Independent Review of Bangladesh's Development (IRBD)

বাংলাদেশের উন্নয়নের স্বাধীন পর্যালোচনা

An Analysis of the National Budget for FY2016-17

Dhaka: 3 June 2016

CENTRE FOR POLICY DIALOGUE (CPD)
BANGLADESH
a civil society think tank

www.cpd.org.bd

CPD IRBD 2016 Team

Dr Debapriya Bhattacharya, Distinguished Fellow, CPD and *Professor Mustafizur Rahman*, Executive Director, CPD were in overall charge of preparing this analysis as the Team Leaders.

Lead contributions were provided by *Dr Khondaker Golam Moazzem*, Additional Research Director and *Mr Towfiqul Islam Khan*, Research Fellow, CPD.

Valuable research support was received from *Mr Kishore Kumer Basak,* Senior Research Associate; *Mr Md. Zafar Sadique,* Senior Research Associate; *Ms Umme Shefa Rezbana,* Senior Research Associate; *Mr M Shafiqul Islam,* Additional Director Admin. & Finance; *Mr Faiyaz Talukdar,* Visiting Research Associate; *Ms Shahida Pervin,* Research Associate*; Mr Mostafa Amir Sabbih,* Research Associate; *Ms Refaya Rashmin,* Research Associate; *Mr Estiaque Bari,* Research Associate, *Mr Mahtab Uddin Ahmed,* Research Associate; *Ms Lam-ya Mostaque,* Research Associate; *Mr Muntaseer Kamal,* Research Associate; *Mr Shashish Shami Kamal,* Research Associate; *Mr Ashraful Haque Mahfuze,* Research Associate; *Ms Sherajum Monira Farin,* Research Associate; *Mr Uttam Kumar Paul,* Deputy Director, Accounts; *Mr Md. Shamimur Rohman,* Senior Accounts Associate; *Mr Muhammad Zillur Rahman,* Accounts Associate; *Ms Ummah Salma,* Programme Associate; *Mr Zareer Jowad Kazi*, Programme Associate; *Mr Ehsanur Rauf Prince,* Programme Associate; and *Ms Tasneem Sultana*, Research Intern, CPD.

Mr Towfiqul Islam Khan was the Coordinator of the CPD IRBD 2016 Team.

Acknowledgement

The CPD IRBD 2016 Team would like to register its sincere gratitude to Professor Rehman Sobhan, Chairman, CPD for his continuing advice and guidance.

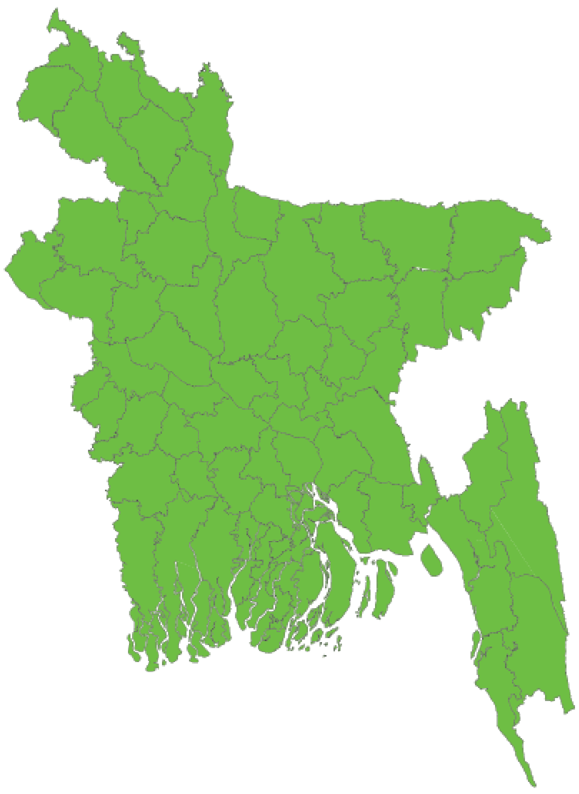
The Team gratefully acknowledges the valuable support provided by *Ms Anisatul Fatema Yousuf*, Director, Dialogue and Communication Division, CPD and her colleagues at the Division in preparing this report. Contribution of the CPD Administration and Finance Division is also highly appreciated. Assistance of *Mr A H M Ashrafuzzaman*, Deputy Director (System Analyst) and *Mr Hamidul Hoque Mondal*, Senior Administrative Associate is particularly appreciated.

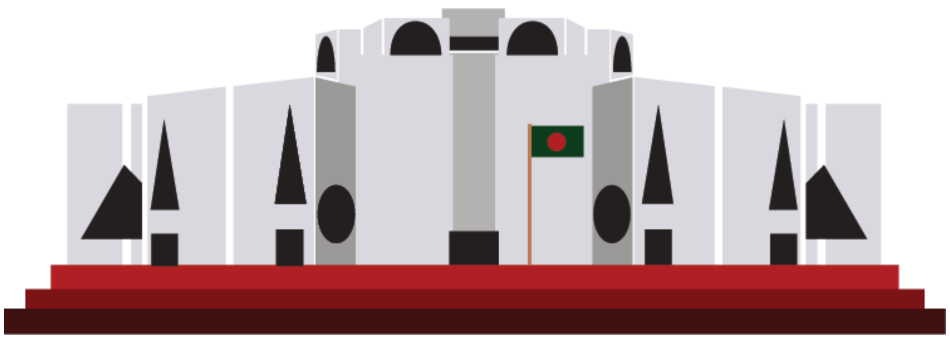
Concerned officials belonging to a number of institutions have extended valuable support to the CPD IRBD 2016 Team members for which the Team would like to register its sincere thanks.

The CPD IRBD 2016 Team alone remains responsible for the analyses, interpretations and conclusions of this presentation.

Contents

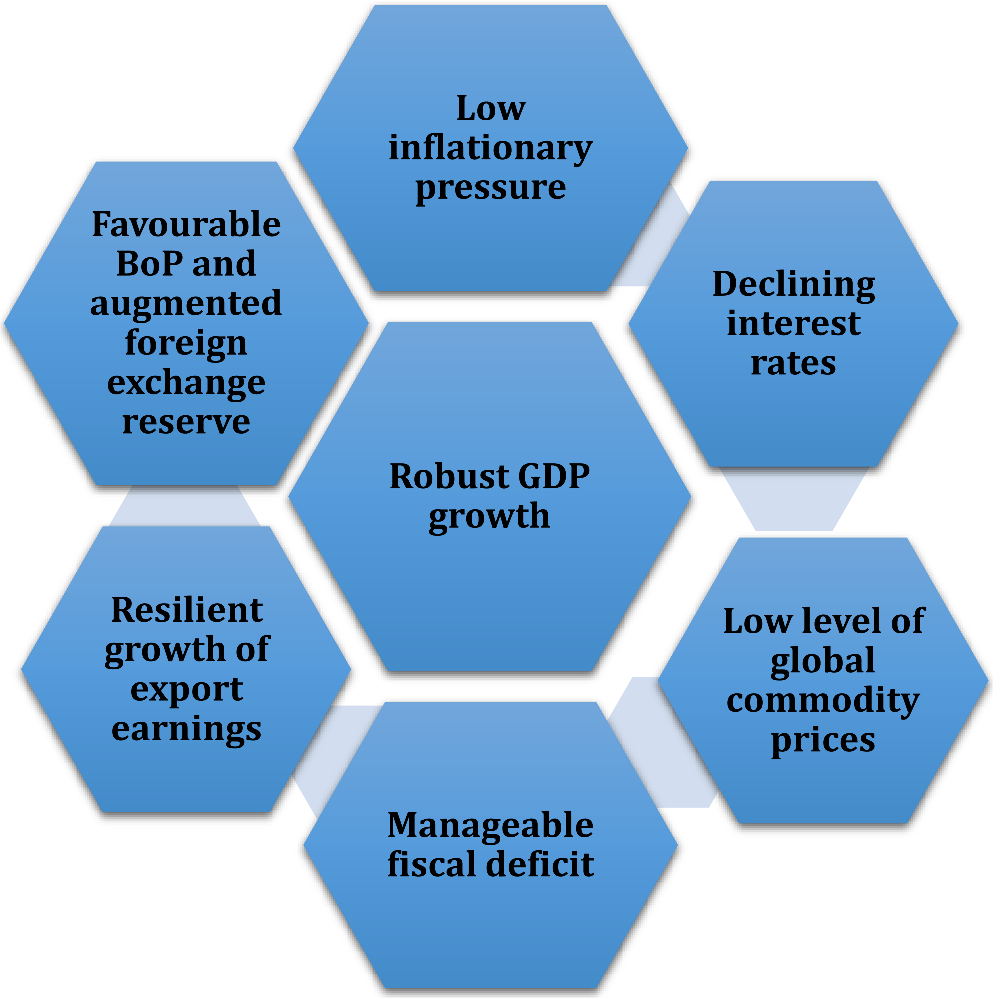
I. CONTEXT OF THE BUDGET
II. MEDIUM TERM OUTLOOK
III. PUBLIC FINANCE FRAMEWORK
IV. FISCAL MEASURES
V. SECTORAL MEASURES
    a. AGRICULTURE
    b. INDUSTRY
    c. OIL, GAS AND ELECTRICITY
    d. DEFENCE
    e. PUBLIC ORDER AND SAFETY
    f. ENVIRONMENT
VI. SOCIAL SECTOR
    a. EDUCATION
    b. HEALTH
    c. GENDER
    d. CHILD AND SENIOR CITIZEN
    e. SOCIAL SECURITY
VII. LOCAL GOVERNMENT
VIII. REFORM MEASURES
IX. CONCLUDING REMARKS

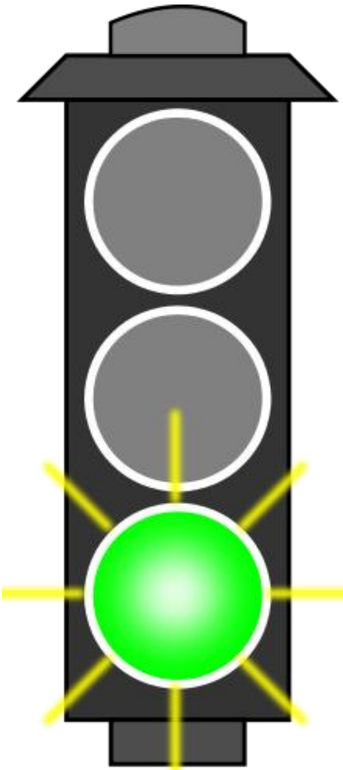




I. CONTEXT OF THE BUDGET

I. CONTEXT OF THE BUDGET





Comfortable macroeconomic environment

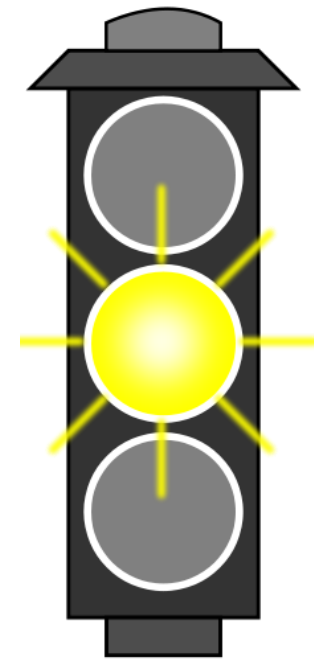
I. CONTEXT OF THE BUDGET

Nominal exchange rate remained stable but made gains against currencies of Bangladesh's major competitors which led to some erosion of export competitiveness

Rising non-food inflation has led to some discomfort

Rice output may decline albeit only marginally, but low returns from cultivation remain a concern, while delayed delivery of policy support did not help much

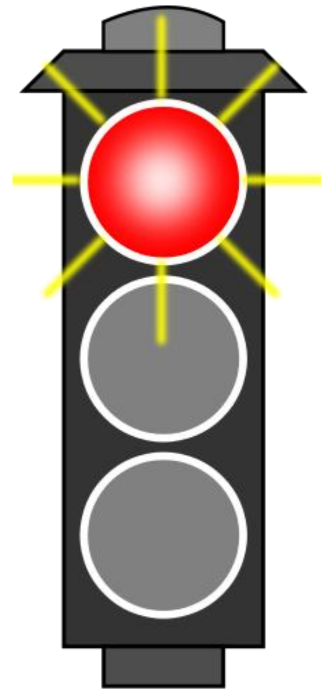
Overdue rationalisation of oil prices favoured the richer sections – a surprise!



