce the 'carryover' part. However, a large number of 'to-be-completed' projects are likely to miss their deadlines. As it would appear, ADP for FY2014 could come with a large burden of carryover projects if major changes in allocation and

utilisation do not take place. 83 projects in FY2013 have allocation of less than Tk. 1 crore. 720 projects have been listed in ADP without allocation or approval; some of these will be included in the course of the year. The Finance Minister recently has expressed his interest to form a high-powered committee to bring down the number of projects in ADP (a similar initiative was taken in FY1983).

Some 327 development projects, worth Tk. 2,580 billion, are listed in the ADP document for FY2013 to attract foreign financing without any allocation. Of these 91 belongs to Transport sector. About 61 per cent of the estimated cost of these projects is expected to be financed by foreign resources. Till date, for only four projects, under the Department of Environment, proposals have been sent to Economic Relations Division (ERD). Of the 327 identified projects, 13 electricity generation projects (for 4,250 MW) are included, of which five are newly included. From last year's similar list, only one project (Ashuganj 450 MW) has been included in the ADP with allocation. In the present context, it is important to start these projects with foreign financing as early as possible.

2.3 Budget Deficit and Financing

The revised budget for FY2012 projects an overall deficit (excluding grants) of Tk. 46,328 crore (5.1 per cent of GDP) for the fiscal year. With the possibility of the ADP not attaining its revised target, the final budget deficit figure for FY2012 is likely to be lower than the revised targets. For FY2013, a deficit of Tk. 52,068 crore has been projected which is expected to be within 5.0 per cent of the GDP (Table 2.5). However, in view of the growing subsidy requirement and increased demand for investment on account of infrastructure, a deficit equivalent to 5.0 per cent of GDP does not appear to be high.

TABLE 2.5: FISCAL FRAMEWORK IN BUDGET

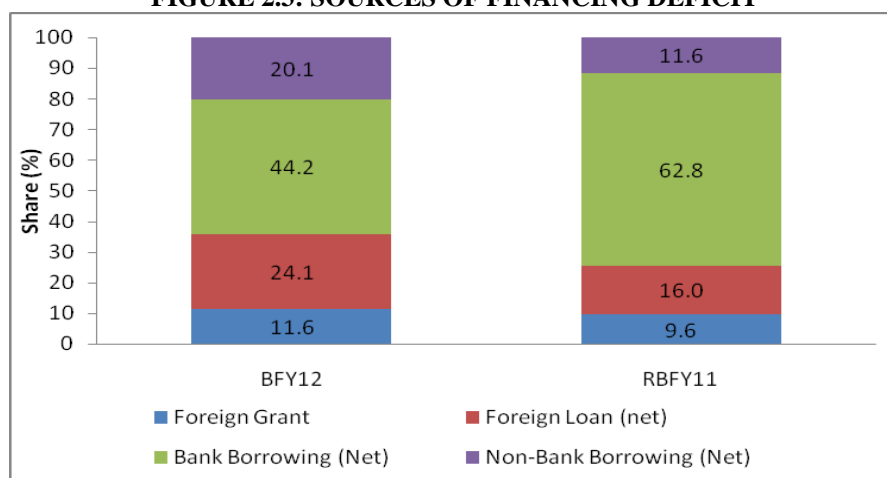
Description	FY13 B		FY12 RB		Growth FY13 over RB FY12 (%)
	Cröre Tk.	% of GDP	Cröre Tk.	% of GDP	
Revenue Collection	139670	13.4	114885	12.6	21.6
Total Expenditure	191738	18.4	161213	17.6	18.9
ADP	55000	5.3	41080	4.5	33.9
Non-ADP	136738	13.1	120133	13.1	13.8
Overall Deficit (Excl Grants):	52068	5.0	46328	5.1	12.4
<i>Financing</i>					
Foreign Grants	6044	0.6	4460	0.5	35.5
Foreign Loan (Net)	12540	1.2	7399	0.8	69.5
Foreign Loan	20398	2.0	14036	1.5	45.3
Amortisation	7858	0.8	6637	0.7	18.4
Domestic Borrowing	33484	3.2	34469	3.8	(2.9)
Bank Borrowing (Net)	23000	2.2	29115	3.2	(21.0)
Non-Bank Borrowing (Net)	10484	1.0	5354	0.6	95.8
Total Aid Requirement (Net)	18584	1.8	11859	1.3	56.7
Total Aid Req (Net, bln USD)	2.2	-	1.5	-	52.9
Total Aid Req (Gross)	26442	2.5	18496	2.0	43.0
Total Aid Req (Gross, bln USD)	3.2	-	2.3	-	39.5

Source: Calculated from the Ministry of Finance (MoF) data.

With regard to financing of the deficit, as projected in the budget for FY2013, it may be noted that about 64.3 per cent of total deficit (Tk. 33,484 crore) is earmarked to be financed through domestic borrowing (from bank and non-bank sources), of which Tk. 23,000 crore (44.2 per cent of total deficit) is expected to come from the banking system (62.8 per cent in

revised budget for FY2012) and Tk. 10,484 crore (20.1 per cent) to be mobilised through non-bank instruments (11.6 per cent in revised budget for FY2012) (Figure 2.3). Considering the fact that during July-March FY2012 net sale of the National Savings Bond (NSD) certificates stood at only Tk. 21.0 crore, achievement of this target will be a testing task for the government.

FIGURE 2.3: SOURCES OF FINANCING DEFICIT



Source: Calculated from the Ministry of Finance (MoF) data.

The remainder 35.7 per cent is supposed to come from foreign sources that included foreign loans and grants. Gross foreign aid requirement was envisaged to be about USD 3.2 billion (USD 2.3 billion in the revised budget FY2012) which will be a challenging target, particularly in view of the fact that only USD 1.6 billion was received during July-April FY2012.

The financing structure of budget deficit suggests that the government will try its best to reduce reliance on bank borrowing for the financing of the budget deficit. Attaining target for foreign financing will largely hinge on utilisation of project aid under the ADP. For non-bank borrowing targets, much will depend on whether the government will be able to increase net sale of NSD certificates.

The proposed public finance framework suggests that an effort has been made to tighten the fiscal management. Experience suggests, particularly of FY2012, that the delivery on the envisaged plan had been quite often severely wanting. The final outcome of the fiscal framework at the end of FY2013 will depend on a number of key questions:

- Will the revenue income targets be fulfilled?
- Has the revenue expenditure estimates have been correctly derived?
- Can ADP implementation capacity be enhanced significantly?
- Can the foreign aid awaiting in the pipeline be utilised?
- Will it be possible to attract people to invest in non-bank borrowing instruments?

The prospect of the key indicators and targets mentioned in the budget for FY2013, will in all possibility, depend on favourable answers to the aforesaid questions.

3. OVERVIEW OF FISCAL MEASURES

3.1 Direct Tax Measures

A number of direct tax measures have been proposed in the budget with a view to broadening the base of direct tax and raising higher taxes. The tax proposals in FY2013 budget are expected to increase the share of direct taxes in total tax. Whilst this is expected to play a progressive role with respect to distributional impact, some of the tax proposals may need further scrutiny.

3.1.1 Personal Income Tax

The budget has proposed to maintain the existing threshold for personal income tax, which was set at Tk. 180,000 in the budget for the previous years. On the other hand, minimum tax has been raised from Tk. 2,000 to Tk. 3,000. It has been mentioned in the budget speech that the earlier threshold remains in view of the income growth that has taken place alongside inflation. However, even after acknowledging the fact that per capita income has indeed increased, one also needs to keep in mind that, if this is a threshold income level below which one is assumed not to be in a position to pay taxes, those who belong to this group despite the income growth will effectively have a lower real threshold limit due to the high inflation experienced in the past year.

Because of inflation, real income of those who will cross the threshold this year will be below the inflation adjusted threshold limit (average annual inflation rate in FY2012 remained 10.8 per cent), but they will need to pay the higher minimum tax. Indeed this measure will not have significant revenue impact, but will be against social justice.

3.1.2 Tax on Income from Life Insurance

A proposal has been placed to tax the insurance income after maturity of the policies (however, in the event of death of a policyholder before the maturity of the policy, the tax will not be applicable). This measure is expected to create a level playing field for banks and insurance companies. However, considering the poor coverage of life insurance in the country and the need to improve long-term domestic savings, this may not be the right moment for this proposal.

