

**A Set of Proposals for the National Budget FY2009-10**  
**Prepared by the Centre for Policy Dialogue (CPD)**

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Submitted to

***Mr. A M A Muhith, MP***  
Hon'ble Finance Minister  
Government of Bangladesh

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### **1. ON THE MACROECONOMIC FRAMEWORK**

The national budget for the fiscal year 2009-2010 will be an important event on a number of counts, particularly in the current national and global contexts. From the national perspective, it will be the first one by the newly-elected government. Arguably, it will be inspired by the election manifesto of the leading party of the ruling coalition. It is expected that the upcoming budget will accord allocations to a select set of commitments made by Awami League during the run-up to the elections.

However, the upcoming budget is going to be formulated in mid-term planning format which remains quite ambiguous in nature. While the present government has decided to restore the five-year planning format (supposedly from 2011), it is not obvious to what extent the PRSP guidelines (as revised in 2008) will be a yardstick for the upcoming budget.

As the global economic crisis continues to brew, and given the overwhelmingly pessimistic short-term projections, the national budget for 2009-10 has to take note of the challenging external environment. A set of incentives to address the negative impacts of the ongoing global crisis on Bangladesh economy has been already announced by the government. It is expected that the upcoming budget will fine tune these declared measures and probably broaden these further.

In this backdrop, it is obvious that macroeconomic framework of the national budget will be underpinned by counter-cyclical fiscal measures, supported by a moderately expansionary monetary policy. To this end, the government will have to target a large public expenditure package with the possibility of running a higher deficit in the face of a modest growth of revenue collection.

The following table on the fiscal structure of the upcoming budget is based on media reports. The fall in fuel import (subsidy) bill as well as net savings in food subsidy can together provide a fiscal space to the tune of Tk. 7500 crores, as estimated by the CPD. Indeed, the current low rate of inflation (around 5%) will also be a conducive factor for the expected macro stance.

## FISCAL STRUCTURE OF BUDGETS FOR FY2008-FY2010

(crore Tk.)

Items	FY2007-08 <sup>A</sup>	FY2008-09 <sup>B</sup>	FY2009-10 <sup>P</sup>
GDP at current price	541262.5	613111.0	677733
Revenue Earnings	58170	69338	78,200
<b>as % of GDP</b>	<b>10.7</b>	<b>11.3</b>	<b>11.5</b>
Revenue Expenditure	51453.2	61468.9	79500
<b>as % of GDP</b>	<b>9.5</b>	<b>10.0</b>	<b>11.7</b>
ADP	18492	25600	30500
<b>as % of GDP</b>	<b>3.4</b>	<b>4.2</b>	<b>4.5</b>
Total Budget	86085	99962	110000
<b>as % of GDP</b>	<b>15.9</b>	<b>16.3</b>	<b>16.2</b>
Deficit	25546	30580.0	31,800
<b>as % of GDP</b>	<b>4.7</b>	<b>5.0</b>	<b>4.7</b>
domestic financing as % of GDP	2.3	2.8	-
foreign financing as % of GDP	2.5	2.2	-
domestic financing as % of deficit	48.5	55.6	-
foreign financing as % of deficit	51.5	44.4	-

Source: CPD-IRBD Database

Note: A stands for actual, B stands for budget and P stands for projected figures

Projected GDP for FY2009-10 has been calculated considering current p2p inflation rate of 5.04% and 5.5% projected real GDP growth.

The above table reveals that the fiscal structure of 2009-10, however, is not expected to undergo any dramatic change.

1. The total public expenditure package of 2009-10 may not experience any significant increase as a share of GDP (16.2%).
2. The aggregate target of revenue collection, even when fully realized, will not improve the tax-GDP ratio discernibly in 2009-10 (11.5%).
3. The proposed ADP, notwithstanding its increased size, remains stagnant as a share of the domestic economy (4.5%), although the distinction between productive and non-productive expenditures has become increasingly fuzzy.
4. The estimated deficit figure for 2009-10, however, indicates that it may well remain within the most recent target of 5% of GDP.
5. A critical aspect of deficit financing will be the ability to draw on foreign sources (particularly grant component) while domestic borrowing should not crowd-out private investment demand.

The defining features of the upcoming budget will be the ability of the development administration to deliver on the ADP. In its absence the economy will be deprived of the much needed fiscal and monetary stimulus and, by default, the government will end up with a lower budget deficit.

The distinguishing aspect of implementation of the budget will be its capacity to flexibly respond to the changing global environment. A sophisticated monitoring mechanism will well serve the budget delivery mechanism in this respect.

The subsequent sections of this document will sequentially deal with recommendations for the budget FY2009-10 in the areas of overall fiscal measures as well as in specific sectors. Concrete proposals relating to ADP implementation and public-private partnership (PPP) has also been included in this document. These recommendations have been prepared by the CPD based on its own research as well as wide-ranging consultations.

## **2. FISCAL MEASURES**

### ***2.1 Personal Income Tax***

- Considering that the point to point rate of inflation has been over 10 per cent since June 2008, minimum limit for tax exemption could be re-fixed at Tk 1,85,000 from the current threshold of Tk 1,65,000.
- The minimum limit could be reset at Tk 2,00,000 from the current level of Tk 1,80,000 for women, senior citizens and disabled citizens.
- Minimum age limit for exemption of senior citizens may be reduced to 65 years from the existing 70 years (as retirement age of government employees is at present 57 years).
- In the previous budget, 25 per cent of the total income (with a maximum limit of Tk. 5,00,000) was set as investment allowance with a rebate of 10 per cent. This rate of rebate may be re-fixed at 15 per cent in order to encourage investments (maximum limit could be reset at Tk. 6,00,000).
- In view of the rise in house-rent, the ceiling of tax-free house rent allowance may be re-fixed at 60 per cent (currently 50 per cent or Tk 15,000 whichever is lower) of the basic salary. However, the maximum limit may remain at Tk 20,000. The measure will require the limit of total perquisite to be reset at Tk. 2,60,000.
- Tax on interest on PSP/BSP/3-MSP should be waived.
- Section 16-D: Dividend Distribution Tax could be re-introduced.

### ***2.2 Corporate Tax***

- Corporate tax rate of 27.5 per cent for listed companies could continue in FY2009-10. For non-listed companies, the existing rate of 37.5 per cent could be reviewed downward to 35 per cent in view of the adverse impacts of the global economic slowdown.
- Extend the ambit of the highest corporate tax slab (45 per cent) applicable in the cases of banks and insurance companies to include other high profit making service industries. Rebates could be provided to banks on income accruing from loan disbursed for industry (including SMEs) and agriculture sectors.

- In the budget for FY2008-09, SME sector was given income tax relief by defining SMEs as entities having annual turnover below Tk 2.4 million. The turnover limit could be re-fixed at Tk 3.0 million in view of the sector's increased role in exports and employment creation as well as the recently experienced high inflation rate.

### **2.3 VAT**

- Dedicated funds should be allocated to ensure proper implementation of earlier decision on VAT inclusive Maximum Retail Price (MRP).
- Government should enforce the use of Electronic Cash Registers (ECRs) to enhance VAT collection for all medium and large enterprises located in Division and district level towns.