Mixed performance evinced through a number of macroeconomic correlates

I. CONTEXT OF THE BUDGET

- **Sluggish private investment**
- **Low job creation including reduction in employment in manufacturing sector**
- **Poor fiscal planning creating credibility gap**
- **Domestic borrowing biased financing mix of the budget deficit**
- **Unachieved tax revenue target and overall poor revenue generation**
- **Weak ADP implementation including project aid**
- **Persistent weakness in establishing good governance in the financial sector**



Inability to take advantage of current macroeconomic stability in favour of investment-employment friendly GDP growth

I. CONTEXT OF THE BUDGET

- **Budget FY17 has been presented at a time when:**
  - Accelerating economic growth, reducing poverty, and creating higher employment opportunities are required to implement the 7th Five Year Plan
  - Formulation of action plan to implement the SDGs is underway and this would call for reflections from the national budget perspective
  - A need for formulating LDC graduation strategy as Bangladesh is well positioned to graduate from the group in next eight years or so

- **The objectives of the budget for FY17 appear to be:**
  - High growth of revenue targeted for underwriting overreaching expenditure
  - Harmonisation of taxes and tariff in line with the new VAT and SD Act 2012
  - Higher allocation for building physical infrastructure to enhance capacities
  - Enhanced allocation for social sector

I. CONTEXT OF THE BUDGET

❑ **CPD analyses as regards FY17 budget have been undertaken in view of:**

- ✓ Sustainability of the current macroeconomic model
- ✓ Soundness of fiscal framework including alignment with the mid-term plan and past trends
- ✓ Pros and cons of proposed changes in fiscal measures
- ✓ Appropriateness of revealed allocations for different sectors
- ✓ Sensitivity to social groups (e.g. gender, child and senior citizens)
- ✓ Regional economic balance (particularly in the context of local governments)
- ✓ Follow-up on major economic reform agenda to enhance budget implementation capacity

❑ **Concludes with a set of summary observations**

I. CONTEXT OF THE BUDGET

❑ Five criteria for assessing the FY17 budget has been deployed to assess the efficacy of the recent budget experiences:

1. **Clarity and credibility** - Was the budget designed within clear and credible limits of fiscal policy?
2. **Alignment with medium-term priorities**- Was the budget closely aligned with the medium-term strategic priorities of government?
3. **Effectiveness of development budget framework-** Does the **development budget** framework meet the national development needs in a cost-effective and coherent manner?
4. **Justifying the allocations-** Did the budget present a comprehensive, accurate and reliable account of public finances?
5. **Quality of prospective management and monitoring plan-** Is there a concrete plan to manage and monitor commitments made in the budget?

II. MEDIUM TERM OUTLOOK

II. MEDIUM TERM OUTLOOK

- The GDP growth target for FY17 has been set at 7.2% (7.05% in FY16, provisional)
- Moderate improvement in GDP growth and public investment forecasted
  - Private investment as a share of GDP (23.3%) is expected to rise by 1.5 percentage points
- An additional (approx.) Tk. 80,000 crore private investment will be required in FY17
- ICOR is expected to rise (decline in capital productivity) in FY17
- Inflation is expected to decline to 5.8%

Growth, Investment and Inflation

Indicators	FY15 (A)	FY16 (B)	FY16 (R)	FY17 (B)	FY18 (T)	FY19 (T)
GDP growth (%)	**6.6**	**7.0**	**7.1**	**7.2**	**7.4**	**7.6**
Investment (as % of GDP)	**28.9**	**30.1**	**29.4**	**31.0**	**31.8**	**32.7**
Private (as % of GDP)	22.1	22.8	21.8	23.3	24.0	24.7
Public (as % of GDP)	6.8	7.3	7.6	7.7	7.8	8.0
ICOR	4.4	4.3	4.1	4.3	4.3	4.3
CPI inflation (%)	**6.4**	**6.2**	**6.2**	**5.8**	**5.6**	**5.5**

- Budget speech mentions that during 2010-2015, 47 lakh people joined the labour market of which 98% found jobs in the domestic market
- However, it has not been mentioned that between 2013 and 2015 pace of additional jobs creation slowed down considerably – from about 13 lakh per annum between 2010-2013 to about 3 lakh between 2013-2015 (Jul-Sep)

Independent Review of IRBD Bangladesh's Development

II. MEDIUM TERM OUTLOOK

- ❑ Both revenue and total expenditure (as % of GDP) to grow in FY17 by about 2.1 percentage points
- ❑ Reliance on domestic sources in financing budget deficit – led by bank borrowing
  - ➢ after small reduction in FY17, is expected to be maintained in FY18 and FY19

Fiscal Framework (as % of GDP)

Indicator	FY15 (A)	FY16 (B)	FY16 (R)	FY17 (B)	FY18 (T)	FY19 (T)
Revenue	**9.6**	**12.1**	**10.3**	**12.4**	**12.7**	**13.1**
NBR Revenue	8.2	10.3	8.7	10.4	10.6	10.9
Non-NBR Revenue	0.3	0.3	0.3	0.4	0.4	0.4
Non-Tax Revenue	1.1	1.5	1.3	1.6	1.7	1.8
Expenditure	**13.5**	**17.2**	**15.3**	**17.4**	**17.6**	**18.0**
of which, ADP	4.0	5.7	5.3	5.6	5.9	6.1
Budget Deficit	**3.9**	**5.0**	**5.0**	**5.0**	**4.9**	**4.9**
Domestic Financing	3.4	3.3	3.6	3.1	3.4	3.4
of which, Banking	0.0	2.2	1.8	2.0	2.2	2.2
Foreign Financing	0.5	1.8	1.4	1.9	1.5	1.5

II. MEDIUM TERM OUTLOOK

- Public debt as % of GDP is at a reasonable state for Bangladesh – may increase insignificantly in FY17 largely due to rise in domestic debt
  - Currently about 57% of the public debt is attributable to domestic source and 43% to foreign finance
  - The composition is expected to change further – by FY19 about 63% of the total debt will be incurred from domestic sources
- Government needs to use low-cost borrowings – this is not the case in recent years
- Interest payment for domestic debt has already risen substantially
- Debt servicing for borrowing for large infrastructure projects may put further pressure in future

Public Debt (as % of GDP)

Indicators	Actual			Budget	Revised	Projection		
	FY13	FY14	FY15	FY16	FY16	FY17	FY18	FY19
Total Debt	36.6	35.9	31.9	35.0	33.9	34.5	35.0	35.6
Domestic	20.0	20.3	18.2	20.2	19.2	20.4	21.3	22.3
External	16.6	15.6	13.6	14.8	14.7	14.2	13.6	13.3

II. MEDIUM TERM OUTLOOK

- A stable monetary and external outlook is expected over the next three years
- Growth of credit to private sector is moderate compared to the target for private investment growth (21%) for FY17
- Export growth is projected to be same as FY16 (10%) – a reasonable target!
- Remittance inflow is expected to bounce back and grow at 10% in FY17 – some recovery from stagnant performance is expected in view the recent upsurge in outflow of Bangladeshi migrant workers.
  - However, attainment of the projected growth may be challenging

Monetary and External Sector (% growth)

Indicator	FY15 (A)	FY16 (B)	FY16 (R)	FY17 (B)	FY18 (T)	FY19 (T)
Money Supply (M2)	12.4	16.5	15.0	15.6	15.6	15.7
Domestic Credit	10.0	17.9	15.5	15.6	16.1	16.1
Private Sector Credit	13.2	16.0	14.8	15.0	15.0	15.0
Export (growth in %)	3.3	12.0	10.0	10.0	12.0	12.0
Import (growth in %)	4.5	11.5	9.0	11.0	12.0	12.0
Remittances (growth, %)	7.5	10.0	3.0	10.0	11.0	11.0

III. PUBLIC FINANCE FRAMEWORK

III. PUBLIC FINANCE FRAMEWORK

- **Revenue** (36.8%) projected to grow **faster** (to collect additional Tk. 65,351 crore) than **public expenditure** (28.7%) which will spend additional Tk. 76,040 crore -
  - Total budget expenditure is set at 17.4% of GDP (15.3% in RBFY16)
  - Revenue income will be 12.4% of GDP (10.3% in RBFY16)
- **Development expenditure** (22.0%) programmed to **grow slower** than non-development revenue expenditure (25.7%) – impact of full implementation of pay scale!
- **ADP**: 32.5% of total public expenditure (34.4% in the RBFY16)
- **Budget deficit** has been projected at **5.0%** of GDP (same in RBFY16, actual may be about 4.5% of GDP)
- Balance in financing budget deficit will be corrected, if implemented –
  - **High foreign financing** target (45.3% growth over the RBFY16) has been set with anticipated **gross foreign aid flow** of **USD 5.7 billion (highest in history – USD 3.1 billion in FY15)**
  - Government's **net bank borrowing** will **increase** by only 22.9%
- **Implementation of the proposed fiscal framework is challenging!**

III. PUBLIC FINANCE FRAMEWORK

❑ The quality of fiscal planning remained weak over the last four years - the weakest programming among all the indicators is net foreign borrowing

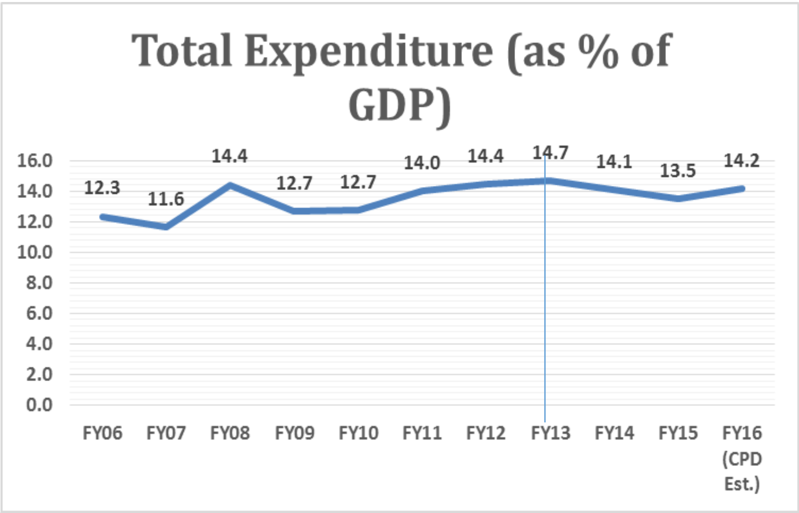
Fiscal projection gap as percentage of budget (%)

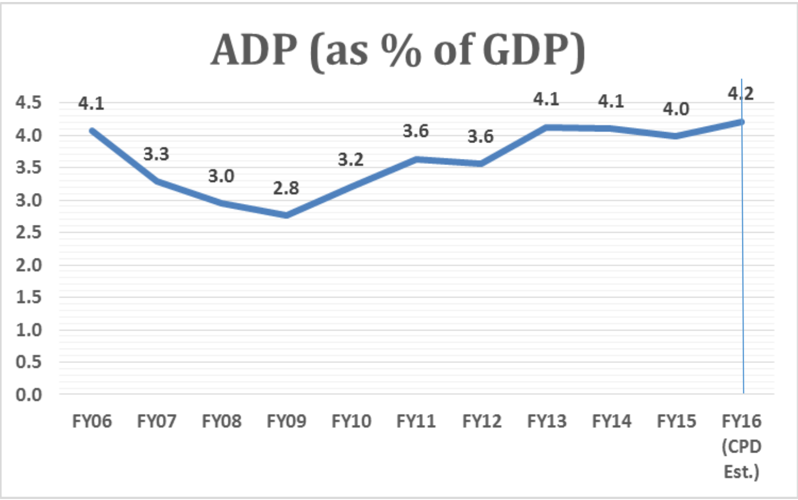
Indicators	FY09	FY10	FY11	FY12	FY13	FY14	FY15
Total Expenditure	**10.6**	**10.7**	**3.0**	**8.3**	**9.1**	**14.6**	**18.7**
ADP	24.1	16.2	13.6	22.8	10.8	22.0	25.8
Total Revenue	**6.9**	**4.5**	**-0.2**	**3.9**	**7.8**	**15.4**	**20.2**
NBR Revenue	7.9	2.6	-5.4	0.3	7.9	17.7	17.2
Deficit	**19.1**	**25.2**	**10.3**	**19.8**	**12.8**	**12.1**	**14.6**
Net Foreign Borrowing	64.0	30.4	75.7	89.8	50.4	77.3	75.6
Net Domestic Borrowing	-17.8	23.0	-29.2	-13.3	4.4	-25.2	-18.0