3.1.3 Corporate Tax

Two mentionable changes have been brought in the existing corporate tax structure. First, corporate tax rate has been increased for listed cigarette companies from 27.5 per cent to 35 per cent. Corporate tax rate for non-listed cigarette companies will remain at 42.5 per cent. Although this is perhaps primarily guided by revenue mobilisation concerns, it is also a socially desirable step if the interest of discourage smoking is kept in mind. Second, reduced tax rate has been maintained for non-listed merchant banks (37.5 per cent instead of 42.5 per cent as with other banks). This measure has been mentioned in the budget speech as an incentive to the capital market although the rate matches the existing applicable rate. However, it is difficult to relate this measure with the Bangladesh Bank's declared aim of reducing merchant banks' exposure to the capital market.

3.1.4 Advance Income Tax (AIT) on Export

Uniform tax rate of 1.2 per cent (to be deducted at source) has been proposed on earnings from exports against the existing rates of 0.6 per cent and 0.7 per cent. Considering the rough estimates about profit margin for the exporters in general, this amounts to about 17 per cent tax on profit, a significant increase from the existing level (8-9 per cent). This rate may be

considered for downward revision, to say 1 per cent, particularly in view of the depressing global market situation and the negative growth rates in export earnings in recent months.

3.1.5 Land Tax

It has been proposed that depending on the location of the property, 3-5 per cent tax to be deducted at source for sale of land by developers. This could lead to increase in land price from the consumers' perspective as the tax incidence is most likely to fall on the buyers as the burden will be shifted on to them.

3.2 Indirect Tax Measures

A number of indirect tax measures have been proposed in the budget whose primary objective appears to be to raise taxes. However, in the process, the effective rate of protection and the state of anti-export bias in the economy have also changed for a number of industries. Indeed, one would expect that proposals for new indirect taxes would have considered the trade-offs here with a view to finding optimum solutions.

3.2.1 Value Added Tax (VAT)

Uniform trade VAT of 4 per cent has been proposed to be imposed on all levels of wholesale and retail sales, including advance VAT, abolishing the existing multiple rates of VAT. However, provision has been kept for traders willing to pay VAT on actual value addition, who may opt to pay 15 per cent. Doubts remain as to whether this could act as a regressive measure falling back to the earlier abolished 'sales tax'.

3.2.2. Import and Supplementary Duties

A number of positive changes have been proposed with regard to import and supplementary duties. For example, total tax burden (including import duty and VAT) on edible oil has been reduced from 38 per cent to 16 per cent, which is likely to have positive impact on prices. Total tax burden (including import duty and VAT) on nutritional supplement for pregnant women and lactating mothers is reduced from 90 per cent to 59 per cent, which is a welcome measure. Total tax burden (including import duty and VAT) on air conditioners has been increased from 152 per cent to 213 per cent; a positive move both from the considerations of the current balance of payments and the power situation. On the other hand, larger increase in supplementary duty for importers of parts (from 45 per cent to 60 per cent) compared to imports by VAT-registered manufacturers (from 20 per cent to 3 per cent) will provide support to local assemblers.

Budget for FY2013 has proposed one more slab of 150 per cent of supplementary duty (along with the existing eight). However, the move does not corroborate to NBR's effort to simplify the existing duty structure. At the same time, 20 per cent regulatory duty has been withdrawn from the imported refrigerators and motorcycles, which could negatively impact on the flourishing local manufacturers.

The budget proposals indicate that for 112 product lines, duties (customs duty/specific duty/supplementary duty/VAT) have been changed (Table 3.1). In general, duties on imported food items and imported clothing have been increased whilst for some of the other items the customs duties have been reduced.

TABLE 3.1: NUMBER OF PRODUCT LINES FOR WHICH DUTIES HAVE BEEN ADJUSTED

Type of Duty	Raised	Reduced	Waived
Customs duty	10	43	0
Supplementary duty	37	0	10
Specific duty	3	0	0
Concessionary benefits by SRO	0	9	0
VAT	1	1	3

Source: Budget documents.

3.2.3 Motor Vehicles

No major changes have been proposed in the existing duty structure for motor vehicles. However, for motor vehicles with cylinder capacity of up to 1000 cc, supplementary duty has been increased from 30 per cent to 45 per cent. At the same time, the existing depreciation facility (of 25 per cent) will be applicable for 5-years old vehicles, instead of existing three years. These measures will increase the price of smaller vehicles, instead of the gas guzzling ones, which could be discriminatory for middle-income group.

3.3 Tax Incidence at the Import Stage

At the import stage, collection of revenue (import duty, VAT, supplementary duty and regulatory duty) during July-April FY2012 was to the tune of Tk. 24,741.3 crore. This was about 34.8 per cent of NBR's total collection. CPD has examined the impact of proposed changes in customs duty, supplementary duty, regulatory duty and VAT (import) on import-related revenues. CPD's estimate shows that the changes may increase import-related revenues by 20.5 per cent in FY2013³. Consequently, the changes proposed in the existing duty structure appear to be consistent with the programmed targets for NBR revenue growth at the import stage in FY2013.

3.4 Other Miscellaneous Measures

3.4.1 Mobile Bill

One of the noticeable proposals in the budget for FY2013 has been the additional tax to be imposed on mobile phone usage. According to the proposal, 2 per cent tax was to be levied at source on both post-paid bills and pre-paid recharge, along with a surcharge at the rate of Tk. 0.15 to 0.20 per call. The latter is aimed at creating a dedicated energy fund. This will imply additional cost for mobile users across the board, including those not in the tax net. As is known, mobile phone usage is now almost universal, cutting across income groups. Thus, this is most likely to have a regressive impact. If the government is keen to raise taxes, it should go for 'ability to pay' method and find ways to impose taxes on use of various services by more resource-endowed people.

3.4.2 Tax on Bank Interest and Personal Loan

Deduction of tax at source at the rate of 15 per cent has been proposed, instead of 10 per cent at the time of paying interest by banks in case the taxpayers do not have Tax Identification Number (TIN). This measure would induce people to obtain TIN. At the same time, any loan or gift exceeding Tk. 5 lakh has been proposed to be treated as taxable income of the

³ Based on the import data for FY11 and changes applied in existing tariff schedule of FY12. The basis of the assumption is 15 per cent growth of import in both FY12 and FY13 as predicted in the Medium Term Budgetary Framework. Estimated revenue collection may differ if the structure of FY11 import changes significantly

recipient if not received through banking channel. This is a measure to bring transactions under the purview of tax authorities and should contribute to improved tax collection.

3.4.3 Vehicle Registration

It has been proposed that “the rate of tax on privately owned car, jeep and microbus will be increased and this will be deducted at source at the time of renewal of its registration and fitness”. It is not clear whether the ‘tax’ refers to registration and fitness fees. It is also not clear how this will be done though ‘deduction at source’. Neither is it mentioned what will be the new rates.

3.5 Special Tax Measures

The budget kept the provision for voluntary disclosure of untaxed income with a penalty of 10 per cent in addition to the applicable tax on such income. At the same time, capital market investment is supposed to get the ‘same’ facilities as FY2012. This could imply that the previously maintained investment opportunity for undisclosed income at a tax rate of 10 per cent in the capital market may continue; however, this is yet another proposal that has not been clarified. It is to be noted that, in the past such provisions failed to receive any significant response; since 1975, only Tk. 12,996 crore has been disclosed, with NBR collecting only Tk. 1,368 crore as taxes.

3.6 Tax Administration

A number of continuing and new measures have been mentioned in the budget speech for FY2013, in order to strengthen tax administration. Some important ones are mentioned below:

- Universal Self-Assessment will be implemented allowing taxpayers to assess their own income tax and submit returns. This will facilitate submission, and is likely to increase submission of returns, and increase revenue collection.
- Steps to strengthen the audit system and prepare a ‘Revenue Audit Manual’ is underway to prevent abusing of the system. This initiative will increase transparency through a system of check and balance and accelerate the tax collection process.
- Measures to facilitate effective issuance of tax refunds has been proposed. This will give greater incentives to pay taxes.
- Online submission of tax returns has been introduced in two tax zones, with plans to cover the entire country by the end of the current fiscal year. Together with the recently introduced online payment system at the NBR website, this is expected to increase taxpayers’ convenience and likely to increase the rate of tax submissions.
- Taxpayers will be able to submit TIN applications online. This will provide incentives to potential taxpayers.
- Digitisation of bonded warehouses of export-oriented industries has been proposed. This will allow them to submit and receive approval of customs-related applications online, and is expected to expedite the processes involved.
- Pre-shipment inspection (PSI) is finally to be abolished by December this year and to be replaced by UNCTAD developed Automated System of Customs Data (ASYCUDA) World software. This is now under progress in five custom houses and ten land customs stations. This software allows all customs formalities to be completed online, reducing costs of trade and other barriers significantly. The mentioned target is to expand the system to all the major custom houses and stations by 2013.
- Recruitment of 800 Assistant Revenue Officers is underway. This will hopefully help ease the existing acute human resource shortage in the NBR.