### **2.4 Customs Duty (CD) / Supplementary Duty (SD)**

- In view of the ongoing global crisis and its impact on domestic industries, the government may contemplate on temporarily adjusting tariff slabs.
  - The existing slab of 3 per cent on capital machineries, spare-parts and industrial raw materials could be made zero tariff (0 per cent), perhaps only for this year. This has to be concurrently applicable for the 1 per cent duty imposed on imported capital machineries (which is used for export purpose).
  - However, the NBR will need to come up with a list of sensitive products, zero tariff import of which may affect domestic industries (a critical example may include the import of *yarn* which is domestically produced). Existing rates of duties on these sensitive products will need to continue.
  - To make up for the revenue loss the government may increase tariff rates on selected finished products (mainly luxury items). CD/SD on luxury goods (i.e. luxury cars above 1500 cc), all sorts of alcohols (except for alcohols imported for pharmaceutical usage) may be increased in order to compensate for the government's loss.
- CD/SD on raw materials for manufacturing cigarettes and similar items could be increased (existing 60 per cent SD on the raw materials could be increased to 80 per cent and 20 per cent SD on the papers, used in packaging, could be increased to 30 per cent) to reduce health hazards and environmental pollution.
- Companies/sectors enjoying tax holiday should be exempted from AIT (Advance Income Tax) at import level.
- All dyes, chemicals and other raw materials used in the textile sector for the purpose of export may not have more than 5 per cent import duty for this year in view of the financial crisis.
- In case of products which are manufactured largely based on imported intermediate products, difference in the CD between raw materials and intermediate products may be narrowed down at a higher pace compared to the differences usually maintained

between the two rates (from existing difference of 5 per cent to 3 per cent). However, this should be treated as a temporary measure.

### ***2.5 General Export Support Measures***

- Currently, the government subsidies availed by selected exporting sectors are subject to tax at a rate of 5 per cent. This tax could be withdrawn for this year.
- Emphasis needs to be put on establishing strategic special economic zones with special tax incentives (i.e., lower duty or zero tariffs on import).

### ***2.6 General Measures for Import Substitution and Domestic Industrial Support***

- While determining the income from industrial activities, deduction may be allowed for additional expenditure for compliance, expenditure incurred for the welfare of the employees, R&D expenditure and sampling expenses.
- Government may consider allocating funds for establishment of an Integrated Textile Park (ITP). The main purpose of introducing the ITP is to provide entrepreneurs with adequate infrastructure facilities for setting up their textile units.
- The coverage of the *Equity Entrepreneurship Fund* (EEF) was targeted to IT related industries in FY2008-09 budget. In FY2007-08, EEF allocations were targeted to agro-based industries. To encourage and promote agro-processing industries, the government could consider allocating fresh EEF funds for this sector in the budget for FY2009-10.
- In order to promote the ship building sector in the country, the government could provide bonded warehouse and tax exemption on raw materials to this sector. The government may also consider declaring this sector as a thrust sector when announcing the export policy.
- To develop and strengthen backward linkage industries (particularly for RMG, leather, textile, jute and other selected industries), a *Technology Upgradation Fund* may be created (perhaps with an allocation of Tk. 300 crore). Credit provided under this scheme on concessional rates of interest will assist industries to undertake technological restructuring initiatives and modernise their plants through installation of new machines and state of the art technologies.

### ***2.7 Special Tax Benefits***

- The provision of legalising income from disclosed sources (where taxes were not paid before) by paying a penalty of 7 per cent on the tax payable, along with the regular taxes, may continue in FY2009-10.
- With regard to undisclosed income, it has been seen that inspite of repeated opportunities to legalise such money by paying fine at a certain per cent of the concerned money for each year of evasion, the experience has not been good and no

substantive amount could be harnessed by the taxation authorities. Besides, this also creates disincentive for honest and regular taxpayers. The measure has lost its teeth and continuation of this opportunity again in 2009-10 budget can hardly be justified and need not be continued.

- Agro-based industries could be provided with tax holiday facility for the next five years (FY2009-10 – FY2013-14).
- Government, in light of the Industrial Policy 2009 (draft), may provide 100 percent export-oriented industries located outside the EPZ same incentives and facilities provided to the industries located in EPZs (where it is possible).
- Government may extend tax holiday facility to a number of potential new industries. These new industries may be included from the list of thrust sectors proposed in the draft “Industrial policy 2009”. For example, active pharmaceutical ingredients (API), polymer production industries, leather products, cosmetics and toiletries, furniture.
- In the last budget, government increased the threshold level of turnover for imposition of VAT on SME enterprises from Tk. 20 lakh to Tk. 24 lakh. Considering high value addition, employment generation and substantial domestic market orientation by SMEs, government may consider increasing the limit to Tk. 30 lakh.

### ***2.8 Retirement Age and Salary-scale of Government Employees***

- Increase the retirement age of government employees from 57 years to 60 years.
- Make necessary provisions for speedy implementation of the recommendations of the Pay Commission report.

### ***2.9 Miscellaneous***

- Tax on not-for-profit research institutions should be waived since such taxes amount to tax on knowledge.
- Taking cognizance of the need to further curtail population growth rate, the government may design an incentive package (perhaps monetary) after a certain age, for all government employees who have only one child.

### ***2.10 Restructuring Tax Administration***

- The ambit of Large Taxpayers’ Unit (LTU) needs to be expanded in order to enhance opportunities for tax mobilisation. As is known, currently 51 banks, 61 insurance companies, 33 investment and leasing companies, 6 cell-phone operators, 9 cement companies, 11 pharmaceutical companies, 107 manufacturing companies, 4 newspapers, and 706 directors of the above mentioned companies are under the LTU jurisdiction.
- Evasion of customs duty could be reduced substantially if an appropriate monitoring system is developed within the NBR. Data on revenue collection could be passed on

to the NBR monitoring cell on a regular basis if online network is developed between the customs points and the NBR.

- Dispersion of duty rates needs to be reduced in the context of 4-digit tariff heads. This would reduce the scope for tax evasion and abuse of discretionary power by the tax authorities.
- If an assessee defaults in paying taxes, the DCT has the authority to impose penalty up to the amount of the defaulted tax. In this context, specific rates of penalty could be fixed (depending on the size of default) to reduce the scope for possible abuse of discretionary power of tax officials.
- Government should assess the impact of tax holiday and other incentive measures to explore relative advantages of alternative options (i.e., through accelerated depreciation charge or a uniform reduced tax rate) and introduce appropriate changes.
- Government may consider limiting the practice of making mid-term changes of duty through SRO, except in exceptional cases like natural disasters and other emergencies.
- An employer has to submit information regarding payment of salary and tax deduction at source as per section 108 of ITO 1984 to the concerned DCT office. Emphasis should be given for strict implementation of the provision. In this regard, each DCT office could prepare/update a list of organisations at the beginning of each financial year and serve notice for non-submission of return at the end of submission deadline.
- It needs to be ensured that certification of tax assessment is submitted at the time of trade (or any other) license renewal.
- VAT related appeals should be settled within nine months instead of the current threshold of one year.

### **3. AGRICULTURE, RURAL DEVELOPMENT AND REGIONAL DEVELOPMENT**

#### ***3.1 Agriculture***

##### ***Crop Sector***

- *Promotion of Boro Rice cultivation in the coastal areas:* Additional one million hectare of land in coastal areas could be brought under cultivation during the dry season (late boro and aus), if tillage and irrigation facilities can be created. It is also possible to increase area under high yielding Aman rice particularly in the coastal belt. Therefore, special projects can be initiated under the Annual Development Programme (ADP) or allocation to the Department of Agricultural Extension (DAE) can be made for undertaking special projects to realise these opportunities.