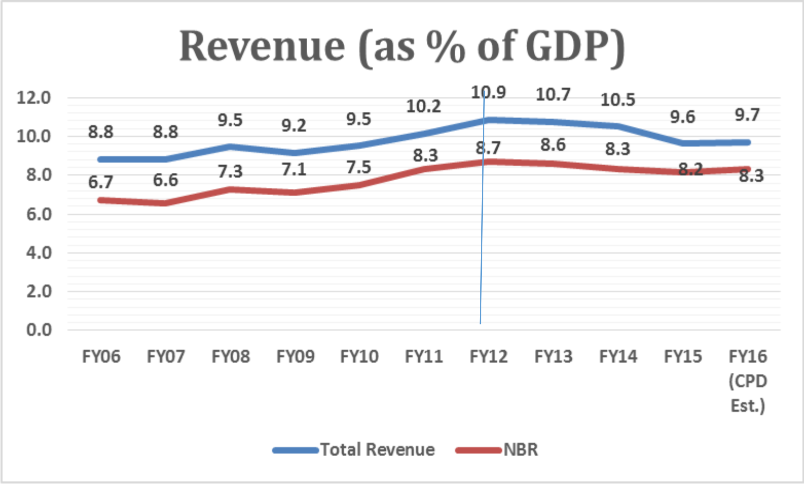
Independent Review of iRBD Bangladesh's Development

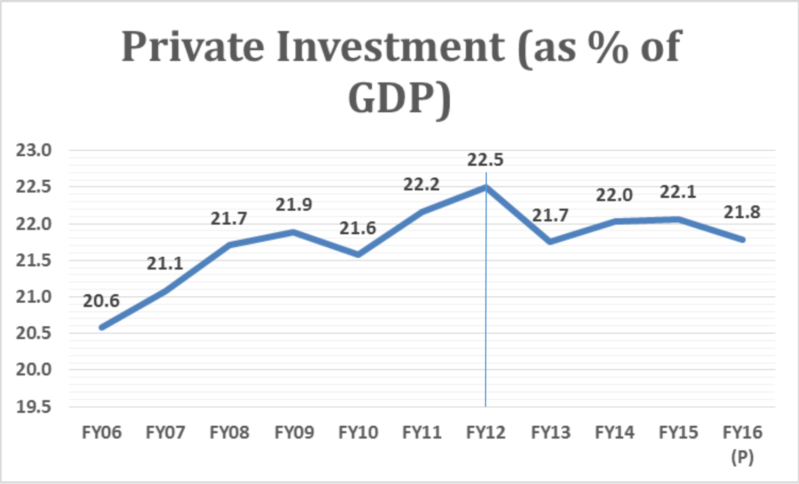
III. PUBLIC FINANCE FRAMEWORK

- Since, FY12 revenue as % of GDP declined – when it was 10.9%
- Since, FY13 expenditure as % of GDP declined – when it was 14.7%
- Since, FY14 ADP expenditure as % of GDP declined – when it was 4.1%





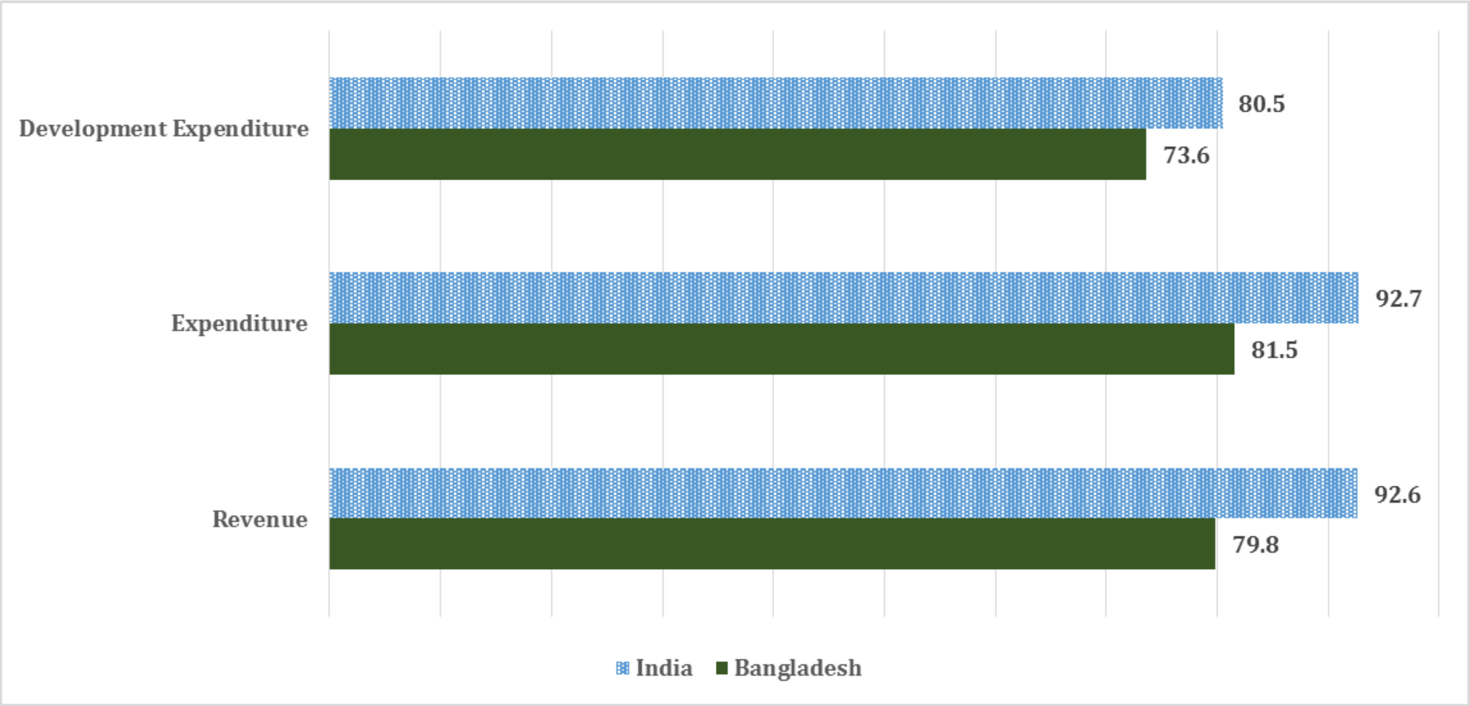




III. PUBLIC FINANCE FRAMEWORK

- Compared to India, in Bangladesh's quality of fiscal projection is much weaker!

Fiscal projection gap as percentage of budget in FY15 (%)



III. PUBLIC FINANCE FRAMEWORK

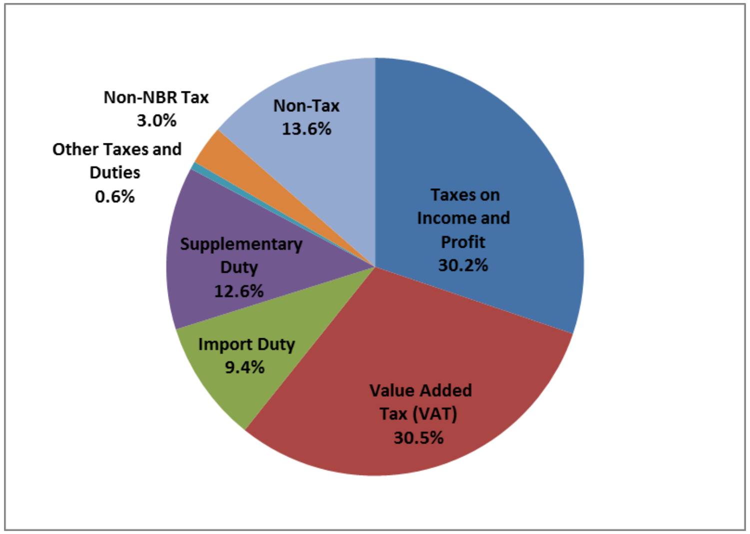
- According to CPD projections, all major parameters of fiscal framework will need to register higher growth rates to attain the targets compared to those planned in the budget FY17. Because the budget targets take revised budget figures for FY16 as its base which in reality will be lesser.
- This is structural problem of budgetary projections

Trend Growth Rates: Budget and Reality (%)

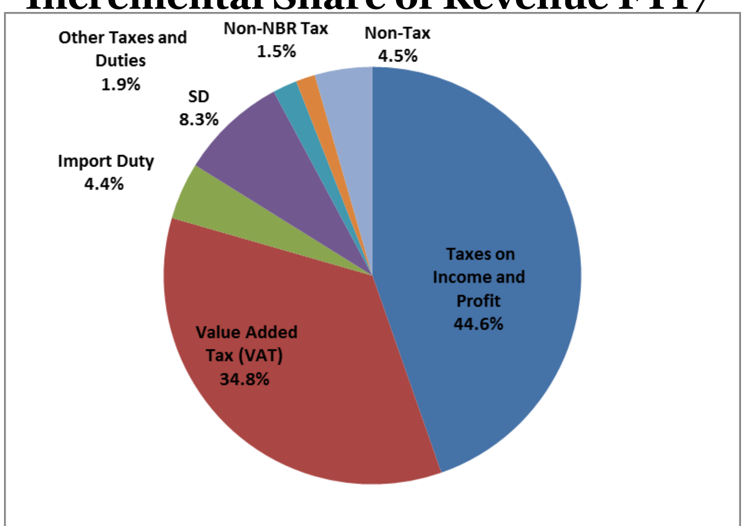
Items	FY02-07	FY08	FY09	FY10-FY13	FY14-FY15	FY17 (B)	FY17_CPD Ext.
Total Expenditure	**8.5**	**41.5**	**5.3**	**18.3**	**8.3**	**28.7**	**39.0**
ADP	1.3	1.3	14.0	26.6	11.1	21.6	52.2
Non-ADP	13.0	57.2	3.1	15.9	7.3	32.5	33.5
Total revenue	**12.0**	**24.3**	**11.0**	**18.9**	**6.5**	**36.8**	**44.5**
NBR revenue	12.3	26.6	9.7	19.9	9.5	35.4	41.1
Non-NBR Revenue	12.5	16.5	15.8	16.0	-4.8	44.5	65.0
Deficit	**0.6**	**103.0**	**-7.1**	**17.3**	**13.7**	**12.3**	**27.1**

III. PUBLIC FINANCE FRAMEWORK

Share of Revenue FY17



Incremental Share of Revenue FY17



Revenue Mobilisation

- FY17 budget targets an additional Tk. 65,351 crore revenue with a 35.4% growth over RBFY15
  - CPD Projection: (approx. Tk. 75,000 crore)
- NBR to take the lead role (accounting for 81.3% of incremental revenue) with 35.4% growth
  - LTU is expected to account for 37.1% of incremental NBR revenue
- 30.8% of incremental revenue from income tax; while 28.8% from VAT
  - Two-third of total income tax will be collected from companies
  - Belated implementation of new VAT act will pose serious challenge
- Import duty collection growth target is set at 31.1%

Revenue Mobilisation

- Non-NBR revenue (non-tax plus non-NBR tax) growth for FY17 is at a very ambitious level (44.5%)
  - Much will depend on mobile spectrum fee
  - Actual required growth could be as high as 65.0%
- Overall revenue collection may fall short of Tk. 9,500 crore from the target of RBFY16
- Under such a scenario required growth rate for revenue in FY17 may shoot up to around **44.5% (from 36.8%),** while for NBR the actual target may stand around **41.1% (from 35.4%)**
- **Such a high growth rates were never achieved before!**
- **Major setback for collecting such an ambitious target –**
  - *Deferred implementation of VAT and SD Act 2012*
  - *Major rescheduling of SD rates*

III. PUBLIC FINANCE FRAMEWORK

Total Public Expenditure

Sector	Share in BFY17	Share in RBFY16	Change in FY17B over FY16R	
	%		Crore Tk	%
Education and Technology	15.5	14.9	13588.0	34.6
Public Service	13.9	9.0	23523.0	99.0
Interest	11.7	12.0	8282.0	26.2
Transport and Communication	10.9	10.1	10467.0	39.1
LGRD	6.9	8.1	2075.0	9.7
Agriculture	6.7	7.0	4207.0	22.7
Defence Services	6.5	7.8	1436.0	6.9
Public Order and Safety	6.2	6.6	3643.0	20.9
Social Security and Welfare	5.8	6.4	3004.0	17.8
Health	5.1	5.6		18.1
Fuel and Energy	4.4	6.3	-1579.0	-9.5
Industrial and Economic Services	1.0	1.0	823.0	30.1
Housing	0.9	1.5	-817.0	-20.8
Recreation, Culture and Religious Affairs	0.8	0.9	325.0	13.7
Others(Memorandum Item)	3.5	2.9	4388.0	57.8
Total Expenditure	100.0	100.0	76040.0	28.7