As the above mentioned measures towards strengthening tax administration reveal, NBR is continuing with its impressive reform plans which it had been gradually implementing over the recent years. It needs to be acknowledged that the past measures have indeed resulted in significant revenue dividends for the public exchequer. However, there still remains many untapped opportunities and sources for the NBR to tap resources and further increase the tax-GDP ratio, in line with the SFYP targets.

4. SECTORAL MEASURES

4.1 Agriculture

4.1.1 Agriculture Subsidy

Budget FY2013 earmarks Tk. 6,000 crore as agricultural subsidy. The total amount is 7.7 per cent less than the allocation in the revised budget for FY2012, and 33.3 per cent higher than the proposed budget for FY2012. The revised budget for FY2012 is 44.4 per cent higher than the proposed budget for the same year. It is to be noted here that, the subsidy pressure is likely to increase further in the coming year in the backdrop of the upward trend in the prices of urea and muriate of potash (MoP) in the international market. Due to price changes in international market, per unit cost of imported urea and MoP increased by 55 per cent and 25 per cent between April 2011 to April 2012. Given that the total demand for fertiliser is about 4.67 million metric tonnes (MT), as estimated by the Ministry of Agriculture, an amount of Tk. 8,225 crore will be required in FY2013 on account of fertiliser subsidy, assuming that the stock will remain the same. This was 37 per cent higher than the total annual subsidy allocation for the agricultural sector. Assuming that, the total subsidy allocation for agriculture is Tk. 6,000 crore in FY2013 of which Tk. 4,000 crore was for fertiliser, a price adjustment of urea and MoP by 60 per cent, and diammonium phosphate (DAP) and triple super phosphate (TSP) by 15 per cent respectively will be necessary (Table 4.1). The needed price adjustments will have adverse impact on the rate of returns for the farmers.

TABLE 4.1: ESTIMATION OF SUBSIDY REQUIREMENT FOR FERTILISERS IN FY2013

Fertiliser	Source	Price (USD/ton) in April 2012	Insurance and Freight Charge (USD/ton)	Imported Cost (USD/ton)	Cost (Tk./kg)	Administered Price (Tk./kg)	Demand for FY13 (million ton)	Subsidy (Crore Tk.)	Price Projection (Tk./kg)	Percentage Change in Price (%)
DAP	China	518	50	568	46.5	27	0.60	1171	31	15
Urea	China	493	60	553	45.3	20	1.50	3794	32	60
	Bangladesh				9.5	20	1.00	-1050	32	60
TSP	Tunisia	441	100	541	44.3	22	0.70	1562	25	15
MoP	Belarus	469	100	569	46.6	15	0.87	2749	24	60
Total							4.67	8226		

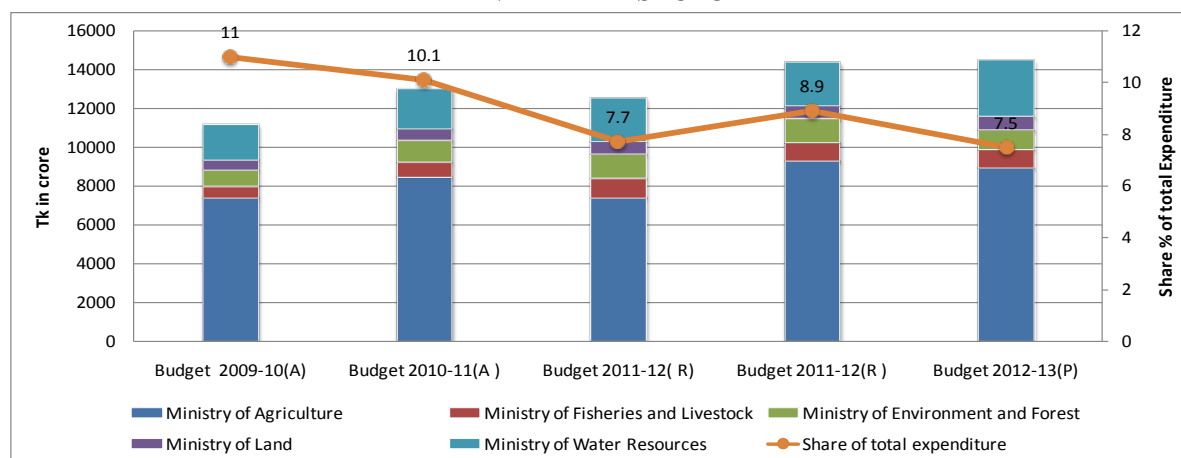
Source: CPD estimation based on the World Bank Pink Sheet data and Ministry of Agriculture.

4.1.2 Allocation for Agriculture and Allied Sectors

Tk. 14,457 crore has been allocated for agriculture and allied sectors in FY2013 national budget (non-development and development), which is only 0.77 per cent higher than the revised budget of FY2012 and 15 per cent higher than that of the proposed budget of FY2012. The overall agricultural allocation as a percentage of the total budget is 7.5 per cent

in FY2013, while the figure stands at 8.9 per cent in the revised budget of FY2012, and was 7.7 per cent in the proposed budget of FY2012. Experience of the past few years indicate that the share of agricultural expenditure in the total budget has been on a declining trend since FY2010. In FY2010, allocation for the agriculture sector was 11 per cent of the total budget; this has now come down to 7.5 per cent in the proposed budget for FY2013 (Figure 4.1). A number of specific measures for the agriculture sector in FY2013 have been reviewed below.

FIGURE 4.1: DEVELOPMENT AND NON-DEVELOPMENT EXPENDITURE IN AGRICULTURE AND ALLIED SECTOR



Source: Budget documents.

4.1.3 Agriculture Promotion

Proposal for the exemption on income tax by 50 per cent in relation to the production of maize and sugar beet will benefit the cause of production diversification in agriculture. However, as a follow up of *Agricultural Policy 2011*, diversification of agriculture through promotion of water efficient crops and pulses in the drought-prone regions has not been mentioned in the budget. Measures which could benefit farmers include expansion of maize cultivation, production of quality seeds through Bangladesh Agricultural Development Corporation (BADC), supply of high-yielding variety (HYV) seeds in coastal areas, etc. Special projects for rapid expansion of submergence-tolerant rice varieties such as BRRI Dhan 51 and BRRI Dhan 52 would have contributed to reduction in production risks, and would have induced adaptation to climate change.

No measures have been proposed in the FY2013 budget for promoting agricultural exports. Measures to encourage export of potato and vegetables through promotion of contract farming and linking with cash incentives (direct procurement from farmers and having farmers' identity numbers aligned with Input Subsidy Card) would have had positive impact.

Agriculture credit disbursement has been on a declining trend in recent years. The target for agriculture credit disbursement in FY2013 has been set at Tk. 14,143 crore while in FY2012, this was Tk. 13,800 crore, of which 73.9 per cent has been realised up to April. In this backdrop, it is essential to identify the causes of slow delivery of agriculture credit with a view to taking corrective measures.

4.1.4 Farmers' Incentives

The budget has not articulated any measure in support of farmers getting appropriate prices for their products. Introduction of 'crop insurance' on pilot basis in one upazila in Habiganj is good; however, no specific allocation and modalities have been mentioned. In the area of

agriculture marketing, government has a plan to form 800 'Farmers Clubs' and construct eight assemble centres in FY2013 in addition to the existing 18,000 Farmers Club. But, no new 'Farmers Marketing Group' and Agro-products processing centres have been added in FY2013 budget; the earlier set target of reaching 22,877 Farmers Club in FY2012 has not seen much success. More important than the quantitative targets, it is important to identify the institutional modalities under which the Farmers Club and Marketing Group can work as corporate ventures.

4.1.5 Storage Capacity

In order to ensure food security, the government has targeted to increase food storage capacity up to the level of 2.2 million MT by 2015 by raising the storage capacities. In the last three years a total capacity of 0.2 million MT has been added to the previous capacity of 1.45 million MT. In FY2013, two projects with capacity of 0.22 million MT will be implemented to the existing 1.65 million MT; the plan is to add another 0.16 million MT capacities by FY2014. In this backdrop, more new projects will have to be undertaken to attain the proposed storage capacity target.

4.1.6 Fisheries and Livestock

Prospects of marine fishing have increased, thanks to establishment of the legal rights in the sea. However, no specific allocation has been outlined to exploit the marine fisheries and tap the potential resources in the Bay of Bengal.

On a priority basis, government is implementing a project titled 'Modernization of Vaccine Production Technology and Extension of Laboratories'. Poultry farmers will need further support, on a short-term basis, to address the losses arising from bird flu disease. Tax holiday for poultry industry may also be extended considering current volatility in the sector.

Fish, meat and milk production could increase significantly if these sectors were provided with proper research, legal framework and incentives. However, no new inducement has been given in FY2013 budget in support of these sectors.