- *Promotion of non-rice crops in the Barind Tract during the dry season:* Scarcity for irrigation water in the dry season is becoming increasingly prominent in the northern and particularly in the Barind Tract region. Predictions about climate change indicate that the situation could aggravate in the coming years. Consequently, water efficient crops (pulses, onions, maize) will need to be promoted during the Rabi season in those areas. Cultivation of different types of horticultural crops (mango, jujube, guava and other fruits) will also be beneficial. To this end, distribution of free seeds and saplings supported by training of farmers would be necessary. Budgetary allocation to the Ministry of Agriculture and Ministry of Forest and Environment for undertaking such programs on a large scale basis will be needed.
- *Allocate TK 100 crore as “Seed Production Fund” for production and distribution of improved seeds:* This fund may be utilised for: (i) production of Breeder’s seed of recently released varieties of rice and other crops by different agricultural research institutes and universities which will subsequently be distributed at a subsidised rate to the Bangladesh Agricultural Development Corporation (BADC), private seed companies and NGOs for production of truthful level (TFL) seed to be used for cultivation by the farmers; (ii) procurement of quality seeds, particularly those of recently released varieties such as BRRI Dhan 47 suitable for cultivation in salinity prone areas during Boro season, and BRRI Dhan 40 and BRRI Dhan 41 suitable for cultivation in salinity prone areas during the Aman season which will help increase the ability of the public sector to supply quality seed for rapid expansion of modern varieties; (iii) to distribute parental lines of hybrids, encourage production of hybrid rice seed within the country by the public sector agencies such as BADC, BRRI, BINA and agricultural universities as well as private seed companies and NGOs involved in seed production and marketing; and, (iv) production of improved seed for chickpea, lentil, onion, and true potato seed and for distribution at a subsidised rate in areas with high production potential.
- *Allocate adequate fund for Fertiliser Subsidy:* It is often argued that annual demand for fertilisers estimated by the Ministry of Agriculture is less than the actual requirement for Urea, TSP and MoP particularly in view of the recommendations made by the BARC to attain high yield goals. Based on a thorough review of actual fertiliser demand, adequate resources should be allocated as subsidy for fertilisers.
- *Continue subsidy on electricity for irrigation and promote electricity operated modern irrigation system:* The existing provision of 20 per cent subsidy on electricity used for irrigation should be continued. Currently, one-fourth of the total irrigated area is under electricity operated irrigation system. Bangladesh’s irrigation cost (about Tk 10,000 per hectare) is 2-3 times higher than that of India (Punjab, Andhra Pradesh), Thailand and Vietnam mainly due to the prevalence of diesel operated irrigation system in the country. Adequate supply of electricity for irrigation and extended coverage of rural electrification will reduce cost of irrigation and sustain economic activities in rural areas. Promotion of alternative energy sources (e.g., CNG) will also be beneficial.
- *Special allocation for training of farmers and extension officials:* Focused training programs should be designed with adequate budgetary support for training of farmers,

and upazila and block level agricultural extension workers. Modernisation of extension system with greater use of ICT for extension services such as toll-free mobile phones, dedicated programmes on the TV channels on production, processing and marketing techniques can be promoted through allocation of funds to the Department of Agricultural Extension and Agricultural Information Services (AIS) in the upcoming budget.

- *Allocation of adequate funds and incentives for agricultural research:* This is essential to foster technological innovation with priority for generation of technologies with tolerance against biotic stresses such as pests and diseases, and abiotic stresses such as drought, salinity and submergence. To this end, adequate investment for infrastructure development and capacity building for biotechnology, remote sensing and geographic information system (GIS) is needed. In the Budget of FY2007-08, Tk 350 crore was allocated as Endowment Fund for agricultural research which could not be utilised due to lack of utilisation procedure.
- *Ensure minimum price with adequate incentives over the cost of production:* This is necessary for sustaining the high growth rates of crops. Procurement price can play an important role in this regard. Recently, rice and paddy prices in many areas went below the production cost. In this context, the government has set and declared procurement price of paddy at Tk. 14 per kg and that of rice at Tk. 22 per kg. This is roughly 10 percent above the cost of production and it appears to be a reasonable price. Procurement target has been set at 12 lakh tons of rice and an upward revision of the procurement target will be required to have impact on market price. Similar initiatives need to be continued in FY2009-10.
- *Impose duty on rice import:* Domestic rice production over the past few consecutive seasons had been commendable. However, this has had depressed the domestic market price of rice which has fallen below the production cost. India at present has a ban in place on rice export which might come to an end soon. Cost of rice production in India is lower than Bangladesh due to the substantial level of subsidy provided to the Indian farmers. Public food stocks in India are currently more than double of their buffer stock norm and in this context Bangladesh should reimpose import duty at the rate of 15 percent on rice with primary objective of discouraging rice import.
- *Allow duty-free import of power pumps:* At present, import of power pumps requires paying 3 percent duty. It should be reduced to “Zero” tariff..
- Custom duty on agricultural tractor (HS 8701.90.10) is 10 per cent, plus 3 per cent AIT, and 1 per cent PSI. On the other hand, in case of road tractor custom duty is only 5 per cent. Duty on agricultural tractor should be about 5 per cent and the AIT should be withdrawn.

### ***Livestock and Poultry***

- *Special projects to combat spread of contiguous diseases like bird flu, foot and mouth disease:* Growth of poultry and livestock sector is constrained by prevalence of deadly diseases such as bird flu and foot and mouth disease. Government needs to undertake special programs for vaccination of poultry birds in order to reduce the

possibility of epidemics. Actions for prevention of bird flu need to be enhanced and further strengthened. Ongoing programmes to address the situation (about Tk 40 crore annually under two projects) are inadequate particularly considering the development of other deadly diseases such as Swine Flu, which has been reported in many countries around the globe.

- *Expand medical and technical services for dairy and poultry development:* Production of all types of livestock and poultry products such as meat, milk and eggs have increased very rapidly in the recent past. Unfortunately, services provided for the livestock and poultry sector have not been able to keep pace with the recent rapid expansion of the sector. Therefore, the budget should take steps for expansion of service facility and provision for appointment of more livestock officers and veterinarians in districts and upazilas with intensive animal and poultry farming such as Gazipur, Narsingdi, Savar, Daudkandi (Comilla).
- *Increase duty on import of milk powders:* Domestic milk producers are unable to compete with subsidised milk exports from international markets. Government could consider increasing existing customs duty from 12 percent to 25 percent (for HS code 0402.10.90 and 0402.21.90) on imports on milk to protect domestic producers and foster growth in domestic milk production.
- It is necessary to continue the existing policy of exemption from all duties and taxes on raw materials for dairy and poultry feed, medicine, other medical inputs and capital machineries required by the livestock and poultry sector.
- It is necessary to continue existing customs duty (25 percent) on import of poultry products (mainly meat and eggs).
- Growth in milk production could be accelerated if a minimum price (20 percent over the production cost) could be assured. Currently, several companies are engaged in milk processing. Milk processing companies may be provided some incentives such as loan with low interest, income tax exemption if they guarantee a minimum price ensuring 20 percent mark up over production cost for milk procurement.

### ***Fisheries***

- *Establish Broodstock Banks:* Commercial cultivation of pond fish has increased enormously in recent years. However, lack of availability of quality fingerlings is a persisting problem that has inhibited growth of this sector. On the other hand, production and availability of quality fingerlings depend on the Broodstock (mother fish). Demand for broodstock may be met through establishment of Broodstock Banks for different types of fish such as Rohi, Catla, Tilapia, freshwater prawn (*Macrobrachium rosenbergii*). It is difficult to internalise the benefits from such initiatives by the private sector. Appropriate allocation in the budget is urgently needed for establishment of Broodstock Banks.
- *Adequate allocation needs to be provided for development of water environment and increasing productivity in the open sources:* Fish production in rivers and canals has

significantly decreased during the last three decades due to environmental degradation and unplanned extraction of these natural resources.

- *Improvement in water quality by introducing pollution tax to the polluting industries:* Open water fisheries resources particularly in rivers, canals and creeks are facing water pollution mainly due to release of untreated industrial wastes and chemicals by the polluting industries established in the riverside. Industrial waste treatment should be mandatory and pollution tax must be introduced to the violators.
- *Special programs to combat shrimp and fish diseases:* Shrimp and fish cultivation in the coastal belt is now being carried out on a small scale basis. Many fish ponds are now owned by small farmers. Very often these small fish farmers have to face shrimp diseases which create a threat to their continuity in business. Special projects under the Directorate of Fisheries to cater to the need of small fisheries farmers and help sustain growth of fisheries production are urgently needed.
- Rapid growth in fisheries sector demands better services. Appointment of more fisheries officers in intensive fish cultivation areas such as Bagerhat, Satkhira, Khulna, Bhaluka, Muktagachha and Daudkandi is urgently needed. Budgetary allocation for filling up of vacant position and creation of new positions would be required.