III. PUBLIC FINANCE FRAMEWORK

- Allocation for Public Services is set to be double of RBFY15 (Tk. 23,523 crore)
  - Tk. 22,491 crore additional allocation for Finance Division! - mostly to be paid for allowances
  - Tk. 6,500 crore have been allocated for funding PPP and export incentives
  - Additional Tk. 13,121 crore allocation for Investments in Shares (Tk. 1,023 crore in RBFY16)
  - Tk. 2,000 crore has been for Investment for Recapitalisation (for state-owned banks!) – in FY16 budget Tk. 5,000 crore was allocated

III. PUBLIC FINANCE FRAMEWORK

Economic Analysis of Non-Development Revenue Expenditure

Indicators	Growth FY17/RBFY16 (%)	Share B FY17 (%)	Share RB FY16 (%)	Incremental Share FY17B (%)	Change FY17/RBFY16 (Crore)
Pay and Allowances	19.5	25.5	26.5	21.6	8286
Goods and Services	7.1	10.4	12.0	3.6	1365
Interest Payments	26.2	20.1	19.7	21.6	8282
Domestic	27.3	19.2	18.7	21.4	8196
Foreign	5.3	0.9	1.0	0.2	86
Subsidies and Current Transfers	32.9	37.9	35.3	48.7	18647
Block Allocation	719.4	1.1	0.2	5.2	2007
Acquisition of Assets and Works	14.0	4.9	5.4	3.2	1209
Transaction with IMF	-100.0	0.0	0.9	-3.9	-1500
Total Augmented Non-Development Revenue Expenditure	23.9	100.0	100.0	100.0	38296

- Highest incremental share to Subsidies and Current Transfers, followed by Pay and Allowances
- Interest payment remains the sector with third highest allocation
  - Domestic interest payments will increase by 21.4% in FY17– about 19.2% of total augmented non-development revenue expenditure – effect of domestic borrowing based deficit financing!

Subsidy (loans, subsidies and fiscal incentives)

- Total subsidy allocation is expected to be about 1.2% of GDP in FY17 (1.1% in RBFY16)
- About 6.8% of total public expenditure
- These are reflected in loans and advances ((-) 19.5% reduction)
- Agriculture subsidy will be Tk. 9,000 crore for FY17– same as the previous year
  - with unchanged subsidy structure agriculture may not need the full amount
  - In RBFY16 subsidy budget for agriculture was reduced to Tk. 7,000 crore – it may be similar in FY17
- For export sector, allocation is Tk. 3,000 crore
- A comprehensive subsidy policy for Bangladesh has to be formulated!

Annual Development Programme

- ❑ ADP of Tk. 110,700 crore has been proposed for FY17
    - ➢ 45,163 crore (46.6% of original ADP FY16) was implemented upto April 2016 (last year it was 51.8%)
- ❑ 14.1% higher than RADP for FY16 and 21.6% higher than ADP for FY16
    - ➢ In reality it will be 28.1% higher (CPD projection)
    - ➢ Project Aid component is 36.1% of total ADP (32% in RADP of FY16 and 35.6% in original ADP of FY16)
    - ➢ Tk. 2,977 crore has been provided to development assistance programmes

III. PUBLIC FINANCE FRAMEWORK

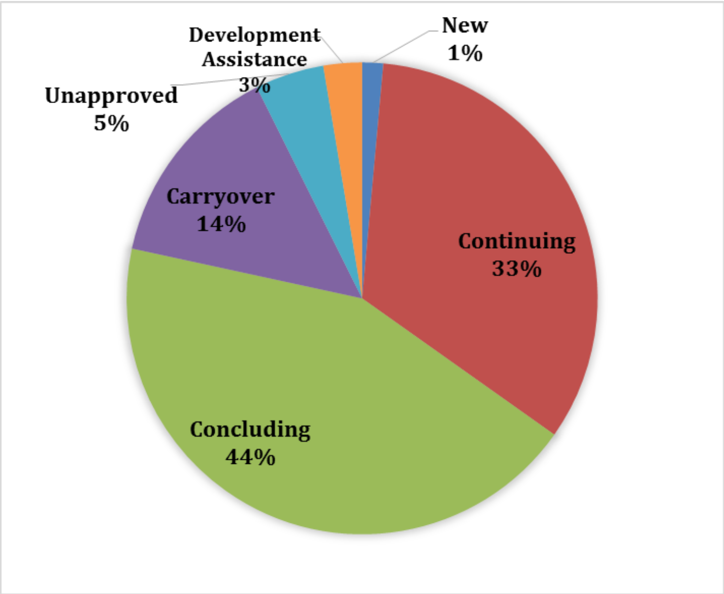
Top Five Sectors in ADP FY17

Sector	No of Projects ADP FY17	Share (%) ADP FY17	Share (%) RADP FY16	Share (%) ADP FY16	Growth (%) ADP FY17 over RADP FY16
Total Five Sectors	**636**	**71.0**	**71.4**	**70.6**	**21.1**
Transport	188	25.8	21.1	22.4	48.9
Education & Religious Affairs	95	13.1	11.1	10.7	43.1
Physical Planning, Water Supply &Housing	170	12.1	12.2	11.5	20.7
Power	69	11.8	17.0	17.0	-15.6
Rural Development & Institutions	114	8.2	9.9	8.9	0.7
Other 12 Sectors	**505**	**29.0**	**28.6**	**29.4**	**23.0**
Development Assistance	**NA**	**2.7**	**4.3**	**2.6**	**-24.0**
Total	**1,141**	**100.0**	**100.0**	**100.0**	**21.6**

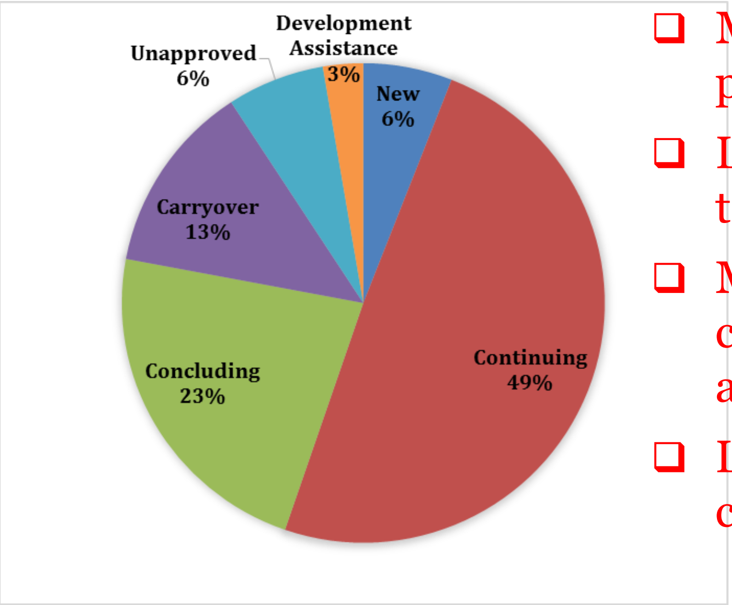
- The **top 5 sectors** have received **71%** of total ADP allocation – concentration ratio increased
  - Transport Sector once again has received the highest amount of allocation (25.8% of total allocation) for the highest number of projects – 48.9% growth over RADP FY16
  - With in transport sector, railway received 10.1% of total allocation
  - Allocation for power sector was reduced by 15.6% in FY17 over RADP FY16

III. PUBLIC FINANCE FRAMEWORK

- The ADP for FY17 contains **1,123 projects** (999 for ADP of FY16)



FY16 Number of Projects: 999



FY17 Number of Projects: 1,123

- More projects
- Lower share to carryover
- More for continuing and new
- Less for concluding

- Almost similar trend in the structure of ADP continues apart from more allocation for continuing projects and less allocation for concluding projects for FY17 compared to FY16 – **inadequate allocation for concluding projects!**
- **75 new projects** are included (in FY16: 41) – 6% of total ADP allocation;
  - ✓ 307 new projects were included in the RADP for FY16

III. PUBLIC FINANCE FRAMEWORK

- 49.3% of allocation is provided to 415 projects which are suppose to continue to the next ADP (for FY18)
- However, a total of 413 projects are scheduled to be concluded in FY17, according to project completion timeline
- **220 carryover projects** consist of **12.8%** of the total allocation
  - Transportation sector has 41 of these projects, followed 'Physical Planning, Water Supply &Housing' (30), Agriculture (20), and Rural Development (19)
  - Thus total number of projects which should be concluded: **643**
- Planning Commission identified **354** projects which may be **completed in FY17**
- Highest number of unapproved projects without allocation in recent times – 1,172!
- 32 projects were included in the PPP list- no visible progress!

Project Status	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Unapproved projects without Allocation	492	800	702	720	662	624	857	1,172
Projects listed to seek Foreign Funds	227	292	259	327	346	338	382	349
Total Number of Projects in the ADP	**886**	**916**	**1,039**	**1,037**	**1,046**	**1,034**	**999**	**1,141**
PPP	0	23	16	13	44	40	40	32
Possible Completion	346	287	305	330	305	324	324	354

III. PUBLIC FINANCE FRAMEWORK

- It appears that, number of new projects in ADP FY17 was limited - however, the practice of **allocating symbolic allocation** (the minimum to keep the project in the ADP list) is still **pervasive and increasing**
- **18 projects under ADP received only Tk. 1 lakh** for FY17; 14 projects received such allocation in FY16
    - 15 of those are investment projects (12 in FY16)
    - 10 of those are carryover from ADP FY16
    - 8 of the 14 projects are from Transport sector (9 projects were in transport sector in FY16)
- **31 'investment' projects under ADP received only Tk. 1 crore or less** for FY17; 32 'investment' projects received such allocation in FY16
    - 15 of the projects are carryover (21 of those were carryover in FY16)
    - As a whole these 31 projects received only Tk. 7.2 crore allocation in ADP FY17 (averaged Tk. 23.1 lakh per project)
    - Projects from 12 different sectors shared this allocation

III. PUBLIC FINANCE FRAMEWORK

- **Self-financed development budget is reported for the fourth time (since FY14)**
  - Allocation for autonomous bodies and corporations has been increased to 12,646 crore (216.4% increase over FY16) in FY17
  - Highest number of projects (155) and allocation and allocation since FY14. Big jump after reduction for two consecutive years
  - Among the 155 projects, 'Physical Planning, Water Supply &Housing' has the highest number of projects (62), followed by 'Oil, Gas and Natural Resources' (30), Power (29) and Transport (23).