4.2 Agro-based Industries

VAT exemption from agriculture machineries used in applying granular urea, organic fertiliser, rice and wheat crushing machines and rice bran oil, will hopefully facilitate and promote the local small and medium enterprises (SMEs). A recent innovation with regard to producing cholesterol-free rice bran oil from husk of paddy has received boost through tax holiday for 5-7 years, depending on locations. Special allocation was needed to develop agro-processing industries, in adequate number, to process seasonal surpluses of perishable items. This is necessary to reduce post-harvest losses and also to ensure profitable return for the farmers.

4.3 Industrial Sector

4.3.1 Investment by the Private Sector

Given the ongoing challenges that are confronting the private sector, the Budget for FY2013 was expected to address a number of critical issues. These included acceleration of private investment, establishing better business enabling environment, and support to export-oriented and domestic market-oriented industries. However, acceleration of private investment, as is projected in the national budget for FY2013, would be rather difficult to attain in view of the projected growth of private sector credit remaining the same as in FY2012 (i.e. 16 per cent).

This appears to be inadequate for attaining the targeted level of investment to the tune of 22.7 per cent in FY2013 (from 19.1 per cent in FY2012). Although imposition and exemption of duties in a targeted manner would improve competitiveness status of some domestic market-oriented industries, their market power will eventually hinge on host of other factors. These include the direction of changes in the bank interest rate, exchange rate movements and rate of inflation in the upcoming fiscal year. In addition, the efficacy of public expenditure which has critical implications for promoting private investment in the industrial sector, needs to be examined with regard to the timeliness, appropriateness, effectiveness, and ability to deliver the outputs.

In FY2013, proposed ADP allocation for the industrial sector is Tk. 2,066.7 crore, which is 113.3 per cent higher compared to that in the RADP FY2012. A significant rise in the ADP allocation in FY2013 is mainly attributed to fresh allocation for the *Shahjalal Fertilizer Factory Project* which covers 70.2 per cent of total allocation for the industrial sector. In view of the need to shift a proportion of the supply of gas from the existing fertiliser factories, to meet the urgent needs of various economic activities, establishment of a new fertiliser factory could remain unfeasible if the required supply of gas cannot be ensured.

Slow implementation of ADP projects under the Ministry of Industries remains a major concern. Among the 18 projects in the industrial sector listed as ‘projects to be completed within FY2013’, 15 projects are not likely to be completed on time, as the rate of implementation of these projects, till June 2013, varied between 18-89 per cent. For example, four projects on strengthening and modernisation of the Bangladesh Standards and Testing Institution (BSTI) as well as establishment of South Asian Regional Standards Organisation (SARSO) will not be concluded in due time (only 10 per cent of the total cost of the four projects to be spent by the end of FY2013). Putting special focus on strengthening the National Database maintained by the Bangladesh Bureau of Statistics (BBS) through implementation of several projects is a commendable initiative. The proposed projects include conducting economic census, development of industrial sector database and digital information system. Updating the national database on a regular basis and maintaining real time information should be a major focus of BBS’s activities. Furthermore, a number of trade support programmes is currently underway with the Ministry of Commerce which will be continued in FY2013. As part of these initiatives, a comprehensive trade policy, with an aligned industrial policy, should be adopted soon.

4.3.2 Export-oriented Industries: Pharmaceuticals, Leather and Jute Goods, and Export Processing Zones (EPZs)

Export-oriented sectors, particularly pharmaceuticals, leather and readymade garments (RMG), have been denied the needed higher quality infrastructural facility support due to slow implementation of a number of critically important projects. For example, *Active Pharmaceutical Ingredients (API) Industrial Park Project* is far behind the targeted completion schedule (set for 31 December 2011), only about 40 per cent of the work has been completed till date; even at the end of June 2013 a large part of work will be incomplete (only 64 per cent of the total work is expected to be completed by then). Similarly, *Leather Estate Project* is far behind the targeted completion date, and only about 43.1 per cent of total project would be completed at the end of June, 2013. The long awaited project in the RMG sector, i.e. establishment of the *Garment Industry Park* was included as unfunded project in the ADPs of the last two years. This has now been included in the ADP of FY2013 as a PPP project under the Ministry of Industries. Given the importance of the project, the role to be played by the Ministry and the PPP Office under the Prime Minister’s Office needs to be

sorted out on an urgent basis. Necessary administrative work, particularly selection of investors and modalities regarding sharing of responsibilities, risks and profits should be finalised so that interested investors could initiate the work in order to complete it as per the timeline (June 2015). As far as tax holiday incentive is concerned, following a lengthy pause, enterprises in the private EPZs have been accorded the same treatment as those in the government EPZs. This will hopefully encourage more FDI flow to the private EPZs (e.g. Karnaphuli EPZ).

In view of the export potentials of the raw jute and jute goods, the proposed project regarding development of HYV jute and production of seed holds much promise. The project needs to be implemented with due urgency so that it is completed on time (allocation in ADP FY2013 is Tk. 30 crore, which was Tk. 20.3 crore in RADP of FY2012). Budget FY2013 states that government has decided to take the past bank liabilities of the Bangladesh Jute Mills Corporation (BJMC) mills under its own responsibility (Tk. 2,827 crore) with a view to make the BJMC mills profitable. In other words, this would imply that the government has moved away from its earlier plan of privatisation of BJMC-owned mills. It should be noted, however, that the mere initiative of undertaking bank liabilities will not solve the formidable problems facing the BJMC mills. A major technological restructuring will need to be undertaken. The idea of putting in place, a *Technology Upgradation Fund (TUF)*, in support of both public and private sector jute mills needs serious consideration. Such a fund is in place in India and it has given rich dividends to the entrepreneurs.

4.3.3 Small and Medium Enterprises (SMEs)

Modernisation of the existing Bangladesh Small and Cottage Industries Corporation (BSCIC) industrial estates and development of new ones has been an important policy focus in successive budgets with a view to promoting SME interest. However, there is a need to examine the performance of BSCIC industrial estates before allocating more funds for setting up new BSCIC estates. According to CPD (2012)⁴, of the total allotted plots numbering 9,699 (till March 2012), only 40 per cent were made use of by operational enterprises. Besides, slow progress in implementing the existing BSCIC industrial estate projects has been yet another weak point. One of the big-funded projects currently being implemented is the *Sirajgonj* BSCIC industrial estate, for which only 21.4 per cent will be completed by FY2013.

Despite the increasing demand for expansion of sectoral coverage, Equity and Entrepreneurship Fund (EEF) has remained narrow in its focus. EEF's coverage should be further widened to include other potential sectors, such as light engineering, plastic, melamine and electronics. Better access to credit facility at favourable interest rate will continue to be a major demand of the SMEs in FY2013 particularly in the backdrop of the difficulties they have faced in FY2012. The proposed reduction of turnover tax, in a staggered manner, is thus a welcome initiative, as this will reduce the tax burden of the SMEs. According to the budget for FY2013, turnover up to Tk. 7 lakh will enjoy full tax waiver; this is followed by tax of 2 per cent for turnover between Tk. 7-24 lakh, and tax of 3 per cent for turn over between Tk. 24-60 lakh. This will be applicable for producers and traders operating in such industries as shoes and sandal, coconut oil, laundry soap, jam, jelly, PVC pipe, etc. Development of women entrepreneurship will be facilitated through the earmarked allocation of Tk. 100 crore. It is important that this fund is used at the district

⁴ CPD. 2012. Bangladesh Economy in FY2011-12: Third Interim Review. Dhaka: Centre for Policy Dialogue (CPD).

level. Moreover, disbursement of 15 per cent of SME loans to the women entrepreneurs will hopefully contribute towards development of women entrepreneurship in Bangladesh.

The proposed changes in the duty structure including supplementary duties and other taxes is a debated issue in the context of their implications for revenue generation in one hand, and support and protection of domestic industries on the other. Some of the proposed reduction in the customs duty and supplementary duty for raw materials, intermediate products and capital machineries will likely have positive impact for domestic industries, and also some of the export-oriented industries. Changes in Total Tax Incidence (TTI) in case of reduction duties will be (-) 92 per cent and in case of increase in duties to be as high as 94 per cent.

4.3.4 Information and Communication Technology (ICT)

In order to expedite the development of the ICT sector, timely implementation of a number of important projects will be critically important. These include establishment of *SASEC Information Highway*, *Hi-tech Park* and *Software Park*. The proposed reduction of customs duty and supplementary duty on a number of computer-related accessories, such as multimedia projector, server rack, flash drives, etc. will positively contribute to the development of the ICT sector. Similar reduction in the customs duty is required in case of some of the other related items such as cables, webcams, CD/DVDs, etc. In order to ensure wider accessibility, VAT charges with regard to the use of internet service (i.e. 15 per cent) should have been reduced.