### ***Overall Agricultural Development***

- *Set up a commission for Agricultural Costs and Prices (CACP).* This commission may be entrusted in collecting information on cost of production of various agricultural commodities and suggest procurement prices for commodities which government would like to procure.
- *Establishment of SPS compliant facilities for promotion of exports of shrimps, fish, vegetables and fruits:* Exports of shrimp, fish products, vegetables, fruits and other agricultural commodities have increased in recent years. However, export growth has been constrained by lack of SPS compliant facilities and certification system. Provisions for establishment and functioning of such system through collaboration among BSTI (Bangladesh Standards and Testing Institution), Ministry of Agriculture, Ministry of Livestock and Fisheries should be made through the budget.
- *Increased supply of agricultural credit:* This is necessary in order to overcome shortage of working capital for production of crop, livestock, poultry and fish, can be achieved through a well coordinated initiative by the government. This could involve Krishi Banks, nationalised commercial banks (NCBs), private banks and NGOs providing micro credit. Targets for agricultural credit disbursement in FY2008-09 is Tk 9000 crore and actual disbursement during July-March of FY09 was Tk 6907 crore. Higher targets for agricultural loans may be set in the Budget.
- Sustained growth in production depends on the extent of profit and availability of marketing opportunities for such products. Government needs to undertake a special program for development and maintenance of rural road networks, establish different types of Krishi Bazars for farmers, particularly in the intensive production areas (For

example, Munshigonj for potato, Jessore and Comilla for vegetables, Chapai Nawabganj and Naogaon for fruits).

- *Continue zero tariffs for import of necessary inputs:* Continue zero tariffs/ low tariffs for import of different kinds of seeds, breeding animals, and broodstock. Duty-free import of fertilisers should also be continued. For maintaining quality of products of agro-processing industries, import of vitamin and micro- nutrients may be exempted from any duty.

### **3.2 Regional Development**

- Recently released poverty mapping, prepared by the BBS and the World Bank, has identified major poverty prone upazilas in Bangladesh. These are mainly concentrated in the Kurigram, Rangpur, Lalmonirhat, Mymensingh, Satkhira, Bagerhat, Patuakhali, Barguna and Bandarban districts. Along with special incentives for the lagging regions, adequate infrastructure, access to utilities, services and other forms of support will be required to be provided in order to stimulate investment facilities and employment opportunities. Although policymakers have expressed concern about increasing regional inequality, and taken some steps to address the issue, public expenditure does not fully reflect this. Analysis of district-wise development and non-development expenditure of the government in FY08 shows that the top three hardcore poverty prone divisions (Barisal, Rajshahi and Khulna, according to HIES 2005) had actually received the lowest (Tk 5.8 thousand, Tk 5.6 thousand and Tk 5.0 thousand respectively) per capita government expenditure (combined development and non-development expenditure).
- Maximum attention should be accorded towards developing small towns to help them emerge as economic hubs of the respective regions. This would be beneficial for diverting growth of backward regions and decentralising the process of growth favouring the underdeveloped regions.
- Reactivation of Mongla port for increased income and employment opportunities in the western part of Bangladesh is of utmost importance for the development of southern part of Bangladesh. Mongla is constrained by poor land and maritime accessibility and non-developed highway corridor with major ferry service. Dredging of the Passur river entrance to the Mongla port (85 km) should be taken as a project under the Annual Development Plan which can be a component of the overall development of the Mongla port.
- Remittance is one of the major driving factors in reducing poverty level in Bangladesh. Initiatives need to be taken to send more people from lagging regions for overseas employment. Special skill development programmes and credit support programmes need to be initiated towards this. The initiatives taken in this regard by PKSF should be enhanced.
- Seasonal migratory workers are engaged in different farm related activities in Netrakona, Sunamgonj, Bhairab, Comilla and some other areas, and in non-farm activities in various different metropolitan cities. The government may think about

establishing a service in the post office system to help the migratory workers send money quickly to their family with a minimum service charge.

- Government may allocate training and skill development fund for rural unemployed youth to train them for repairing agricultural machineries at the vocational training centres.

#### **4. INDUSTRY, CAPITAL MARKET, CONSTRUCTION (REAL ESTATE) AND OTHER SECTORAL MEASURES**

##### **4.1 Sector specific Proposals**

###### ***Readymade Garments***

- Government may extend the time limit for exporters to submit their claim for duty draw back, which is currently fixed at 6 months.
- Government may allocate fund for R&D in the RMG sector under the ADP of FY2009-10. This fund would be provided at a subsidised rate to RMG units having R&D facilities of their own.
- A *Cluster Development Fund* may be set up for entrepreneurs to obtain financial support and develop specialised service facilities in various RMG-factory zones.

###### ***Textile Industry***

- Government may consider raising existing level of cash incentives (5 per cent) provided to backward linkage textile and yarn manufacturing units.
- In order to comply with international standards on environment, import duty on ETP can be reduced from the existing level of 1% to 0%. This measure should be applicable to ETP imported in CKD from various sources.

###### ***Jute Industry***

- In order to ensure sustained level of growth of the jute industry, government should consider long term measures for this industry with particular focus on enactment of laws for ensuring wider use of jute goods at domestic level. Establishment/expansion of separate academic departments dealing with production and innovation of jute products, under the institutional set up of textile colleges, should be considered with special importance.

### ***Frozen foods***

- A special allocation is needed to take preventive action against bacterial infection of shrimp. This fund could be used for taking curative action at the level of shrimp production as well as development of laboratory testing facilities.

### ***Shipbuilding Industry***

- Shipbuilding industry, which is included as a thrust sector in the draft industrial policy 2009, should enjoy special facilities including tax holiday facility and low interest credit facility. The industry should get priority in the 'Export Development Fund' which allows access to credit to the tune of US\$1.0 million to US\$1.5 million.

### ***High-Tech Industry***

- The basic infrastructure for high-tech park (phase 1) at Kaliakoir should be completed as early as possible. However, the allocation of fund and its disbursement during FY2008 and FY2009 was not satisfactory. Government should increase ADP allocation for this park in FY2009-10 and complete the work within the shortest possible time.
- Government should allocate ADP fund for the establishment of an integrated Software Technology Park (STP).
- In view of enhancing ICT sector, government should consider extension of tax holiday facility for software and IT enabled services for another 5 years.
- Government may allocate ADP fund for establishment of broadband internet-enabled common service centres in rural areas and put in place a scheme for establishing nationwide area networks.
- Government had allocated Tk. 7 crore in FY2008-09 for establishment of active pharmaceutical ingredient (API) Industry Park. In view of huge amount of fund required to establish such a park (Tk. 213 crore), the limit of fund should be increased in the next fiscal.

### ***Worker related issues***

- It is worthwhile to mention that government has already initiated a programme to distribute rice among garment workers at a subsidised rate since April, 2009 in four major areas. This is a welcome initiative, and it should be extended in other areas in a phase by phase manner.
- In FY2008-09, Government has allocated fund (Tk. 20 crore) to support low-income workers particularly for working mothers in the garment sector. This programme should be continued in the next fiscal.

#### **4.2 Budget Proposals related to SMEs**

- Government may consider increasing allocation of fund under the Equity Entrepreneurship Fund (EEF) from the existing level of Tk. 300 crore to Tk. 500 crore. Higher share of this additional fund can be allocated for agro-based industries since application of fund for agro-based industries has exceeded existing allocated limit for this sector.
- The coverage of the EEF may be expanded beyond agro, agro-processing and IT-related projects. This fund may be extended to some other potential labour-intensive industries such as light engineering, plastic, melamine, and electronics.
- Government has increased allocation for SME fund (Small and Medium Enterprises Fund) from Tk. 500 crore to Tk. 600 crore as part of the stimulus package, which is a welcome step. However, government should take steps to make this fund available for entrepreneurs of SMEs from all over the country.
- Special budgetary allocation is needed to ensure SMEs' access to commercial credit. The allocation of fund under the Refinancing Scheme which was introduced earlier should be increased from its existing level of Tk. 100 crore to Tk. 300 crore.
- In order to support domestic market oriented industries, various types of duties related to domestic market based SMEs may be brought at the same level to that applicable to export-oriented SMEs.
- In accordance with the draft Industrial Policy 2009, government should allocate fund for development of infrastructural facilities in all BSCIC areas to make them operational.
- SME foundation needs to be made effective and operational to facilitate various services to SMEs of the country, including disbursement of credit under its 'credit wholesaling programme'.