Self-financed projects of autonomous orgranisations

	FY14	FY15	FY16	FY17
Number of projects	130	153	125	155
Allocation	8,114	5,685	3,997	12,645
Utilisation	34.9	45.9	48.8 (Jul-Apr)	
Overall ADP implementation	86.4	85.3	46.6 (Jul-Apr)	

  - Indeed, Tk. 1,952 crore (48.8%) worth has been implemented upto April 2016- better than overall project implementation rate (46.6%)
  - These self-finance projects had very poor utilisation rate during FY14 and FY15- much lower than the overall ADP implementation rate

Separate roadmap for the first time for 10 'fast track' projects

- 8 among these 10 projects received a total allocation of Tk. 18,745 crore (16.9% of total ADP) in ADP for FY17
- Apart from the Padma Bridge project, which is expected to be completed by 2018, a number of other projects are expected to be completed around FY2022-23
- At least three projects – Rampal (thermal power plant co-financed by India), Ruppur (nuclear power plant co-financed by Russia) and Padma Rail link (co-financed by China) – involves substantial debt servicing with relatively higher rate of interest rate and/or shorter repayment period
- Repayments of these loans may put pressure on debt servicing

III. PUBLIC FINANCE FRAMEWORK

- CPD selected a set of 26 projects under the ADP for FY15 for close scrutiny (share of these projects in ADP for FY16 was 17.6% and for FY17 was 9.7%)
- 14 of these 26 projects were supposed to be completed in FY15 (or even earlier)
  - 13 projects were carried forward to the ADP for FY16 and only one completed
- **10 of these 25 projects** were supposed to be completed in FY16 as per timeline
  - 3 projects ('Bhola 225 MW Combined Cycle Power Plant', 'Mubarakpur Oil/Gas Well Exploration Project', 'Augmentation of Gas Production under Fast Track Program') were completed in FY16 and remaining 7 projects were carried forward to the ADP for FY17
- **4 projects received adequate allocation for completion in FY17** – all of them are carryover projects
  - Joydebpur-Mymensingh Road Development Project
  - Shahjalal Fertilizer Project
  - Tannery Industrial Estate (Second Revised)
  - Construction of 520m long Bridge in Nagarpur-Mirzapur Via Mokna over Dhaleswari River under Nagarpur Upazila of Tangail District)

III. PUBLIC FINANCE FRAMEWORK

Status of (remaining) 18 priority projects (identified by CPD)

Possible implementation rate (%) if total FY17 allocation is spent

1-30% (1 project)

- Construction of Bibiana-3

31-60% (5 projects)

- Ashuganj 450MW CCPP (North), Construction of Ghorashal 365 MW Combined Cycle Power Plan, Shahjibazar 330 MW Combined Cycle Power Plant, Shikalbaha Duel Fuel 225 MW Combined Cycle Power Plant, Chapainawabganj 100 MW HFO Based Power Plant

61-99% (12 projects)

- Padma Multipurpose Bridge Project, Dhaka-Chittagong 4-Lane, Third Karnaphuli Bridge, Support to Dhaka Elevated Expressway PPP Project, Dhaka-Chittagong Railway Development Project, Bhomra Land Port, Siddhirganj 335 MW PP, Veramara Combined Cycle Plant (360 MW) Development, Providing Electricity Connection to 18 lakh clients through Rural Electricity extension, Production of Electricity by Co-generation and Establishment of North Bengall Sugar Mill, Establishment of Gas Compressor Station in Ashuganj and Elenga, Construction of 950m long PC Guarder Bridge over Dharla River at Phulbari Upazila of Kurigram District

III. PUBLIC FINANCE FRAMEWORK

- **The business as usual as regards ADP continues -**
  - Large number of projects with stagnating implementation capacity
  - Rising number of unfunded projects
  - Absence of prioritisation framework
  - Inadequate fund for concluding projects and persistence of carry-over projects
  - Cost and time-overrun continue
    - Only 14.2% of the total to be completed projects (233) were completed within the stipulated time and planned allocation in FY14 (lowest since FY01)
    - 51.1% projects experienced cost overrun which is the highest in last eight years
  - No reform or follow up mechanism mentioned to bring discipline in the ADP and monitor government initiatives
  - No result-based monitoring
    - Low quality of the PCRs submitted (around 60% of completed projects) every year
    - Lack of needed human resources (as per IMED organizational structure) often do not allow proper evaluation of completed projects

III. PUBLIC FINANCE FRAMEWORK

Budget Deficit and Financing

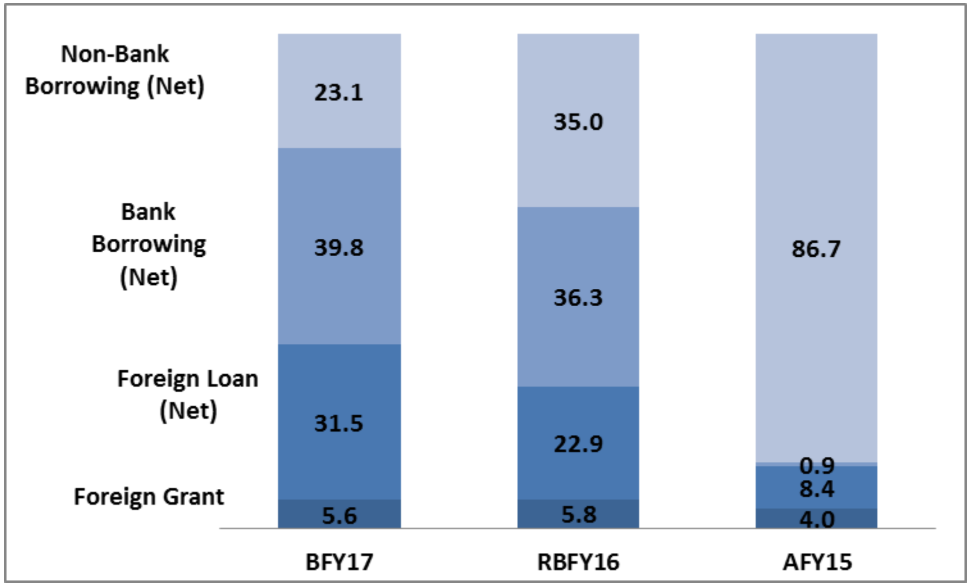
Description	BFY17	RBFY16	Growth	AFY15
	% of GDP	% of GDP	BFY17 over RB FY16	% of GDP
Revenue Collection	**12.4**	**10.3**	**36.8**	**9.6**
Total Expenditure	**17.4**	**15.3**	**28.7**	**13.5**
ADP	5.6	5.3	21.6	4.0
Non-ADP	11.7	10.0	32.5	9.5
Overall Deficit (Excl Grants):	**5.0**	**5.0**	**12.3**	3.9
Financing				
Foreign Grants	**0.3**	**0.3**	**9.7**	**0.2**
Foreign Loan-Net	**1.6**	**1.2**	**54.2**	**0.3**
Foreign Loan	2.0	1.6	44.0	0.8
Amortization	0.4	0.4	15.2	0.5
Domestic Borrowing	**3.1**	**3.6**	**(1.0)**	**3.4**
Bank Borrowing (Net)	2.0	1.8	22.9	0.0
Non-Bank Borrowing (Net)	1.2	1.8	(25.9)	3.3

- About 106% of incremental deficit is programmed to be financed by foreign sources

III. PUBLIC FINANCE FRAMEWORK

- Share of **domestic financing 62.9%** (71.3% in RBFY16)
- **Tk 38,938 crore** (39.4%) will come from the **bank borrowing** (36.3% in RBFY16)
- Tk 22,610 crore (23.1%) will come from non-bank sources (35.0% in RBFY16)
- Share of foreign financing will be 37.1% in FY17 (28.7% in RB of FY16)
- **Gross foreign aid** requirement will be around **USD 5.7 bln (USD 3.2 bln in RBFY16)** – an almost impossible target in view of **only USD 2.1 billion** being received during **Jul-Feb FY16**
- **Much will depend on project aid utilization of ADP – 89.4% of total foreign resources are for ADP projects**

Sources of Deficit Financing



IV. FISCAL MEASURES

IV. FISCAL MEASURES

- **Personal Income Tax**
  - No change was seen in tax-exempted personal income threshold or slabs
  - Tax-free income will be Tk. 25,000 higher for parents or legal guardians of persons with disabilities – *promoting social equity*
  - Perquisite ceiling has been raised to Tk. 4.75 lakh from Tk. 4.50 lakh – *will benefit the salaried employees*
- **Minimum amount of tax** for individual assessees remains the same
- **Tax credit on investment**
  - An assessee can invest 20% (previously 30%) of total personal income
  - *Additional tax burden as a share of income will be higher for lower income groups*
  - Tax liability will be **higher** for the current tax payers – *individuals within the net are being taxed **more***

Total Taxable Income	Tax Liability Increased by
When an assessee's income will be Tk. 10 lakh	32%
When an assessee's income will be Tk. 11.5 lakh	29%
When an assessee's income will be Tk. 17.5 lakh	20%
When an assessee's income will be Tk. 47.5 lakh	13%

IV. FISCAL MEASURES

- **Wealth Surcharge**
  - Minimum net wealth exemption limit remains the same at Tk. 2.25 crore
  - 4 slabs have been changed, now 6 in total
  - Tax on net wealth above Tk. 20 crore has been raised to 30% (from 20%) - *progressive taxing for Tk. 5 crore and above net assets, higher revenue collection*
- **Corporate Tax**
  - Most of the company tax rates exist same
  - All tobacco products (cigarette, bidi, zarda, chewing tobacco, gul, and other smokeless tobacco) manufacturers will be charged tax at 45%, which was 25% & 35% - *tax revenue will be higher*
- **Minimum corporate tax at source** revised from uniform rate of 0.3%
  - 1% for tobacco manufacturers - *welcome move considering health issues*
  - 0.75% for mobile phone operators – *revenue will increase; may get passed on to the consumers*
  - 0.60% for others – *will increase the revenue*
- **Tax deduction rates** on receipts from **international calls** has been raised from 1% to 1.5% – *any implication for illegal VoIP?*

IV. FISCAL MEASURES

- **Tax deduction at source (TDS)**
  - **RMG and accessories, terry towel, jute goods, frozen food, vegetables, leather goods and packed food exporters** have to pay advance income tax **at the rate of 1.5%** (increased from 0.6%) [53BBBB]
  - Interest payments on approved savings instruments, superannuation fund, pension fund, gratuity fund, recognised provident fund or workers' profit participation fund will be taxed at 5% [52D]
  - 5% will be deducted from **interest income from pensioners' savings certificates** exceeding Tk. 5 lakh of investment [52D]
  - **Payments to contractors** will be taxed at a fixed rate of 10% (15% if not eTIN-registered) [52]

IV. FISCAL MEASURES

- Payments from **royalties** and certain **services** (**such as professional services, consultancy, event-management, supply of manpower** etc.) will be taxed at 10% if base amount is below Tk. 25 lakh, and at 12% for exceeding amount (50% higher if not eTIN-registered) [52A, 52AA] –*a good move*
- 15% TDS for non-resident courier businesses – *will generate more revenue*

- **Reduced costs of registering small apartments** [53FF] – *low-income earners will be benefited*
  - Rate of registration will be 20% lower for 70 sq.m (750 sft) apartments, & 40% lower for 60 sq.m (645 sft) apartments
  - Tk. 70,000 worth registration cost will now be Tk. 14,000 less & Tk. 60,000 worth will now cost Tk. 24,000 less (in Dhaka north & south & Chittagong city corporations (excluding rich areas))
- Advance tax on motor vehicles is no longer refundable

IV. FISCAL MEASURES

Undisclosed Money

- Once again the Finance Minister remained silent about black money in this speech. It means continuation of earlier facilities to whiten black money-
- ***CPD therefore reiterated such provision is morally unethical for honest tax payers and might encourage people to evade tax***
- a) *Special tax treatment* [19c]*:* Opportunity continues for invest in government Treasury bond by paying only 10% tax; b) *Voluntary disclosure of income* [19e] through payment of 10% penalty alongside the regular tax and c) investing undisclosed money in real estate sectors under *Special tax treatment* [19BBBBB]:
- *Considering the increasing flow of illicit financing, which once again disclosed through* ***Panama Paper scandal,*** *CPD once again emphasising on the* need for a predictable legal framework including a new law on **undisclosed money and benami property**

Value Added Tax (VAT) at Local Level

- The new VAT and SD Act 2012 has been deferred to 1 July 2017 – finalisation of necessary *preparatory works for full implementation of the Act will remain as a challenge*
- **Package VAT** has been significantly revised! – *will create burden on small traders.*
- **Tax-exempted turnover limit for SMEs** has been proposed to increase from **Tk. 30 lakh to Tk. 36 lakh** – *the change will support business growth and encourage entrepreneurship*

Location	Existing VAT	Proposed VAT
	(Tk. to be paid annually)	
Dhaka and Chittagong city corporation area	14,000	28,000
Other city corporations	10,000	20,000
Municipalities in district towns	7,200	14,000
Other areas	3,600	7,000

IV. FISCAL MEASURES

- Govt. will gradually move out of the **truncated value** system. Truncated value rates for a number of services has been increased (5 out of 14 services). Those are garage and workshops, dockyard, construction, transport contractor, branded RMG seller etc.
- **Price declaration** provision has been abolished - *This will play a pivotal role in reducing the harassment of the taxpayers by the tax people*
- **Electronic Cash Register (ECR) and Point of Sale (POS) system** have been proposed to make compulsory for the shops, hotels and resorts – *will ensure depository of the tax to govt. treasury; however, needs proper monitoring*
- Provisions to reduce **discretionary power of the VAT authority** were articulated – *will safeguard taxpayers' interest*
- **ADR mechanisms** have been further strengthen – *will recover disputed revenues and increase efficiency of the system*
- **Unlocking of fully automated new VAT and SD system will still remain a challenge! It needs institutional capacity and mass awareness building and training**