4.3.5 Capital Market

Given the weak institutional and operational structure in the capital market, a number of ongoing reform measures need to be completed with due urgency. There are concerns arising from the slow implementation of the ADB-financed project relating to the development of monitoring and surveillance system for the Securities and Exchange Commission (SEC). The project was supposed to be completed in April 2012. The date of completion has now been extended to the end of June 2013, which will definitely lead to cost escalation. Speedy enactment of the 'Financial Reporting Act' is also necessary to improve state of governance and transparency in the country's bourse. The long awaited demutualisation of stock exchanges has been further deferred, till FY2014. This, however, is a deviation from the 21-point measures that were to be undertaken as per the directive of the Prime Minister in October 2011. In order to ensure transparency involving transactions in the capital market, and also to ensure their reflection in the tax submission of individuals, submission of TIN for all Beneficiary Owner (BO) accountholders should be made mandatory. According to the national budget FY2013, newly listed company will enjoy tax rebate of 10 per cent in the first year for offloading of 20 per cent share of paid up capital, and dividend income amounting Tk. 5,000 will be exempted from tax. However, without addressing the institutional and operational weaknesses, such measures are unlikely to generate the expected results.

4.3.6 Skill Development and Support to Industrial Workers

The national budget for FY2013 has proposed a significant rise in the ADP allocation for the development of human resources – from Tk. 34,150 crore in FY2012 to Tk. 39,390 crore in FY2013. This is an initiative in the right direction for development of human resources. The enactment of *National Skill Development Policy 2011* is also a commendable initiative in this direction. Two projects for female migrant workers related to protection of migrant women workers against violence and also for their economic empowerment (Tk. 18.5 crore) are expected to be completed by FY2013. These projects will hopefully contribute to the improvement of livelihood condition of women migrant workers. However, a number of

projects are being implemented at a rather slow pace (e.g. establishment of technical training centres where only 2-18 per cent of the work will be completed by June 2013). Nevertheless, allowance of Tk. 350 per month for an additional 78,000 mothers under the scheme of *Poor Lactating Mothers' Allowance* in the RMG sector is appreciable. Support under this scheme should be extended beyond Dhaka and the nearby regions. Taking into account the high food inflation, government may consider reintroducing the operation of food-rationing facilities for industrial workers. Support to the industrial workers can be further extended through allocation of funds for setting up dormitories in major industrial clusters. Given the pressure of high inflation, initiatives should be taken to renegotiate the minimum wage for industrial workers.

4.4 Power and Energy

Despite the significant investment under public and private sectors, access to electricity and the availability-demand gap remain a nagging concern. During the last three years, net addition of electricity was 3,745 mega watt (MW) although the budget mentions the figure of 5,000 MW for the period 2009-12. According to the *Power Sector Road Map: Second Update* – most of the new power plants will be non-diesel based which is what it should be in view of the huge fiscal burden arising from the diesel-based, power plants. Government is also planning to retire a number of diesel-based plants with a generation capacity of 657 MW by 2016. However, at the same time, a number of furnace-oil based new plants will be established where fiscal burden will remain high. Accordingly, the dependence on diesel or furnace oil based power plants will be continued for few more years with the resultant implications in terms of fiscal burden.

In the budget 2013, total allocation for the power sector is to the tune of Tk. 7,901.3 crore, which was 9.6 per cent and 10.2 per cent higher compared to that of RADP FY2012 and ADP FY2012 respectively. Six new projects have been announced with an allocation of Tk. 3,290.9 crore; however, there are 33 other projects which have been included in the ADP without any allocation; these are earmarked for financing through foreign funds (total project cost is to be Tk. 46,664.2 crore). As far as the ongoing projects are concerned, the rate of implementation of the projects varied widely. For example, *Rehabilitation and Modernisation of Ghorasal Thermal Power Station* and *Construction of Chandpur 150 MW* are to be completed in due time; but the *820 MW peaking power plant* and *Bheramara combined cycle plant (360 MW)* have fallen behind the timeline.

Proposed allocation for the oil, gas and natural resources sector in FY2013 is Tk. 1,608.4 crore, which is 117.7 per cent and 44.4 per cent higher compared to that of RADP FY2012 and ADP FY2012. Only one new project (Tk. 40.1 crore) has been included with budgetary allocation, while six other projects are listed without allocation, and five projects are earmarked for financing through foreign investment (total project cost is Tk. 7,384.5 crore). A majority of the projects listed as 'projected to be completed' in FY2013 are unlikely to maintain the planned timeline. Out of the 13 projects listed as 'projected to be completed' in FY2013, only one project is likely to be completed in due time, two projects will be completed to the tune of 90 per cent, four projects to the tune of 75 per cent, and the rest of the six projects have been able to spend less than 50 per cent of total project cost. Sluggish progress has been observed in other projects too – less than 1 per cent of the work on the *2D Seismic Survey* has been completed till December 2011; eight well drilling projects will be only 60 per cent completed by the targeted timeline while the *Gas Transmission Pipeline & Compressor Station Establishment* project will be completed only to the tune of 9.6 per cent in FY2013. Exploration and production capacity building of BAPEX and *Bheramara-Khulna*

and Bonpara-Rajshahi Gas Transmission Pipeline projects are likely to be completed as per deadline. Completion of these projects would improve generation, transmission and distribution of gas supply. Analysis of the state of project completion status indicates that closing the supply-demand gap in the power sector will critically hinge on the capacity of the concerned authorities to complete the ongoing projects on time. In view of the priority that the sector deserves, there is much room for improvement in this regard.

4.5 Environment, Climate Change and Disaster Management

The proposed allocation of local funds of Tk. 400 crore for Bangladesh Climate Change Trust Fund (BCCTF) is well appreciated but its decreasing utilisation remains a concern. The number of additional projects as well as allocation under the fund has declined in subsequent fiscal years. In the last three fiscal years, the government allocated annually an amount of Tk. 700 crore for BCCTF, whereas for FY2013 only Tk. 400 crore has been allocated. In FY2012, only 20 new projects were completed (against 62 projects in the two preceding years), and only Tk. 719.6 crore out of Tk. 1,400.0 crore was actually utilised.

The government has proposed an amount of USD 113.5 million for Bangladesh Climate Change Resilience Fund (BCCRF) with financial support from a number of development partners. However, allocation for the development of a local authority on climate change is still to be there. Progress with regard to construction of flood rehabilitation and cyclone centres has been rather slow, but the pace of rehabilitation for stranded families has been moderate. Government of Bangladesh (GoB) has delivered on its promise to install incinerators at 10 medical institutions for medical waste management and there are plans to bring another 31 institutions under waste management system in next two years.

Considering environmental implications of the initiative, upgrading of 500 brick fields and establishment of 11 Air Quality Monitoring Centres is commendable. However, allocation for mitigating emission from either slow moving vehicles or steps toward a Clean Air Act is still not visible.

Several new environmental regulation policies were mentioned in the FY2012 budget; follow-up of those initiatives were expected in this year's budget. However, the proposed budget for FY2013 does not mention about new steps in terms of regulation. Policy initiative is absent with regard to Bangladesh taking advantage of the Clean Development Mechanism (CDM) as in contrast to countries such as China and India. Moreover, no initiative to establish a zone-wise climate change adaptation policy for farmers is discernible. Installation of effluent treatment plants (ETPs) in 280 industries and decision to provide soft loans to factory owners to facilitate ETP installation are praiseworthy. However, management of *Leather Industrial City* in Savar has been slow and should be expedited on a priority basis.

Development of a waste disposal management system with 64 city authorities under the BCCTF is laudable but little action has been taken to address the drainage problems. This will require active involvement of citizens in the design process, supported by aggressive awareness campaigns to ensure compliance. An integrated master plan encompassing all environment-related projects from different ministries is praiseworthy. In this regard, a strong governing body and monitoring unit as well as setting up monitorable targets are to be recommended. Moreover, implementation of the Bangladesh National Building Code is a positive move towards adaptation to natural disasters, i.e. earthquakes.

4.6 Rural Development

Tk. 13,549 crore has been allocated for the Local Government Division and the Rural Development and Cooperatives Division for FY2013. This is 24 per cent of the development expenditure in FY2013, which remains similar to the one proposed in FY2012 budget. This allocation involves 66 ongoing projects with four new projects, which are yet to be approved. With the aim of addressing the problem of providing safe drinking water to all, a timeline was earlier fixed for 2011. However, only 88 per cent of the population has been brought under the coverage of safe drinking water up to FY2012. The budget for FY2013 proposes setting up 42,000 safe water sources in the coming fiscal. However, it has not been mentioned what additional measures will be taken towards this. It is to be noted that Bangladesh has made notable progress in sanitation coverage, and is now ahead of other South Asian countries with coverage of 91 per cent.