#### **4.3 Budget Proposals related to Capital Market**

- In the national budget of FY09, government had declared its intention to off-load shares of 21 SOEs (9 from power sector, 10 from industrial sector and 2 from telecommunication sector). Because of various administrative and other difficulties, off-loading of all the shares could not be completed in time. Government should fix a timeline to offload shares of the SOEs in the capital market and implement this timeline.
- In view of the large amount of funds required to establish 'Padma Bridge', government may offload bond in the capital market to mobilise a part of required fund.
- In addition to expediting the process of offloading shares of Grameen Phone, Government should encourage other telecom companies to off-load a certain portion of their shares in the capital market.

- In order to encourage non-listed companies to be listed in the capital market, tax rate differentials between listed and non-listed companies should be continued.

#### **4.4 Budget Proposals related to Real Estate, Construction and Housing Sector**

- Government may consider reduction of the rate of stamp duty and other advalorem taxes and charges on sale/transfer of apartment buildings.
- The ban on the import of reconditioned equipments and machinery may be lifted and the import duty on new and reconditioned capital machineries should be reduced.
- All linked industries of the construction sector such as manufacturing of bricks, cement, rods, furniture, paints and tiles should be supported by various policies. AIT, ATV on bricks, iron/steel may be withdrawn in order to reduce the cost of production of these materials. It is to be noted that India has slashed excise duty on bulk cement by 2 per cent in order to boost the cement industry which has had been reeling under the slowdown.
- Government can set guiding rules for land pricing which may vary depending on location. It is important to rationalise land valuation by increasing existing rates to reflect market prices for different locations. Government could also consider rationalising the minimum value of flats and apartments for tax purposes reflecting current market prices and locational variations, and lower the registration fee.
- Government had initiated a number of projects in FY2008 for development of housing facilities for people with limited income in different regions, i.e. Dhaka, Chittagong and Pabna. Implementation of those projects as well as fresh allocation of fund for construction of new projects in other regions should be expedited.
- According to the budget speech of FY2008-09, during FY2008, 1000 flats had been handed over to shelter-less slum dwellers and low income families and 5000 flats were to be handed over to the underprivileged by December 2008. Government should allocate fund for continuation of these initiatives in FY 2010.

## **5. ENERGY, INFRASTRUCTURE AND COMMUNICATION**

### **5.1 Energy**

#### *Electricity*

- To accommodate the load shedding problems many industries have set up their own captive power generation facilities. However, there is a renewal registration fee (Tk. 500 thousand per year) for using generators in the captive power plants which increases cost of production and thus deters reinvestment in other captive plants. By waiving the renewal fee, the government could encourage entrepreneurs to invest in captive power generation.

- Most of the power plants in Bangladesh are very old and worn out and thus operates at less than efficient levels. This manifests itself in large amount of gas wastage in production. Work on complete overhauling of the power plants machineries (nearly 40 power plants with an installed capacity of 1252 MW are more than 20 years old) may be initiated. Allocation may be granted in the ADP of the FY2010 budget for refurbishment of worn-out parts. This may be conducted in a phase by phase manner consisting of maintenance, repair, and re-construction of worn out machineries. Projects targeting refurbishment of other plants also need to be speeded up. Bheramara Power Plant Project has currently been halted due to shortage of gas. The supply of gas may be diverted to Bheramara by shutting down some of the old and worn out power plants.
- Locally delivered finished goods to IPP project or rental power plants could be considered either as deemed export, or zero customs duty should be allowed for imported raw materials which are ultimately used to prepare those finished goods. The government may consider abolishing the 1.5 per cent ATV on import of generators.

Existing foreign and local companies in Bangladesh which are directly involved in Rental and IPP project enjoy advantages of zero customs duty for importing transformers and all sorts of other electrical equipments. However, Bangladeshi companies which supply electrical transformers and other electrical equipments to those companies who are involved in Rental and IPP projects are not being awarded same treatment. However, in India, local companies enjoy zero customs duty advantage or are considered as 'Deemed Export' worthy when they supply goods to the companies related to IPP. Benefit of deemed export is also available for renovation and modernisation of power plants in India.

### ***Renewable Energy***

- Existing customs duty of 3 per cent and ATV of 1.5 per cent on solar panel may be eliminated.
- To promote, in public interest, generation of electricity based on renewable sources, the renewable energy sector ought to be exempted from all duties. Government could consider providing assistance and support for the generation of localised renewable energy and its distribution.

### ***Nuclear Energy***

- Special fund may be allocated for techno-feasibility study on establishment of nuclear power plant.
- Modalities to safely store imported uranium and thorium needs to be identified and studies may be conducted on the techno-economic viability of production at prospective sites.

## **Coal**

- A special fund may be created for the creation of Coal Bangla (Khani Bangla) with a long term strategic focus.

A separate entity is needed to deal with coal exploration, transmission and management issues. Once the coal policy is finalised, which should be done speedily, the Coal Bangla may design a master plan ranging from 5-10 years for coal exploration, and installation of a 2000MW coal-based power plant in the country (as was mentioned in the coal policy master plan). A number of tasks including human resource development and effective regulations need to be completed in this regard.

## **Gas**

- A new allocation in ADP is required for gas exploration, transmission and management.

The latest discovery of gas took place in May 2006 amounting to a paltry 0.44 tcf of gas at Bangura. There has been no major gas exploration effort since 1998 and consequently no major discovery of gas. Regrettably, last year's ADP did not mention about any project that was targeted towards gas exploration.

- It is imperative to install compressors at different points in the gas transport pipeline in order to increase pressure. This will help increase the flow of gas through the pipelines and will enable supply of adequate gas to the power plants, which are now operating at under capacity due to shortage of gas. According to CAIRNS, installing a compressor will extend field life by 15 years.
- A separate cell on National Resource Research wing can be set up under the respective Ministry. A special allocation may be announced for this research cell in the FY2010 budget. The objective of such a cell would be to undertake *3D seismic readings* of the country's geographic surface in order to aid gas, oil, and coal exploration and also to keep tabs on the state of the country's natural reserves.

## **5.2 Infrastructure and Communication**

- New allocation in ADP is required for the project titled "*Integrated Chittagong Port Modernisation Project for the Transportation of Coal*"
- Government should demonstrate openness to the idea of importing coal. In order to do this, the draft of channels at Chittagong port needs to be improved (deepened and widened) so that high tonnage vessels could berth at these ports. This ought to be an integrated program because to facilitate setting up of port-mouth plants, land needs to be identified, coal unloading facilities such as conveyer belts, development of rail-tracks for internal movement and other arrangements need to be made. Government may consider establishing coal based 1000MW power plant by importing coal either from Indonesia or Australia, for the time being and in the mean time explore all

possibilities of using our own coal resources for identifying modalities to exploit the highly potential coal resources of the country.

- Allocation could be made in the ADP for conducting the techno-feasibility study, in terms of “*Establishing Rail Connection through Mongla Port*”. The rail connection will establish a link between the South-West part of the country with Nepal and India as well as other parts of the South Asian region which will subsequently promote regional and global trade. As the project of establishing Padma Bridge is already under progress, in near future both these initiatives could be connected.
- It is urgently necessary to modernise and enhance cold storage facilities at the Dhaka and Chittagong Airports. Due to inadequate cold storage facility for export of perishable goods, essential life savings drugs, pharmaceuticals etc. at the airports, importers/exporters are facing problem in arranging a timely shipment schedule.
- Although ADP funds have been allocated to several ongoing infrastructural projects (e.g. 4 lane Dhaka-Chittagong Express Highway, Jessore-Benapole Highway, Gulistan-Jatrabari Flyover etc.), implementation of these funds need to be expedited.