IV. FISCAL MEASURES

Duty Structure

- CPD has analysed operative tariff schedule of FY10 and compared it with OTS of FY15, FY16 and FY17
  - CD on capital machinery products decreased from 3% in FY10 to 2% in FY15 and further to 1% in FY16. In FY17, the rates remained to be same
  - About 1,000 products have CD of 5% for last 6 years
  - CD on about 1,500 items remained at 10% for last few years which were 12% in FY10. these products include food/agricultural products, petroleum bi-products, chemical products for pharmaceuticals industries, rubber, wood and paper products etc.
  - About 3,000 products still have CD at higher slab of 25%
- About 22.2% products (1,482 products) are having SD in FY17
  - 10% slab has abolished and 15% slab is introduced in FY17
  - Maximum number of products (926 products) have SD at the rate of 20%
  - Some liquor products and cars over 2,700cc have high SD of 350%
- RD was reduced from 5% to 4% in outgoing fiscal (FY16)

Major changes in duty structure in FY15-FY16

- CD exempted on cancer drug accessories: cost of treatment should reduced

- CD decreased from Tk. 8,000 to Tk. 430 per MT sugar containing added flavouring or coloring matter: to reduce the cost burden of consumers

- 10%-15% RD increase on copper products: Harmful for local industries

- 10% RD imposed on Rice: To protect farmers

- The proposed duty structure for FY17 is in line with the changes made by the government through SRO since last year's budget

IV. FISCAL MEASURES

Changes in the Rate of Duty at Import Stage in FY17

Types of Duty	Increased	Decreased	Newly Imposed	Waived	Total number of changed items
Customs Duty	208	52	21	8	289
Supplementary Duty	12	0	30	2	44
Regulatory Duty	0	10	78	4	92
VAT on Import	0	0	15	0	15

- Government has continued policy incentives to safeguard the interest of the farmers.
- Custom duty has increased for 208 items (including rice, starch etc.) while decreased for 52 items (chemical items, Iron steels etc).
- As also VAT imposed at import stage on all types of rice imports significantly
- Among the fifteen items on which VAT is imposed at import stage includes maize (flour), other flours, Semi-product of iron steel, and modulator etc.

Impositions of Regulatory Duty on major items

- 20% for Semi-Products Of Iron/Steel (HScode:7207):
- 4% imposition of 57 products includes products used as raw materials for plastic, man-made filaments and Staple fibers, Iron steels etc.

IV. FISCAL MEASURES

❑ Major Changes in Customs Duty

Items	FY16	FY17	Comment
Increased			
Rice (all), Maize (flour)	10	25	Higher protection for farmers
Wheat, Maize and Potato starch	10	15	More protection for farmers
Textbooks for primary and secondary level	10	25	Goes against students' interest
Tubes, pipes and hallow profiles	10	15	Local industry protection
Refined copper wire and plates of coils	10	25	Helpful for domestic firms
Finger/ Biometric scanner	2	5	Contradicts safety/security concerns
Machinery for preparing tobacco	1	10	Helpful from healthy revenue perspectives
Evaporative air coolers	10	25	Revenue generation
Transformer, USP/IPS (capacity up to 2,000 MV)	5	10	Consumers will be hurt
Optical fibers	10	15	Access to internet will be costlier
Patient monitor, medical instruments	1-5	5-10	Will make health service costlier
Dietary foods (Soya cakes, Inulin etc.)	5	10	Helpful for Local industry
Decreased			
Lubricating oil, petroleum jelly, dextrin, glues, stripping chemical gum rosin, poly salt, organotin compounds	25	15	Will reduce industrial cost
Plastic products (Urea resins, thiourea resins, polyester paper, PVC sheet etc)	25	10-15	Likely to be harmful for local industry
LP gas cylinder capacity below 5000 liters	25	10	Helpful for consumers
Pharmaceutical (Stability/Humidity camber, Laboratory refrigerator):	25	1	Will help the industry
For Vat registered importers, several equipments under HS code 73; 83; 84; 85;94	25	0-15	Should encourage VAT registration

Major Changes in Supplementary duty

Increased

- 50% on Tobacco and other manufactured tobacco substitutes; 10% on Broken or crushed stone ;10% on Other perfumery

Imposition

- 10% on boulder stone ; 45% on most of the bars and rods, hot rolled, in irregularly wound coils, of iron or non-alloy steel; 20% on angles, shapes and sections of iron or non-alloy steel; 10% on Electrical goods(lamp holder, connector)

Decreased

- 10% decrease for agricultural good (stabilizer for milk), Coffee mate; 10% decrease on electrical good (DOP); 45% to 20% motor cycle assembling (next two years)

Exemption

- Input for Plastic products , SIM, Greases (mineral); Exemption for electrical goods(adhesive tape, fiber glass), LED lamp parts; machineries, mortuary, refrigerator used by pharmaceuticals, hospitals; Lever lock, Mortice lock , Greases (mineral)

IV. FISCAL MEASURES

Tax Incidence

- According to the budget documents, CD, SD and VAT at import stage was planned to grow at more than 30% in FY17
- CPD has analysed the duty structure for FY17 (operative tariff schedule at 8-digit level) to assess the viability of the public finance framework at import stage
- MTMPS assumes that import will grow at 11% in FY17
- CPD analysis found that, changes in the proposed duty structure did not commensurate with fiscal framework's tax growth. The estimated growth based on the changes in the duty structure diverges significantly from the budgetary plans

Duties	Growth (%) planned for BFY17 over RBFY16	Growth (%) from changes in duty structure
VAT	31.2	10.5
Customs Duty	31.1	13.3
Supplementary Duty	31.0	12.7

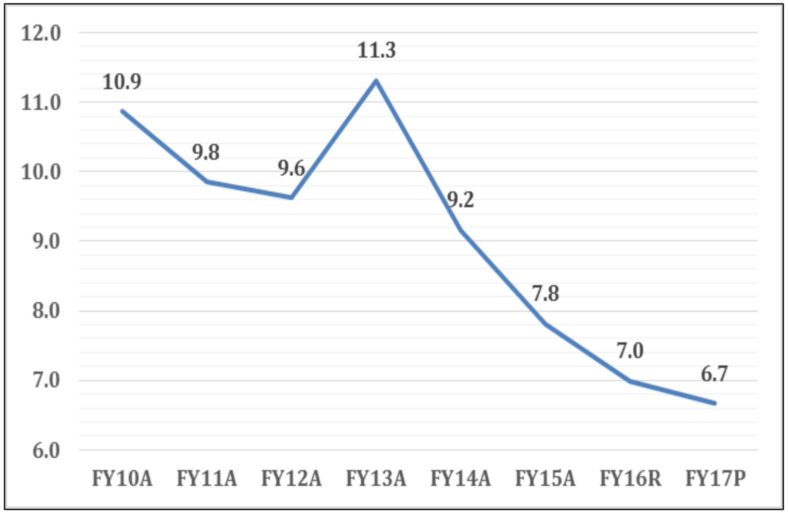
V. SECTORAL MEASURES

a. AGRICULTURE

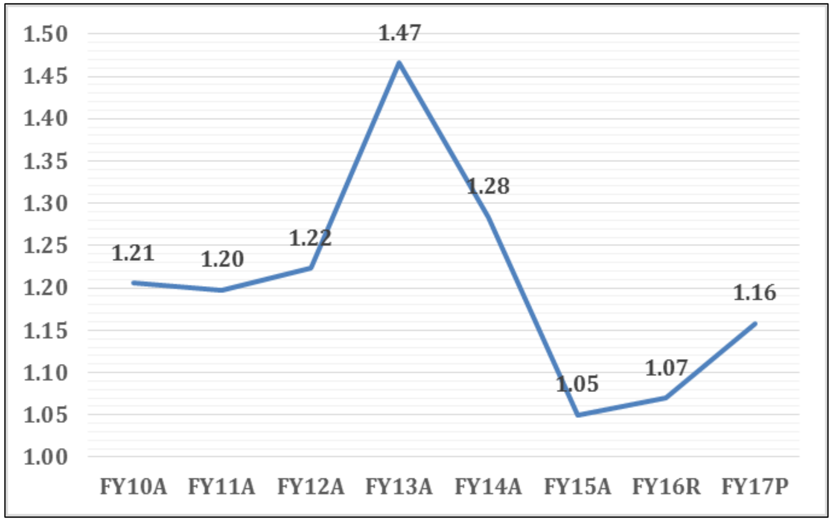
a. Agriculture

- ❑ Share for agricultural & allied sectors (AAS) in total budget is decreasing

Share of AAS in Total Budget



Share of AAS in Total GDP



- ❑ Average share of AAS in total public expenditure was 9.4% during FY10-FY16, but reduced to 6.7% in FY17
- ❑ Average share of AAS in total GDP was 1.21% during FY10-FY15, but reduced to 1.16% in FY17
- ❑ Allocation for the Ministry of Agriculture in FY17 budget increased by 7.7% (only 2% increase in real terms).

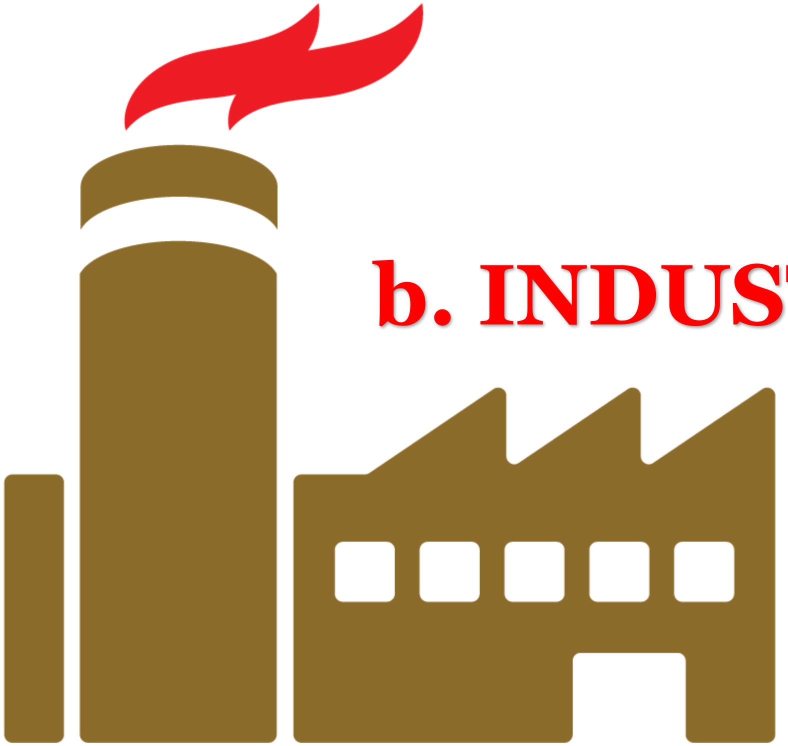
a. Agriculture

- The share of Agriculture is only 4.6% in ADP for FY17 (5.1% in FY16, 5.7% in FY15)
  - Like other ADP sectors, Agriculture also faces the classical project implementation challenges (time and cost overrun)
- Agricultural subsidy remains constant at Tk. 9,000 crore
  - It constitutes 39.6% of total budget allocation for agriculture in FY17
  - Around Tk. 2,000 crore remain unutilized in FY16 providing the government some fiscal space
  - The fiscal space will also be available for FY17
- The available fiscal space from lower demand for subsidy could be utilised to incentivise Aus and Aman cultivation further
- Public Procurement prices have been declared earlier; however, no guideline as to how farmers will benefit from this
- The issue of crop insurance, mooted earlier has not been followed up
- To ensure fair prices for agricultural commodities, and for farmers to benefit from this, CPD proposes setting up of a **Permanent Agricultural Price Commission** on an urgent basis to ensure incentive price for the producers while maintaining market stability

a. Agriculture

New Initiatives in budget for FY17

- A number of positive fiscal measures have been proposed in support of agriculture which will provide higher protection to domestic agricultural sector:
  - 25% CD on imported rice instead of present 10% CD.
  - Higher import duties on imported rapeseed cake/soya cake at 10% from 5%
  - Reduction of SD to 10% from 20% on stabilizer for milk (used for the preparation of milk products)
  - Reduction of import duties to 1% on agricultural machineries from earlier 3%
  - Continuation of the current duty tax concessions for the existing items along with some new items in the poultry sector