In line with *Vision 2021*, rural electrification has been declared as one of the priority areas for the government. Although 48,711 (65 per cent) villages have been brought under the programme with 4.5 crore beneficiaries, there are still areas where electricity cannot be supplied from the grid. In relation to this, 15,000 biogas plants and 1.12 million solar home systems have been established with support from the Rural Electrification Board (REB) and Infrastructure Development Company Ltd. (IDCOL). Further, work is under progress to set up 190 irrigation pumps and 200 biogas power plants. With assistance from IDCOL, steps have been taken to produce electricity from the paddy husk. Since the FY2013 budget does not mention any detailed programme to enhance electrification, it will be necessary to take further actions, on an urgent basis, to realise the ambition concerning electrification towards *Digital Bangladesh* by 2021.

4.7 Local Government

Government has rightly recognised that there is no alternative to strengthening the local government system for successful public service delivery. The budget for FY2013 talks of steps that were taken to make the union parishad and the upazila parishad system effective with the enactment of the *Upazila Parishad Act 2011*. However, the government has not been able to make much headway with respect to implementing these reforms. FY2013 budget did not come up with a more transparent system for inter-governmental budgetary transfers. Additionally, budget for the upcoming fiscal year does not deal with property tax base reforms in order to strengthen the financial autonomy of city corporations and municipalities. FY2013 budget should have proposed a timeline and institutional framework for designing modalities with the objective of moving towards District budget, which the government had earlier announced that it would do.

5. SOCIAL SECTOR

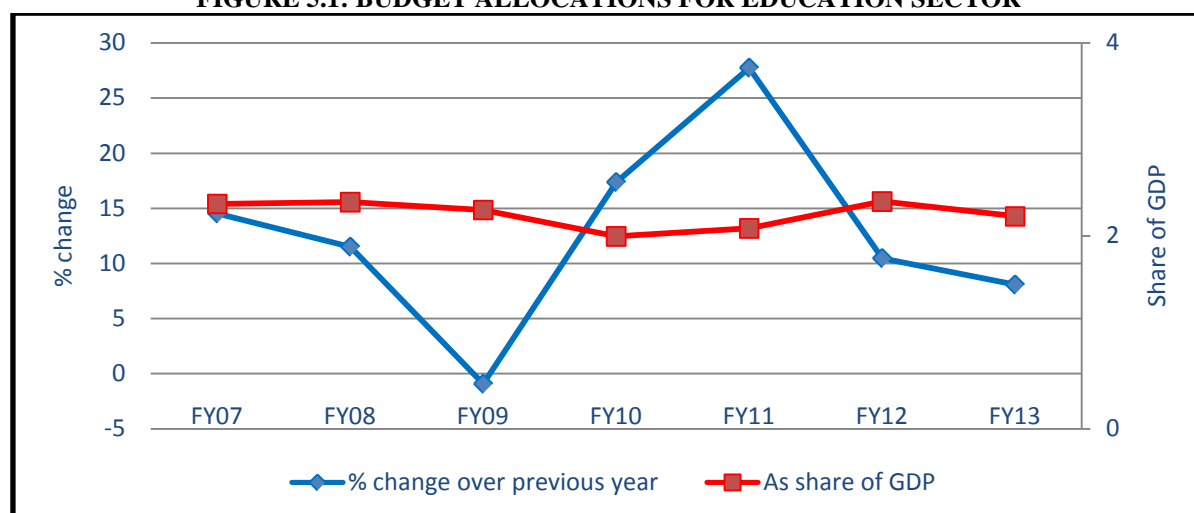
Social sector (Education and Health) is already bearing the brunt of increased subsidy pressure on the economy. Allocation for this sector is already experiencing some slowdown and some stagnation. Indeed, as a share of GDP, it is falling. The case with Gender related allocation and allocation for children is not much different.

5.1 Education

In FY2013, 11.2 per cent (Tk. 21,408 crore) of total budget is allocated for education sector; this is lower than previous year's share in total public expenditure (Tk. 19,806 crore or 12.1 per cent of total budget). Allocation for education as a share of GDP has also decreased to 2.1

per cent in FY2013 from 2.2 per cent in FY2012 (Figure 5.1). In the current ADP, 13.4 per cent of total allocation has been proposed for education and religious affairs sector.

FIGURE 5.1: BUDGET ALLOCATIONS FOR EDUCATION SECTOR



Source: Budget documents (various year).

Male–female student ratio in Bangladesh currently stands at 47:53, and this is the second highest in South Asia. Moreover, 40 per cent of female undergraduate students are at present being provided with stipends. Remarkably, in areas like *beels*, *haors* and other remote parts of the country, stipend coverage is almost 100 per cent. While the female stipend initiative is a commendable achievement, full stipend for female students should be extended up to graduate level. The ‘Creative Talent Hunt Policy 2012’ is a good follow-up of the previous year’s ‘Talent Hunt Programme’, but implementation needs to be further strengthened.

ICT labs have been installed in 3,172 secondary and higher secondary institutions. At present, 306 model high schools have been established with multimedia facilities and 164 schools are under construction to remove the rural-urban educational disparity. In addition, multimedia classrooms will be installed in 20,500 educational institutions across the country by June 2013. It will require significant amount of funds, manpower and logistic support for proper functioning. There is also a plan to introduce e-learning in the educational institutions in the proposed budget.

The ‘Prime Minister’s Education Assistance Foundation’ has also been continued in the budget for FY2013. Additionally, ‘Prime Minister’s Education Assistance Trust Act 2011’ has been enacted to support education of the poor and the underprivileged meritorious students. A provision of waiving tax for those contributing to this fund, on any contributions up to a ceiling amount, has been proposed. The initiative is noble, but the challenge will be to build adequate fund bases and spread coverage in rural areas.

‘Shishu Bikash Kendra’ has been established in six large districts to rehabilitate street-children. In the proposed budget, a pre-primary education programme and a standard primary examination system have been mentioned.

In addition to the above mentioned initiatives, a number of other programmes related to education have been taken in this budget. Primary Teacher Training Institutes (PTI) in 12 district headquarters have been established. A stipend programme, at a cost of Tk. 4,000

crore, to reduce and prevent drop-out of students on account of poverty will continue. In addition, the School Feeding Programme has also been continued. Free books have been distributed among the secondary level students.

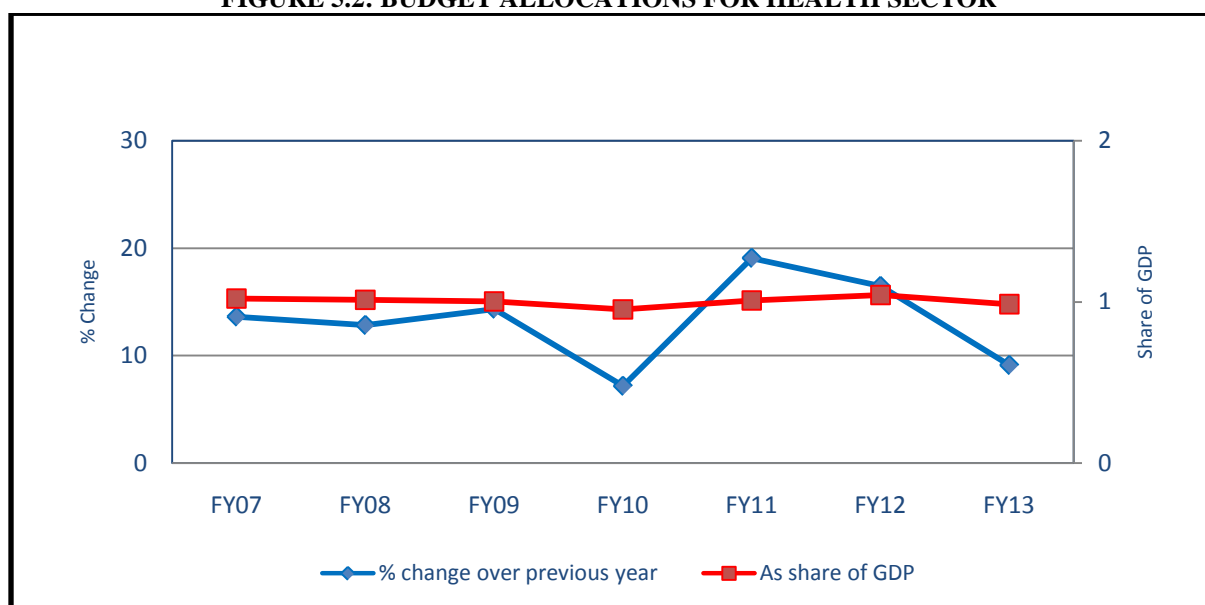
National Child Labor Elimination Policy 2010 and *National Child Policy 2011* have been adopted, under which 166,000 children have been taken out of hazardous professions and enrolled into primary education programme.