## **6. SOCIAL PROTECTION, HEATH, EDUCATION AND ENVIRONMENT**

### **6.1 Social Safety Net**

#### ***Cash Transfer (Allowance) Programmes***

- The adverse impact of the ongoing Global Financial Crisis is being increasingly felt by Bangladesh economy. The impact and magnitude of the crisis vary across communities and groups. In this regard, existing social protection allowance for the people who are poor senior citizens, deserted and destitute women, poor lactating mother, orphan children, and ethnic minorities’ persons need to be revisited. These programmes should be strengthened by raising the existing per person allowance by 20-30 per cent and expanding the programme coverage by 20-30 per cent.
- New Poverty Map of 2005 identified poverty prone geographical locations under different categories. More social protection allowance is needed in these areas in support of vulnerable and deprived groups. The Budget for FY2009-10 should introduce new support programmes for these groups of people using the new poverty map as a point of reference. The budget should allocate dedicated funds for such programmes.
- Preparation of lists of beneficiaries for various safety net and allowance programme has often been found to be biased and influenced by local and national politicians. In order to avoid such moral hazard, the government should take initiatives to prepare a fresh and up-to-date beneficiary list in order to support the real deprived and disadvantaged people. Essential allocation needs to be made under the new budget for making this new list. The government may use the National ID card to make the system simple, expeditious and free from nepotistic behaviour.

## **Food Security**

- Government needs to incorporate *Climate Change Refugees* in its food security programmes. In this regard, government may assign Upazila Chairmen of the respective regions to identify the victims of climate change.
- The TR allocation needs to be distributed through local government instead of Members of the Parliament (MPs) to ensure distributional transparency and efficiency.
- To ensure food security, government needs to strengthen its procurement capacity. In this connection, government may establish silos under public-private or donor - government joint initiative at Upazila level.
- Bangladesh may pursue the task of getting funds from *Global Food Crisis Response Program (GFRP)* by World Bank to expand its Vulnerable Group Feeding Programs.

## **Social Empowerment through Micro credit**

- Micro credit programmes offered by the PKSF, Social Development Foundation and NGO Foundation should be more focused on social assistance and target groups that could be empowered with minimum assistance. Micro credit operations under the abovementioned agencies should be revised to allow flexible repayment schedule and fixing maximum interest rate which should range between 0-5 per cent depending on the level of poverty of the prospective beneficiaries.
- The government suffers from lack of manpower and limited physical infrastructure to successfully operate various micro credit programs for the poor. The budget for FY2009-10 should allocate adequate funds for strengthening the institutional capacity (e.g. recruiting new staff) of institutions which are responsible for implementation of such programmes.

## **Special Programme**

- Bangladesh is recognised as one of those countries which are most vulnerable to the adverse impacts of climate change. In view of this, the Tk. 300 crore Fund for Climate Change needs to be effectively utilised. The Fund should be properly allocated among the eighteen ministries covering thirty-seven sectors under the Climate Change Strategies and Action Plan.
- In view of the negative impacts of the Global Economic Crisis on our domestic labour market, the Government may consider re-introducing the Cash for Work Programme under the Ministry of Food and Disaster Management (MoFDM). To this end, appropriate allocations need to be made in the budget for FY2009-10.
- The government should introduce separate employment generation scheme for those women who are the only earning member of the family.

- Violence Against Women (VAW) is a longstanding problem in our social context. Government should allocate separate funds for victims of VAW to help them avail medical and legal support.
- In the past, the government has allocated funds for the welfare of female RMG workers which has tended to remain unutilised. Contributory Provident Fund (CPF) for garment workers may be introduced with an equal amount of contribution from the government and the company. The amount to be paid by the company as CPF may be accorded tax free status.

## **6.2 Health**

- Although urbanisation is one of the indicators of development, rapid growth in developing countries such as Bangladesh has created the problem of increasing number of urban slums which regularly struggle for basic health care facilities, especially lack of safe drinking water, sanitation, hygienic environment, primary treatment facilities etc. Government may consider a Special Health Care Service Improvement Fund/ Urban Slum Medical Centre for Urban slums in major cities.
- Both institutional capacity and delivery systems of public health care systems, especially in the rural areas in Bangladesh are very poor. There is a lack of qualified doctors, medical assistants, trained health workers, beds and medical equipments in almost all public hospitals and health complexes in the country. Allocations should be made for the improvement and reform of the institutional capacity and delivery systems of public hospitals and thana/upazilla complexes.
- Qualified modern practitioners are only a small proportion of the entire workforce and they are predominantly available in the urban key points. Apart from some charity activities, rural people are deprived from quality health services. Government should introduce Additional Incentives (both monetary and in kind) for qualified medical practitioners to go to and serve in the rural areas.
- Tax exemption for equipments for disabled people (e.g. wheel chair) is still limited. Government may consider reducing the duty on import of these items.
- VAT on physiotherapy services for disabled people may be exempted to reduce cost of medical support for this particular group of people.

## **6.3 Education**

- In line with the government's election pledge, provision should be made for enhancing primary teachers' salary scale. Two measures can be taken: (i) offer a higher salary scale and special incentive (monetary or in-kind) for head teachers who meet specific qualifications and requirements, and (ii) provision should also be there to raise the general level of teachers' salary (from current grade 15 to grade 12) subject to meeting specific qualification and performance criteria.
- At the secondary level, there is acute shortage of qualified math, science and english teachers. Budget provision should be made to appoint teachers (in selected 200 rural

schools on a pilot basis) with specified academic qualifications and selected through a rigorous test. To attract well-qualified people, government may introduce contractual appointment for up to five years at a sufficiently higher salary level. Such prospective teachers may also be recruited on a part-time basis, e.g. 20 hours of instruction per week, and the opportunity should be open to people who may currently be engaged in other professions or have retired from their profession.

- The quality of education in our colleges is extremely poor. On the other hand, these colleges train the prospective teachers for the primary and secondary levels. Therefore, proper attention needs to be given to upgrade the quality of education in the colleges. Budget provision should be made for introducing a phased programme to improve the situation regarding teacher appointment, teacher student ratio, library and lab facilities, classrooms and student dormitories, etc. Such programme in at least 100 selected colleges should begin this year. With proper assessment of this experience, this can be extended to all colleges in the next 3-5 years.
- Quality of overall education system in poverty prone and geographically disadvantaged areas is very poor. In order to address the special needs of remote areas such as *haors* and *chars*, area based specially designed educational system should be initiated.
- Education facilities in most of the Public Technical and Vocational Education Training (TVET) Institutions are out dated. However, if Bangladesh is to compete in the international market for manpower export, special attention needs to be given to create skilled manpower. To this end, government should allocate adequate fund to modernise TVET institutions and establish more TVET institutions considering both domestic and international manpower demand.
- The budget for FY2009-2010 should allocate specific fund to provide primary school students with a nutritious mid-day meal in selected areas in each Division, with the aim of gathering experience to expand it nation-wide over the next two to three years.
- Every year, more and more schools are being brought under the Monthly Pay Order (MPO) scheme. However, no assessment has been conducted whether the MPO receiving schools are compliant with the terms and conditions of the scheme. The budget for FY2009-2010 should include the provision that every beneficiary school will undergo rigorous assessment within six months, and incidences of non-compliances will result in cancellation of the MPO.
- An e-Education Cell can be created under the Prime Minister's Office (PMO) for coordinating and mainstreaming ICTs in education system so that it is at par with the global demand for quality human resources. This cell will coordinate with focal points in the relevant Ministries.
- In order to avoid the complexities with regard to distribution of text books to children in time, the government should direct NCTB to publish all the text books on the web. This initiative would allow schools to start classes at the right time by taking print outs of initial chapters of the relevant textbooks from the website. This would also create pressure on the book publishers to print and distribute the books within the scheduled time.

- Special stipend programme should be introduced for children from low income families going to universities.
- The budget may introduce a Tk.250 per child stipend scheme for those government staff (belonging to the lowest seven pay grades) having upto two children. The stipend will be given during the child's/children's secondary and college level education.