b. INDUSTRY

b. Industry

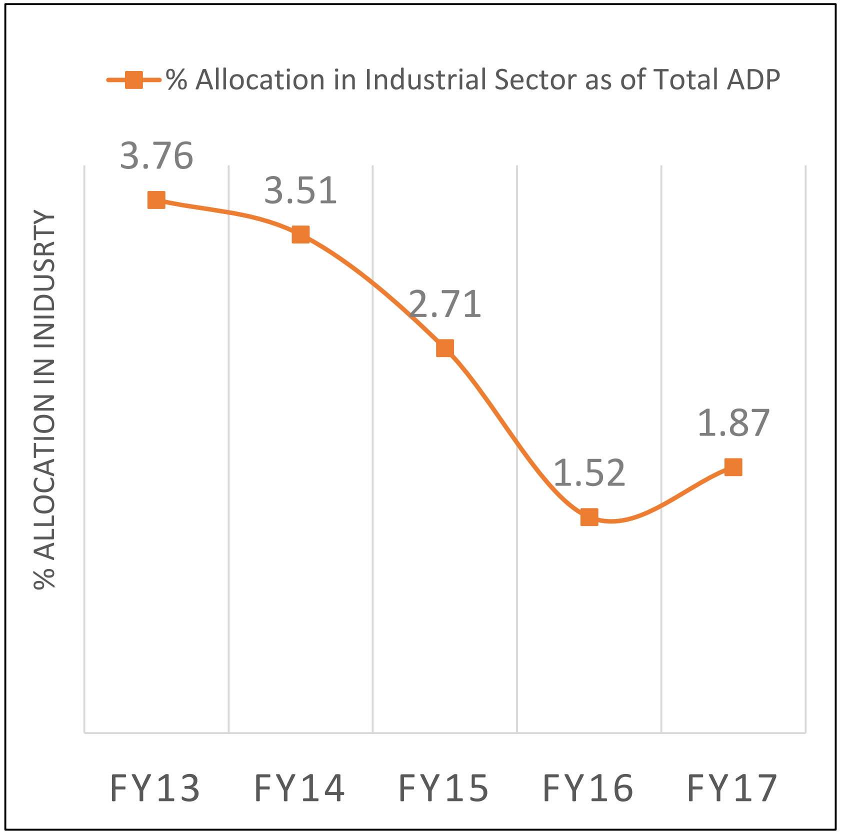
- Creating an enabling environment for attracting more private investment is one of the main challenges for national budget FY2017.
  - An additional Tk.80217 crore (1.5% of GDP) worth of private investment has been targeted.
- Proposed fiscal measures will contribute positively for development of domestic market-oriented industries
  - A new slab of 15% has been introduced for specific intermediate products and to support related domestic industries
  - Continuation of duty tax concessions provided to the capital goods
  - Rationalisation of legitimate interests of domestic industries
  - Rationalisation of duties and taxes on some inputs used by toiletries, ceramic, paper and rubber industries, electrical equipment, IT, gas and power
- A number of fiscal measures related to export-oriented industries have been proposed
  - Continuation of incentives for exports with an allocation of Tk.4500 crore
  - Reduction of corporate tax rate for RMG and increase of AIT for export are likely to neutralize net effect, but contribute positively to revenue collection
  - Increase AIT for other export-oriented sectors needs to be justified both through revenue generation as well as through possible reduction of investible surplus
- 'Crowd-in effect' of public investment in attracting private investment will be well-tested through implementation of 'mega projects'
  - Only visible progress as regards the projects (if not all) in FY17 will bring back investors' confidence
- Prospect of positive changes in global and local demand for industrial products in FY17 will directly influence investors' decision to invest

b. Industry

- Allocation for Industrial and Economic Services (Tk. 3,558 Crore) has increased by 30.1% and 29.1% (from RBFY16 and BFY16 respectively) – positive approach
  - ADP allocation for Industrial Sector has shown an upturn in FY17 (increased by 40.5% over BFY16) after a successive decline since FY13.
- Industrial sector affiliated by insufficient fund: 53 projects are currently being implemented, of which 7 projects are new.
  - Number of unapproved and unallocated project is 61, among which, 16 BISCIC Industrial Estate and 8 Economic Zone projects
- Out of 15 Projects likely to be completed by FY17, only 9 projects have sufficient allocation for completion in due time
  - Rest 6 projects are not adequately allocated for full completion in due time
- A number of policies and laws have been drafted but waiting for approval. More reform measures need to be considered in following areas:
  - Customs Act, Companies Act, Foreign Private Investment Act, Mine Act, Port Act, Export and Import Control Act, and Inland Shipping Act, Weight and Measurement Act, Acquisition and Requisition of Immovable Properties Act
  - Investment Act, Port rules, PSI Order, Import, Export and Indentors' Registration Order, Patient and Design rules, Pre-shipment Inspection Order and Import, Export and Indentors' Registration Order
  - BIDA (previously BOI), BEPZA, BSCIC, BEZA and various local authorities require clear division of labour and focus

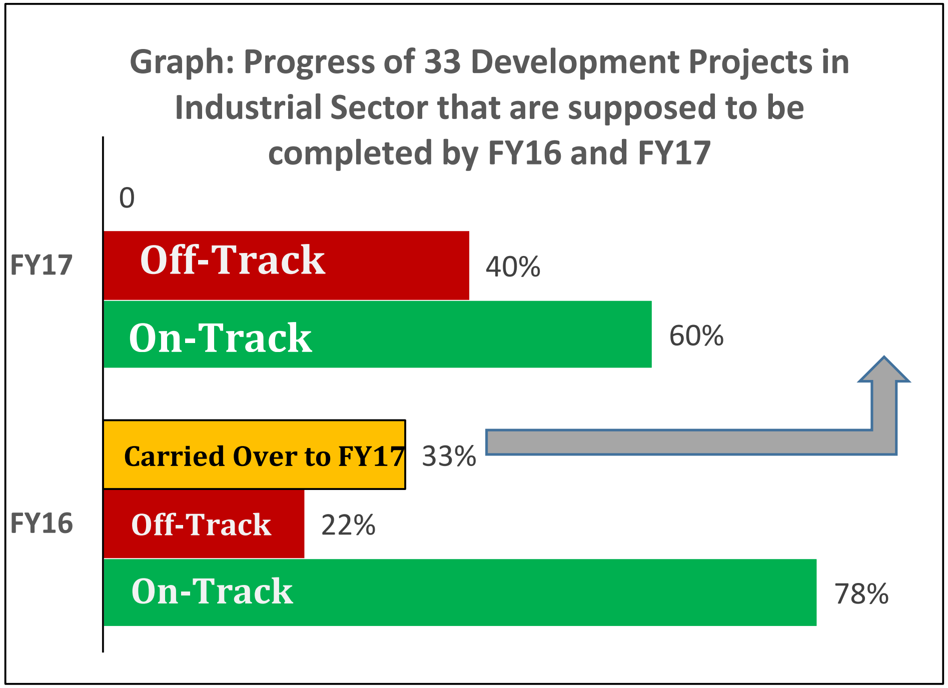
b. Industry

Allocation Increased by 0.35 percentage point in FY17 from FY16…



…But still lower than FY13,FY14 and FY15

78% of Development Projects in FY16 are Adequately Allocated…



- ***…40% of Development Projects in FY17 are not adequately Allocated***
- ***…33% of Development Projects in FY16 will be carried over to FY17***

b. Industry

Export Promotion

- Rise in AIT rate: Upward revision of AIT rate from 0.6% to 1.5% (rise by 150%) for all export-oriented industries: need to be rethought from a number of perspectives:
  - Diverse level of capacity of different export oriented industries to accommodate the revised AIT
  - Needs to be revised considering government's multiple objectives and targets (revenue generation vs. investment promotion)
- Cash incentives to continue for 19 sectors (3 to 20%) including three recently included sectors (furniture, plastic goods and potato starch)
  - Tk.4,500 crore has been allocated as incentives including Tk.500 crore for jute goods
- Concessional facilities provided for fire equipment and inputs for pre-fabricated buildings extended to non-RMG export-oriented industries will facilitate setting up of safe workplace in those industries

RMG

- Two fiscal measures targeting RMG sector are likely to 'neutralise' the overall effect
  - Negative effect of rise of AIT (from 0.6% to 1.5%) will be partly neutralized through reduced corporate tax rate (from 35% to 20%)
  - Rate of AIT needs to be revised considering multiple objectives and targets (revenue generation vs. investment promotion)

b. Industry

Pharmaceuticals
- Equipment used to set up pharmaceutical industry such as refrigerator, Laboratory Stability/Humidity Chamber will be treated as capital goods (duty will be reduced from 25% to 0%) will reduce the set-up cost:
- API industrial Park project (8 years old in march, FY16) has a cost of Tk. 331.86 crore with 7.5 per cent average completion rate per year, 30% of the project is to be completed by next one year (Apr FY16-June FY17)

Leather
- Leather Industrial Estate project (13 years old in march, FY16) has a cost Tk. 1078.7 crore with 2.5% average completion rate per year, 66% of the project is to be completed by next one year (June, FY17)

Jute
- Incentive to the tune of Tk. 500 crore for the export of jute goods will encourage jute goods exporters
- Exemption of VAT from the jute goods procurement provider services is also another welcome step
- Extension of coverage of mandatory packaging rule for using jute bags is a welcome initiative; but it needs to be enforced properly.

Capital Market
- A project is being implemented with assistance from the ADB for overall reform and development of capital market
- Government has made an allocation of Tk. 13121 crore for investment in ‘share capital’ which was very low in last year (Tk.1023 crore). This investment is highly unlikely to build confidence in the capital market.

b. Industry

Domestic Market Oriented Industry

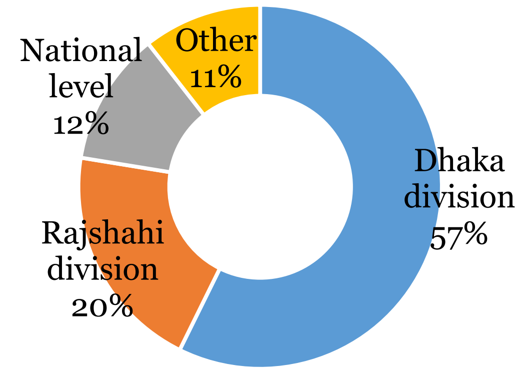
- Fiscal measures related to VAT, customs duty, supplementary duty etc. are likely to have positive impact on domestic industries
  - Exemption of VAT on Ribbed Smoked Sheets (rubber industries), wheat crusher, dyeing, printing, finishing and calendering of grey fabrics
  - Continuation of VAT exemption on Refrigerator, Fridge and Air Conditioner, Palm oil, soya bean oil and natural stone extracted from Maddhapara
  - Reduced CD and taxes for inputs (chemical) for toiletries, paper, ceramics and rubber
  - Introduction of a new slab of 15% CD
  - Duty reduction on inputs used in plastic, poultry and dairy food, construction, chemical, electrical, CKD motorcycle for transport sector
- 'Agribusiness for trade competitiveness' project is adequately allocated
  - Doubt remains whether it will be completed by end date in March FY17 (maximum possible completion by FY2017 is 90%)

b. Industry

SME

- ADP expenditure for SMEs is facing regional disparity.
  - Allocations are mostly concentrated in Dhaka region
- 19 projects related to SME development are supposed to be completed by June, FY17
  - 12 are on track, 8 will carry over, 7 will be off track
- Among the 12 possible on-track projects, 8 are not likely to be on track in FY2017
- Raising the limit of tax-exempted turnover from Tk. 30 lakh to Tk. 36 lakh will be helpful to small enterprises
- Initiatives needed for formalization of SMEs and customization of financial products for SME entrepreneurs
- Withdrawal of VAT exemption from hand made loaf, bun and low cost shoes and slippers made of rubber and plastic, locally manufactured hardboard, fabric woven by power looms will likely have adverse implications for related SMEs
- Withdrawal of VAT from locally produced RSS, parts of wheat cluster is a welcome step

Regional disparity in ADP allocation of SME sector



Project Cost (Taka in crore)	No. of Projects to be completed by June, FY2017	maximum possible completion by June, FY2017 (%)	No. of projects will be On track	No. of projects will carry over	No. of projects will be off-track
Less than 10	1	83	0	0	1
11 to less than 50	10	86	7	4	3
50 to less than 100	5	70	3	2	2
100 to less than 1100	3	73	2	2	1
Total	**19**	**80**	**12**	**8**	**7**