There is a proposal to establish child-friendly learning centres in *char, haor*, tea garden and other remote areas. In addition, computer and vocational education will be made compulsory at secondary level by 2013 and primary level by 2021.

5.2 Health

Allocation for health sector in FY2013 is 4.9 per cent of total budget (Tk. 9,333 crore) whereas the allocation was 5.4 per cent of the total budget (Tk. 8,869 crore) in FY2012 (Figure 5.2). The GDP share of this year's allocation (0.9 per cent) is somewhat lower than that of the previous year (1 per cent). In the current ADP, 7.5 per cent of total allocation has been proposed for the health, nutrition, population and family welfare sector.

FIGURE 5.2: BUDGET ALLOCATIONS FOR HEALTH SECTOR



Source: Budget documents (various year).

To improve health and well-being of poor city dwellers, 27 urban maternity clinics, 167 urban health centres and 656 satellite clinics have been providing primary healthcare services. Moreover, 30 per cent of these services were delivered free-of-cost. The coverage of Maternal Health Voucher Scheme has not increased beyond 46 upazilas though there was a plan to increase its coverage in last year's budget. In this budget, it is expected that 2,091 clinics will be set up and made operational by FY2013. This is a positive move, but implementation will require significant amount of fund, manpower, etc. Moreover, in order to improve the physician-population ratio, 3,551 physicians have been recruited, and five new medical colleges have been established. Furthermore, steps have been taken to increase the number of nurses and paramedics to improve the doctor-nurse-paramedic ratio to internationally accepted 1:3:5. However, concerted effort will need to be taken to attain this ratio, particularly in the rural areas.

In FY2013, more initiatives will be taken to introduce an e-health programme in the form of mobile phone service, internet connectivity and telemedicine facilities in hospitals at the district and upazila level. This is a progressive initiative, but making the skilled human resources available and providing the needed logistical support will be the major challenges in implementing these programmes.

The National Nutrition Service Programme has been expanded to 123 upazilas to address malnutrition by improving the rate of local participation, food support to pregnant mothers and infants, and through higher rates of immunisation. Moreover, a number of projects such as mobile and satellite health clinics will be implemented for the inhabitants of the remote hill tracts. *Bangladesh Medical and Dental Council Act 2010* has been enacted, while the *National Health Policy 2011* and *Patients Welfare Fund Policy* have also been formulated.

5.3 Gender Dimension

In FY2013, the gender-related allocation (Tk. 50,344 crore) is about 26.3 per cent of the total budget. This allocation is lower than the previous year's allocation, which was 26.4 per cent of the total budget. This year's share for Ministry of Women and Child Affairs is 0.68 per cent of the total expenditure, which is lower than that of last year (0.78 per cent). In the proposed budget for FY2013, gender budget is presented for 25 ministries; last year, it was for 20 ministries.

FY2013 budget has come up with a number of initiatives in support of women entrepreneurs. Under the Women-friendly SME Programme, all the banks and non-bank financial institutions will continue to provide special desk service to support women entrepreneurs. At least 15 per cent of the SME refinancing scheme is to be allocated for women entrepreneurs, and a collateral-free loan programme amounting to Tk. 25 lakh has been introduced for their advancement. Furthermore, a lump sum allocation of Tk. 100 crore for women entrepreneurs has been proposed in the current budget.

Besides the above supportive measures, some general initiatives have also been proposed for women. Tk. 331.2 crore has been allocated to finance allowances for 0.92 million widows and divorced/abandoned women (Tk. 300/month). The Vulnerable Group Development (VGD) programme for women (monthly 30 kg of foodgrains) has been maintained in this proposed budget. The tax-free threshold of income tax for women has been maintained at Tk. 200,000 against the general threshold of Tk. 180,000. In addition, the budget mentions about a draft *Hindu Marriage Registration Act 2012* which is likely to be finalised soon.

5.4 Children Orientation

In the proposed budget for FY2013, the share for children has suffered some decline. In FY2013, the allocation was 3.6 per cent of the total budget. A CPD-UNICEF study estimated that the share was 4.1 per cent in FY2011 and 4.6 per cent in FY2006⁵. As percentage of GDP, it has remained at around 0.7 per cent this year.

⁵ Allocations in the child budget include both development projects and safety net programmes from the non-development budget. Moreover, projects concerning children directly and indirectly are included in the calculation. For example, projects for maternal health are included as these can indirectly affect the child's health.

Budget allocation in the form of financial support for education of the children with disability will continue to be made against the Ministry of Social Welfare. Nevertheless, responsibility of programme administration is given to the Ministry of Education. Allocating resources and responsibility to two different ministries (Ministry of Social Welfare and Ministry of Education, respectively) may create functional confusion. Both monetary allocations and responsibilities of education for children with disability should be with Ministry of Education.

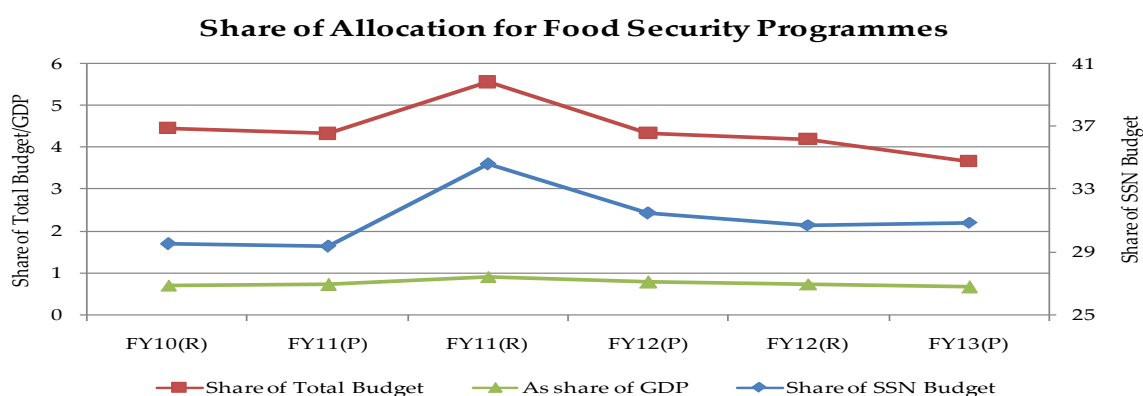
6. SOCIAL SAFETY NET PROGRAMMES

The objective of strengthening social safety net programmes (SSNPs), as seen in past two budgets, appears to have fallen victim to fiscal compulsions which gathered momentum in the budgetary framework. In FY2013, allocation for SSNPs is Tk. 22,751 crore, which is 11.87 per cent of total budget and 2.18 per cent of GDP. This allocation was lower than FY2012 (13.79 per cent of total budget and 2.51 per cent of GDP). 13 new programmes have been added to the ongoing SSNPs, while six previous SSNP programmes will be discontinued in FY2013. 43 ongoing programmes will receive lower allocations compared to FY2012. At this time of high inflation, there was a need for more effective SSNPs through reduction in wastage and leakage, and by raising the efficiency of the delivery system. Bangladesh should also gradually move from the concept of social safety net to social security. This will need putting in place a comprehensive strategy for social security.

6.1 Food Security in SSNP

Allocation for food security programmes in SSNP in FY2013 is 3.67 per cent of the total budget, which is 30.89 per cent of the total SSNP budget, and 0.67 per cent of the GDP (Figure 6.1). The percentage share of food security in SSNPs (based on the share of total budget and GDP) is lower than FY2012 (both provisional and revised). Moreover, allocation for VGD and Vulnerable Group Feeding (VGF) is set to decline by (-) 15.86 per cent and (-) 14.89 per cent, respectively. In addition, allocation for Test Relief (TR) will also decline by (-) 2.44 per cent in FY2013 compared to FY2012 budget.