#### **6.4 Environment**

- Different parts of effluent treatment plants (ETP) are treated as separate component and customs authorities charge duty for each items separately and independently which increases the overall cost. It is necessary to consider all parts of ETP, whether imported together or separately from different sources, as an integral part of a whole machine and these should be provided with duty-free import facility.
- Old transport vehicles emitting carbon should be penalised. A carbon tax could help discourage them to run on the roads.
- The *Polluters Pay Principle* is a useful strategy to take actions against polluting and non-compliant industries. A pollution tax or *Green Tax* of 5 per cent may be levied on all inorganic waste generated by different industries, particularly if ETPs are not installed within the stipulated period.
- Industries may be provided soft loans for investment in pollution prevention and pollution control equipments. This may be done through support from Equity and Entrepreneurship Fund (EEF).
- Government may allocate funds for SMEs to encourage and promote clean production technology for those units which lack adequate funds to do so.
- Government could make it mandatory for the recipients of funds from various stimulus packages that all expenditure from these packages have to be environment friendly.

### **7. DEVELOPMENT ADMINISTRATION AND DELIVERY MECHANISM**

#### ***ADP: Size, and Raising Implementation Quality***

ADP remains a major source of investment in Bangladesh. As a consequence, it is true that increase in public expenditure has not been matched by improved quantitative and qualitative monitoring of the ADP. In recent years both the pace of implementation and the quality of implementation of the ADP has come under close scrutiny. There is always a tension between keeping the size of ADP low to ensure higher percentage of aid utilisation, and keeping the ADP relatively high but risking lower pace of disbursement. In view of the ongoing global economic crisis, there is a need this year to go for larger

public investment to stimulate domestic investment. Although this could entail higher budgetary deficit, higher allocation for ADP for the FY2009-10, along with a renewed effort to raise the pace of disbursement and quality of implementation appears to be the required strategy for the upcoming budget. This will be a challenging task to accomplish.

The following strategies could be considered:

- Prepare Project wise action plans for timely completion of all the ongoing projects. These action plans should be prepared by the respective project authorities and to be approved by the head of their implementing agencies. As these projects have already been duly approved by the competent authorities, these action plans should not require further approval of any higher authority, like ECNEC or Planning Commission.
- These action plans should take into account the current status of implementation and should take a realistic view on what could be achieved during the remaining period of the project with the available resources. Due regard should be given to the available capacity in the project for implementation.
- The plan should clearly spell out time bound monitorable actions and identify authorities responsible for implementation. Activities which are not implementable during the tenure of the project and are not of high priority may be dropped and resource allocated for those may be suitably surrendered or reappropriated.
- The plan should give special attention to the procurement of goods and services and provide specific time bound actions for meeting the procurement requirements of the project.
- The manpower requirements of the projects as per Development Project Proposals (DPP) should be fulfilled, vacant positions should be filled up immediately, specially the position of the Project Director (PD). Full time project director should be made available to all projects, unless DPP provides the deployment of a part time project director.
- Each action plan should be prepared by the respective project authorities through a process of consultation with all the major key players involved in the implementation of the projects. Enhancing as far as possible the role of the local governments in the implementation of these action plans is also important.
- Funds allocated for local governments such as Upazilla and Union Parishad in the ADP may be released upfront preferably in the first quarter of the FY, with first two quarters at a time so that these bodies can draw development schemes and start implementing them from the first quarter of the financial year. These schemes should be developed through local level planning in consultation with local stakeholders. Such schemes should be approved locally by the Upazilla Parishad and should not require any approval or concurrence from any authority at Dhaka or at district head quarters.
- The implementation of these action plans should be started as early as possible, preferably from the beginning of the next financial year.

- A realistic monitoring mechanism may be designed for overseeing the timely implementation of these action plans. Where feasible, the stakeholders outside the project, including the local government bodies, may be appropriately associated in the monitoring process.

For successful implementation of these action plans, availability of resources will not be a problem as they relate to approved ongoing projects for which resources have already been committed and in many cases budgeted through the Medium Term Budgetary Framework (MTBF). What will be needed is the strong ownership of the line ministries or implementing agencies. The top leadership in the government should see to it that such ownership does exist.

- *Procurement Policy:* Whilst the 2006 Procurement Policy has addressed a number of key concerns, in recent years this policy has come under increasing criticism because of delays involved with compliance. The government has set up the Central Procurement Technical Unit (CPUT) to improve the public procurement policy in Bangladesh. The government is at present reviewing the policy with a view to expediting the procurement process. However, this should not be done at the cost of compromising the weaknesses suffered by earlier system (e.g. poor specifications, non-disclosure of selection criteria and rebidding without adequate grounds). The review work should be completed as soon as possible.
- Over centralisation and bottlenecks in fund release will need to be addressed. A common policy could be that once included in the ADP the projects should not require further approval by other agencies.
- Investment in energy generation should be given priority given its critical importance. Appropriate allocation will need to be made in the budget. Special monitoring mechanism will need to be developed for this sector. Synchronisation of various steps involved is important in this context. Finalisation of coal policy, exploitation of coal resources and coal-based electricity generation needs to be given priority in this context.
- An incentive based program may be undertaken, where divisions or departments with successful completion of projects will be given priority in fund allocation.
- The IMED should be strengthened substantively to ensure that implementation is adequately monitored, both in quantitative and qualitative terms. At present a technical assistance programme is in place to strengthen the IMED with support from the ADB and the Japan Government. The idea of establishing a result-based monitoring and evaluation knowledge management, training and research is being discussed along with further strengthening of human resources, as part of this capacity building project. Result-based monitoring (RBM) should be an integral part of IMED activities. Relevant staff of key line Ministries should also be adequately trained in RBM.
- Modalities will need to be developed to involve local governments in both design and formulation of projects and monitoring of their implementation. Dedicated committees may be constituted with participation of government officials, and

representatives of beneficiaries and experts to monitor quality of implementation in key result areas and timeliness of implementation, particularly for major projects.

- Problems related to land acquisition, displacement, rehabilitation and resettlement often lead to delays in project implementation. There is an obvious need for striking a fair balance between the need for land for development purposes and taking care of those whose land is acquired. In view of this, there is a need to promote rehabilitation and resettlement policies with least displacement alternatives and putting in place adequate rehabilitation packages.

## **8. A NOTE ON PUBLIC PRIVATE PARTNERSHIP (PPP) BUDGET**

Historically it has been the primary responsibility of governments to finance and develop infrastructure projects through budgetary allotments. However, ever increasing demand for infrastructure and increasingly limited access to resources has had motivated the public sector to turn to the private sector to provide financial resources, innovative practices and technical expertise.

The Finance Minister has mooted the idea of introducing a PPP component in this year's budget; this idea was also mentioned in the recently announced stimulus package document. While a PPP component in the budget will be a new initiative for Bangladesh, PPP led projects operating in infrastructure building particularly in power generation (i.e., 330-450 MW combined cycle power plant at Bibiyana) through IPP has already been there for sometimes now. A number of countries have such initiatives in place. Over 30 countries around the world are engaged in such partnerships, a majority which are developed economies. Advanced developing countries including China, Brazil, Chile, South Africa and, to some extent, India are also involved.

Typical sectors where PPP's have been applied include:

- Transport
- Roads, Bridges and Railways
- Power and Energy
- Telecommunications
- Water Supply, Sanitation and Development
- Water Resources
- Civil Aviation

Most of the countries, however, have tended to go for PPPs in transport and transport related infrastructure projects, at the initial stages of such partnerships. Starting off with transportation infrastructure projects, *Korea* has gradually expanded such partnerships into schools, hospitals, and housing projects. Public-private partnerships in *Spain* mostly focused on transportation (PPP is set as a key component in the 2005-20 transportation plan of Spain). The *French* government concluded a 62-year concession contract with ALIS (Autoroute de Liaison Seine-Sarthe) to design, build, finance and operate a 125 km motorway in the northwest of France. The motorway opened in late 2005. In addition, the

French government had announced 35 PPP projects in transport, health, prison, public zoo and other public service sectors. Several municipalities in *Germany* use PPPs to deliver local government services. *Portugal* has extensively expanded partnership projects across various sectors. With a ratio of between 1.2 per cent and 1.3 per cent of GDP, Portugal has the highest PPP-to-GDP ratio in Europe (nearly double the UK ratio of between 0.6 per cent and 0.7 per cent). As a result of the major focus being on large transportation projects, Portugal also initiated PPP projects in water and waste management. Apart from transportation projects, *Ireland* has seen several water and waste projects under this arrangement. The Irish government also announced PPP deals in prisons, courts, and the health and education sectors. In *Italy*, PPP projects focus especially on transportation, but there are also projects in such sectors as health, water and central accommodation.

In *Australia*, the largest toll road has been constructed based on PPP; it includes a 40 km road in Melbourne. Other projects include the Sydney Harbour Tunnel, the M2, M4 and M5 motorways, the Eastern Distributor, the Western Sydney Orbital and the Lane Cove Tunnel. *Turkey* experienced some obstacles in implementing its PPP, especially in the energy sector, primarily due to a constitutional clause that prevents ownership transference of natural resources to any entity, public or private. Inadequate legal framework and unsupportive political support are the other reasons which were identified to have hindered PPP implementation in Turkey. *India* has also used PPP route in certain activities, mostly in infrastructure and power projects.

### **Framework Requirement**

One of the most common elements of all governments that have undertaken PPP's is to set up a formal partnership framework both in terms of institutional set up and legal framework.

#### ***Institutional and policy framework***

The general experience is that it is mainly the line ministries which initiate PPPs. However, a number of countries have established dedicated centres or departments to assist in PPP related matters. Even in the Asian region, a number of PPP centres are in existence. These include:

- Philippines BOT Centre
- PICKO – Established at Korea Research Institute for Human Settlements

As a starting point when developing a PPP programme, government must clearly identify what to achieve from the PPPs. Government also must be fully committed and be ready to accept the inevitable consequences that PPPs will trim down and modify the role of government in the deliverance of public services. However, since citizens as a result get better services, the political dividend in the ultimate analysis is accrued to the government.

Government's PPP plan ought to be formulated within the following framework of goals:

- Reduce the cost and risk faced by government in providing services/infrastructure by transferring these responsibilities to the private sector;
- Monitor the quality of the service/ infrastructure being delivered;
- PPPs must focus on profit (Value for Money) to encourage private sector participation; and
- Ensure that any PPP is in the public interest.

### ***Legal Framework***

It is necessary to develop legal set up to allow PPPs to be in place and function in the long run. Appropriate legislation will be needed in order to provide the private sector the necessary legal coverage to finance, build, operate and collect tolls or service payments from PPP projects.

For example, Korea has provided the required legal support with the “Act on Private Participation in Infrastructure (2002)”. In Ireland, the legal coverage has been provided through State Authorities (Public Private Partnerships Arrangements).

Appropriate and adequate legislative framework is a necessary pre-requisite for PPPs to be successful. PPP initiatives in countries with incompatible legal framework had failed to deliver the desired outputs. China and Turkey have faced such difficulties and efforts have been initiated by their respective governments to help overcome these obstacles.

### **PPP and National Budget for FY2009-10**

As seen from the country experiences in implementing PPPs, prerequisites of successful partnerships are adequate legal and institutional set up. These will need to be put in place. The following proposals may be considered by the government:

- A time bound plan should be prepared to establish legal and institutional framework (e.g. PPP authority) to assist PPP projects which are included in the PPP budget. Adequate fund allocation should be made in the budget for FY2009-10 to this end.
- A high level committee with private sector representation may be constituted to come up with an action plan to implement the PPP budget.
- Infrastructure Investment Facilitation Centre (IIFC) could assist the government in identifying potential projects and formulating PPP frameworks for individual projects.

It is reckoned that a good approach would be to start with a reasonably small PPP budget. With regard to initiation of projects, documents will need to be developed to assist in partnership formulation and to define procedural guidelines in project activities. As every project is unique in its features, standardisation in full perhaps is not possible and cannot necessarily be applied in all PPPs. However, it is necessary to identify the amount and

type of minimal information that needs to be included in every PPP project. Besides, a standardised PPP agreement matrix may be developed. This could reduce administrative costs and time for project development, which can sometimes constitute a significant part of total project costs and duration. Possibility of developing other standardised documents should be examined. Documentation regarding procurement could serve as a reference point with all its strong points and also the subsequent weaknesses that were observed.

## **9. MITIGATING ADVERSE IMPACT OF THE GLOBAL FINANCIAL CRISIS**

- Deficit financing could contribute towards higher growth, albeit with a cost in terms of higher inflation. To tackle the potential deceleration in growth during FY2009-10 as a consequence of global economic slowdown, the government should be ready to go for higher deficit (which may be around 5 per cent of GDP), taking advantage of the current decline in inflation rates which is expected to sustain in near future. In this connection, government should consider foreign financing as an important source because of the non-inflationary nature of this particular source (in the budget for FY2008-09 ratio of foreign and domestic financing to meet the deficit was 44.4: 55.6). If the government borrows more from domestic sources the availability of private credit may be crowded out which may have impact on government's effort to increase economic activities during the period of economic slowdown.
- Government has announced an additional support of Tk. 450 crore for export-oriented industries as cash compensation on top of the allocation of Tk.1050 crore in FY2008-09. Under this package most of the affected industries will get additional cash incentives: jute products (10 per cent), leather and leather goods (17.5 per cent), shrimp and frozen fishes (12.5 per cent). These benefits will continue in FY2009-10 as well. Government should ensure timely payment of these benefits to exporters of all affected industries
- An *Export Stabilisation Fund* could be established, which will be of time-bound nature, to provide credit support to sectors which have been adversely affected by the crisis. Any fund created to ensure credit availability with lower interest rates and extended repayment period should be subject to strict monitoring. Provisions should be made so that repayment cannot be delayed and opportunities for borrowers to take recourse to court action involving repayment are restricted.
- Considering the increasingly important role of the SMEs in the domestic economy (in terms of employment generation and increased contribution to exports), a *crisis management fund* for SMEs may be established to mitigate adverse impacts of global financial crisis. This could be in addition to the Tk. 500 crore SME Fund which is being operated by the Bangladesh Bank (BB).
- An amount of Tk 1,050 crore was kept in the budget for FY2008-09 as export subsidy for 13 export-oriented industrial products. In view of the need to enhance the competitive strength and lower the costs of doing business in the country, this cash compensation scheme (CCS) should continue in FY2009-10 and, in some cases, be further enhanced. Cash subsidy of 5 per cent for backward linkage domestic textile

industry may be increased to 10 per cent, in view of the fact that domestic cotton yarn manufacturers are facing increased competition from Indian yarn. This will also help forward linkage export oriented RMG sector.

- At the same time, timely disbursement of the subsidy needs to be ensured. Immediate steps are required to release the arrear of cash subsidy as per the decision of the government in the context of the stimulus package.
- As in India, support may be put in place for exporters to new markets (e.g. Japan, East Europe) against additional export (perhaps in the form of a certain percentage of incremental export).
- Returning workers may be provided soft loan from *Foreign Workers Welfare Fund* to help them tide over bad times and for the purposes of lending money and help start businesses of their own. The initiative of establishing the “*Probashi Bank*” should be geared up.
- Efforts should now be strengthened so that Bangladesh is able to cater to the needs of new markets for migrant workers in the developed countries, particularly in caring services, nursing, medical technicians, etc. To this end, a time-bound plan should be put in place so that workers willing to travel abroad have the opportunity to undergo skill upgradation training. Quick implementation of such training programmes will be particularly important to take advantage of the global recovery and consequent demand enhancement for migrant workers, which is expected to begin in the later half of 2010. Willing learners should have access to loans to travel abroad.