FIGURE 6.1: SHARE OF ALLOCATION FOR FOOD SECURITY PROGRAMMES



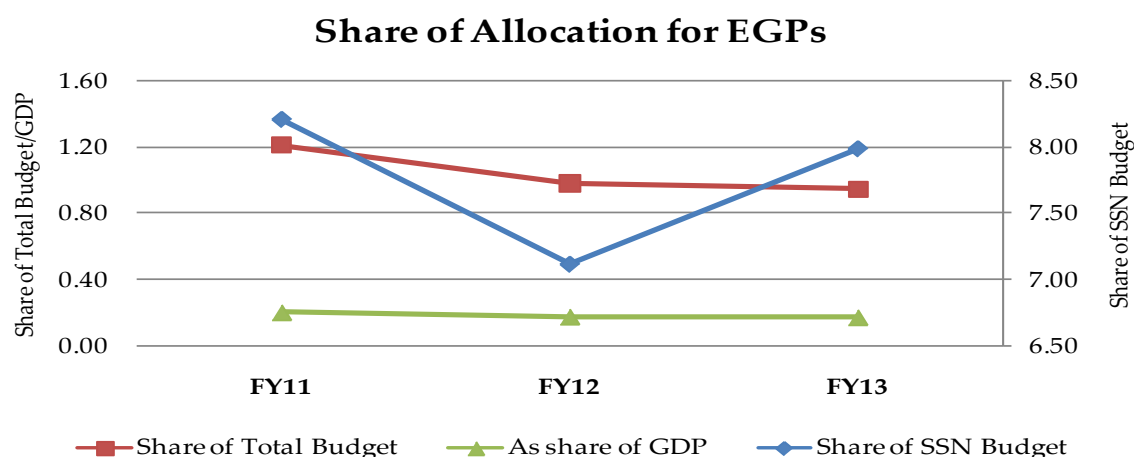
Source: Budget Documents (various year).

6.2 Employment Generation Programmes in SSNP

Budget allocation for 10 major employment generation programmes (EGPs) in FY2013 is Tk. 1,818.3 crore, which is less than 1 per cent of total budget (Figure 6.2). This allocation is 0.17 per cent of the GDP in FY2013. The allocation for National Service is to be reduced from

305 crore in FY2012 to 228.3 crore in FY2013. In all possibility, the government has somewhat moved away from its earlier stance of rapid expansion of this programme.

FIGURE 6.2: SHARE OF ALLOCATION FOR EMPLOYMENT GENERATION PROGRAMMES



Source: Budget documents (various year).

Allocation for Employment for Ultra-Poor in Northern Region in FY2013 will reduce from Tk. 8 crore in FY2012 to Tk. 7 crore. However, allocation for this head needs to be raised considering the high level of poverty in the northern regions of Bangladesh. Among the ongoing employment generation programmes, Rural Employment Opportunity for Public Asset will be discontinued in FY2013.

7. REFORMS AND POLICY INITIATIVES

The FY2013 budget statement does evince a recognition about the need for undertaking *second generation reforms* if the growth rate is to be accelerated and the envisaged developmental outcomes are to be achieved. It may be recalled here that the CPD, in its *Analytical Review of Bangladesh's Macroeconomic Performance* report released on 4 June 2012 had drawn attention to the need for undertaking institutional reforms and policy measures as a necessary precondition for accelerating growth prospects and raising the quality of developmental outcomes. Indeed, the CPD report also undertook a review of the reform measures as espoused in various policy documents of the government.

In a welcome departure from traditional budget speeches, the Finance Minister dedicated a separate section to the government's record on reforms and policy initiatives. The budget statement identified a total of 351 policy reforms and programmes which were categorised under three heads: (a) successfully implemented policies (203); (b) priority policies and programmes in progress (131); and (c) programmes yet to be completed (17). To monitor the progress with regard to reforms and as a sign of political commitment to pursue the agendas, it would have been better if a timeline was also mentioned for their completion. Some of the policy initiatives referred to the budget tends to evince contradictory signals though. For example, on the one hand, the government has passed the Anti-Money Laundering Act 2012 to discourage illegal amassing of fortunes and capital flight, and on the other hand, it has allowed 'whitening of the black money' which goes against the cause of financial transparency and the spirit of good governance. The Upazila Parishad (Amendment) Act 2011 that has been enacted is a good initiative; however, conflicts of interest among the

various tiers of the government persist which deter the prospects of decentralisation and real devolution of administrative and fiscal powers. Another example relates to the initiative to establish the Bangladesh Investment Facilitation Fund Ltd. (BIFFL) as part of FY2012 budgetary proposal to attract foreign investors. However, in view of the inordinate delay in setting up the institutional framework of the PPP, this new outfit is yet to generate tangible results.

In the course of time since the government took over power in January 2009, a number of new initiatives were mentioned in various policy documents. It is not clear whether these will be pursued further. For example: formation of an Independent Vision 2021 Council was mentioned in the Perspective Plan. The first budget speech mentioned that the Regulatory Reforms Commission (RRC) will be reconstituted and the Bangladesh Better Business Forum (BBBF) will continue to function. Tax Ombudsman office was abolished but the institution Ombudsman as envisaged by the Constitution is yet to be put in place. The Perspective Plan mentioned that Pay, Services and Regulatory Reforms Commission will be set up to bring dynamism in development administration.

All Ministries have now come under the Medium Term Budgetary Framework (MTBF); however, for this initiative to generate the expected results, the capacity of line ministries to design, implement and monitor respective development activities will need to be significantly strengthened. Only now, the FY2013 budget statement mentions about establishment of *budget management wings or branches* in all the ministries and divisions. Sluggish progress with regard to PPP projects (only two infrastructure projects) has been a big letdown in spite of the significant dedicated allocations in successive budgets. The budget mentions that the VAT law will come into effect by 2015. However, concerns remain whether the needed preparatory works can be completed before the law comes into effect in 2015. The budget does not mention about reforming the state-owned enterprises; it only talks about reorganising the Trading Corporation of Bangladesh (TCB). The delay in finalising the Coal Policy remains a perplexing surprise in view of the urgency to design medium to long-term energy strategy for the country. The budget FY2013 mentions that a draft Audit Act has been prepared; however, it is to be noted that such an Act was submitted to the Ministry of Finance in 2008, and till date, no headway has been made in finalising the draft. The budget talks of reforms and policy initiatives concerning the capital market. However, the budget fails to mention what measures were taken in view of the report of the investigation committee that was constituted by the government itself following the stock market debacle in 2010. Although demutualisation of the stock exchanges has been agreed upon, the progress towards this has been rather slow. The Financial Reporting Act, a key instrument for promoting transparency and accountability, has been drafted, but it will be placed before the parliament for approval only in the next fiscal year.

The budget statement also concedes that the Civil Service Act could not be finalised but that efforts to frame this law were continuing. Although introduction of *Performance Based Evaluation System* is a key to incentivising the development administration, the move towards the changed system has been slow. By any reckoning, success of government's developmental and investment plans will depend on its ability to raise the level and quality of performance of the development administration. It is good that Budget FY2013 recognises the need for a more focused attention to institutional and policy reforms. However, success here will critically hinge on the government's appetite and ability to pursue the follow-up actions.

8. CONCLUDING REMARKS

The ongoing fiscal year's experience has put FY2012 in a league of its own from the perspective of challenges of macroeconomic management in the context of developing economies. It would have been good if Budget FY2013 undertook a close examination of the causes of the tensions emerging in the economy in FY2012 and put up a clear strategy to avoid those in FY2013. It would be good if the assumptions that inform the fiscal framework were spelt out in a more clear manner, the subsidy (other than agriculture) scenario was presented in a more transparent manner, the issue of legalisation of undisclosed money was dealt with more clarity, adjustment policy with regard to administered prices was detailed out, plans for transit-related investments and possible income from transit fees were shared, and implications of conditionalities emanating from IMF-ECF were analysed, privatisation and reforms of state-owned enterprises were given importance.

The credibility of the budget for FY2013 will largely depend on its implementation. It is critically important that there is a concrete implementation plan which is commensurate with the ideal fiscal framework that has been presented. A number of factors will be key to determining the outcome of Budget FY2013. The first relates to the soundness of the fiscal targets which sounds too good to be true, and will require exceptional efforts to achieve. Whilst NBR has been able to post stellar success in resource mobilisation, meeting non-tax revenue targets may be difficult. The targets for non-ADP expenditure, particularly subsidy requirement, may not match the price adjustments that the government will be agreeable to undertake. Whilst access to funds for implementing the ADP may not be a problem, its utilisation, as recent records validate, remains a serious concern. Attaining investment and growth targets will depend on the government's ability to deliver on the development budget, particularly also because achieving private sector investment targets will depend on this. Besides, delivery of credit from non-bank sources at a time of stagnating domestic savings, will also not be easy. The lower target set for private sector credit growth will likely to have negative impact on private sector investment unless there is significant rise in capital utilisation efficiency. It will be a challenge to gear up the development administration which is prone to lose momentum as elections near. The global economic scenario is also transmitting worrying signals with exports experiencing negative growth now for three months running. All the above factors will necessitate significant rise in resource utilisation efficiency, qualitative change in coordination among various ministries, alignment of fiscal and monetary policies, and undertaking the needed reforms and policy initiatives. Maintaining a conducive socio-political environment at a time of approaching elections will also be key to attaining the targets set out in the FY2013 Budget.