Source: Calculated from the ADP, FY2017 and RADP, FY2016

b. Industry

ICT

- Total allocation for Ministry of Science and Technology and ICT Division is Tk.3,904 crore (75.8% and 41.2% higher than RBFY16 and BFY16 respectively)
  - Higher allocation for development budget (39.1% more than RBFY16) is contributing to the rise
- A total of 20 projects are in operation including one new project – High-tech park, Sylhet
  - 2nd Sub-marine cable connection is yet to be completed
  - 39 unapproved unallocated projects (e.g. Mohakhali IT park, Rajshahi Silicon city)
  - Mobile Number Portability (MNP) licenses are yet to be realised
- Out of the 4 projects that were supposed to be completed in FY16, only 1 is not adequately allocated for full completion in due time
  - 3 projects that are supposed to be completed in FY17, are adequately allocated for full completion in due time which is appreciable.
- **Cyber security** – A monitoring and regulatory framework titled 'Internet Safety Solution' will be developed – a right initiative.
  - ICT related following policies/acts need to be reviewed – Cyber Security Act, Cyber Security Policy, National ICT Policy, High-tech Park Act

b. Industry

Tourism

- Allocation for the Ministry of civil Aviation and Tourism (Tk..549 cr.), an increase by 111%.
  - In connection with implementing the tourism year 2016, Tk.100 crore has been allocated in the budget in order to undertake different promotional activities
- Total 3 projects are running, 2 new major projects are being undertaken
- 5 projects under PPP initiative: slow progress.
  - Development of tourism resort and entertainment village at Parjatan holiday complex at Cox's Bazar and Five-star hotel in Sylhet are currently in procurement stage

b. Industry

Labour

- Budget allocation for the MoLE (Tk.307 cr.) has increased by 7% in FY17 compared to that in RBFY16.
  - Its share in total budget has remained at low levels (from 0.1% in FY13 to 0.09% in FY17)
- MoLE's expenditure is mainly development expenditure
  - In FY17, almost 66% of MoLE's total budget is for development purpose
  - However, the share of non-development expenditure is increasing over time in actual budget (45.4% in FY13 to 56.5% in FY15)
- Budget allocation for the MoEWOE (Tk.560 cr.) has increased by 19.1% in FY17 compared to that in RBFY16. Continuation of almost similar share of MoEWOE in total budget over years
- 7 projects of labour and employment sector are supposed to be completed by June, FY17

Project Cost (Taka in crore)	Number of Projects to be completed by June, FY2017	Average of maximum possible completion by June, FY2017 (%)	Number of projects which will be on track	Number of projects which will carry over	Number of projects which will be off-track
Less than 10	2	44.2	0	1	2
11 to 100	2	95.7	2	0	0
200-900	3	97.7	3	1	0
Total	7	**81.9**	**5**	**2**	**2**

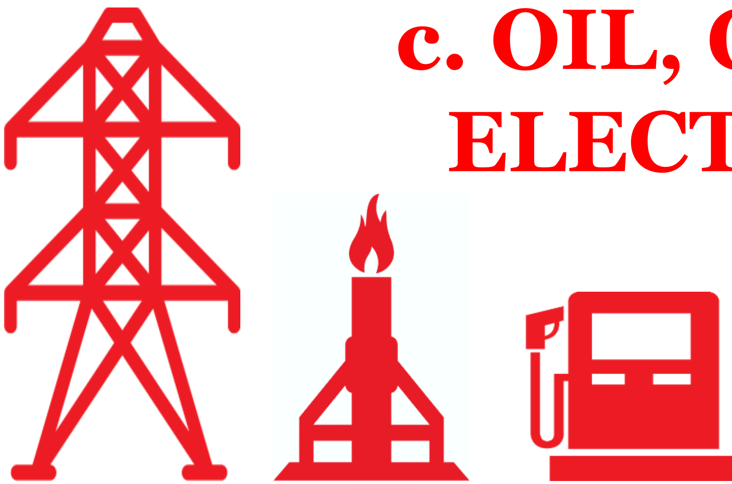
Source: calculated from the ADP, FY2017 and RADP, FY2016

b. Industry

❑ Among the possible 5 on track projects 4 are not likely to remain on track in FY2017

Project Name	Project Cost (Taka in crore)	Actual Completion by March, FY16 (per cent)	Age of the project up to March, FY16 (Years in round figure)	Average completion per year up to March, FY16 (per cent)	Required Completion by the next 15 months (April, FY16 – June, FY17)
Modernizing and Strengthening DIFE	72.50	15	3	5	76.6
Improving Working Condition in the RMG	284.17	30	2	15	66.3
Ensuring improvement of the fire and general building safety in Bangladesh	11.86	60	2	30	39.7
Establishing Institute of Marine technology in 5 district (Munsiganj, Faridpur, Chandpur, Sirajganj and bagerhat)	214.52	8	6	1	92.1
Establishing 30 technical training institute in defferent districts	825.72	10	6	2	87.1

Source: calculated from the ADP, FY2017 and RADP, FY2016



c. OIL, GAS AND ELECTRICITY

c. Oil, Gas and Electricity

- Total allocation for the power and energy sector in FY17 is Tk. 15,035 crore (9.5 % lower than RB16, mainly driven by lower allocation for development project).
  - Share in total budget has reduced (from 6.3% in FY16 to 4.4% in FY17)
  - About 87% of total allocation for the sector will go to the power sub-sector
    - Only 13.1% of total sectoral allocation is for energy sub-sector

Power Sector

- 5 newly approved projects include generation, transmission and distribution (T&D) and data acquisition
  - Unapproved and unallocated projects: 7 production, 5 T&D and 2 rural electrification
- Of the 24 projects listed to be finished in FY17 only 2 are likely to be completed
  - Timely completion of 9 projects concerned with power generation would have added 1745MW to the national grid (maximum possible completion 12%-62%)
  - 8 projects dealing with T&D are likely to have a maximum possible completion of 11.4% to 70.7% within the deadline.
- Transmission and distribution of power is a growing concern for the power sector.

Projects Scheduled to be completed by FY17

	Total	0-25	25-50	50-75	75-100
Maximum Possible Completion (%)	11.4 – 97.4	11.4 – 24.3	26.2 – 47.2	52.8 – 70.7	88.6 - 97.4
Number of Projects	24	6	10	5	3

c. Oil, Gas and Electricity

- Three projects (Matarbari 2*600MW coal PP, Bheramara CCPP (360MW) and Ashuganj (east) 400MW CCPP) are critically important for the supply of electricity over the medium term. However, implementation has been poor till now (maximum possible completion 8%, 66% and 7%)

Energy Sector

- Out of the 14 projects in ADP17, none are new; 12 are concerned with gas production and distribution; 1 is related to oil. However, 5 are carry-over projects
  - Only two projects are scheduled to be completed within FY17. Maximum possible completion for these two projects is 86% and 99% respectively

- Maheshkhali-Anoara gas pipeline project- integral part of LNG terminal project and scheduled to be finished in FY16- could not spend a single Tk. up to March 2016
- Despite the FM's commitment to expedite gas exploration programmes, only one relevant project is found in ADP but it is still in 'unapproved and unallocated' status

- Draft Power System Master Plan (PSMP) 2015 revised the targeted installed capacity for power production in 2020
  - In PSMP 2010: 22509MW but in PSMP 2015: 12949MW
  - However, actual installed capacity at present is near the targeted amount for 2020
- Energy mix is projected to change significantly as per draft PSMP 2015: gas: (15-55%), coal: (15-55%, Domestic: 1% or above), oil: (5%) and others (nuclear, import, hydro): (25%)

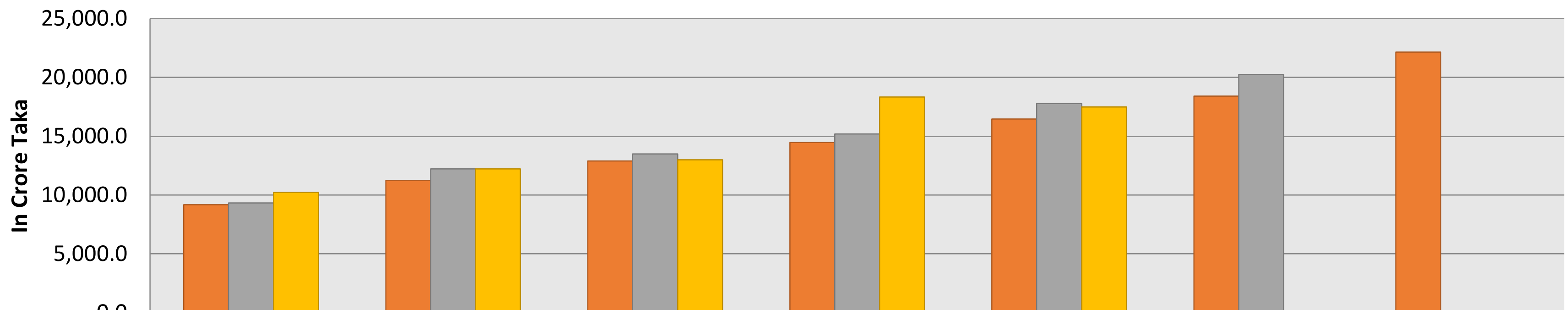
d. DEFENCE

Independent Review of Bangladesh's Development (IRBD)

d. Defence

- The budget allocation for Defence for FY17 is Tk. **21,144.6** crore, which is **20.4%** higher than the allocation for the previous year
- Of this amount, **98.2%** (Tk. 21,738.8 crore) is non-development expenditure, while only **1.8 percent** (Tk. 405.8 crore) is development expenditure

Defence Expenditure and Allocation in recent years:



	FY11	FY12	FY13	FY14	FY15	FY16	FY17
Budget	9,175.6	11,246.8	12,886.1	14,457.1	16,462.1	18,398.0	22,144.6
Revised	9,319.5	12,212.7	13,502.6	15,180.0	17,770.1	20,260.1	
Actual	10,222.4	12,218.4	12,988.4	18,330.8	17,484.6		

- On average, the revised budget is **6.3% more** than the allocation, while the actual spending is **3.3% higher** than the revised budget. Actual expenditure is about **9.7% greater** than the respective allocation over the fiscal years FY11 through FY15

d. Defence

- Defence expenditure accounts for **6.5%** of the total budgetary expenditure for FY17. In comparison, the share of Defence expenditure in total budget was **6.2%** in FY16. Over the period FY11-FY17, Defence expenditure rose by an average of **15.1%** per annum, while the total budget expenditure rose by **17.1%** per annum. As a share of total expenditure, it was steady at around 6.2% to 7% every year over the corresponding period

- Defence spending accounts for **1.13%** of the projected GDP for the FY17. In comparison, the military expenditure as a percentage of GDP is **2.3%** in the world, **1.8%** in Lower Middle Income countries, and **1.4%** in LDCs in 2014 (WDI, 2016). Thus, Bangladesh's military spending is comparatively lower as a share of GDP when compared to global averages

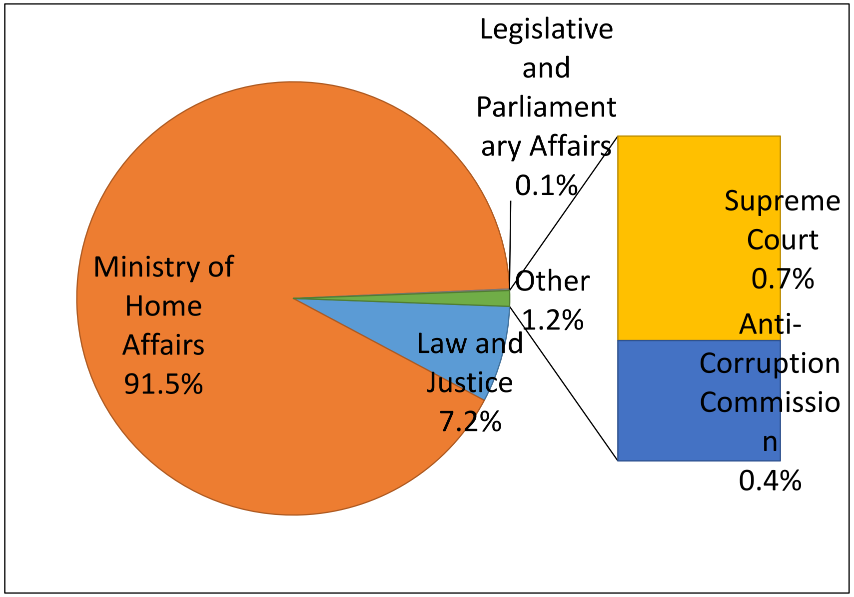
- Transparency and robustness (including in regards to off-budget financing, if there is any) related to the Defence economy will be helpful on terms of proper accounting and budgetary clarity

e. Public Order and Safety

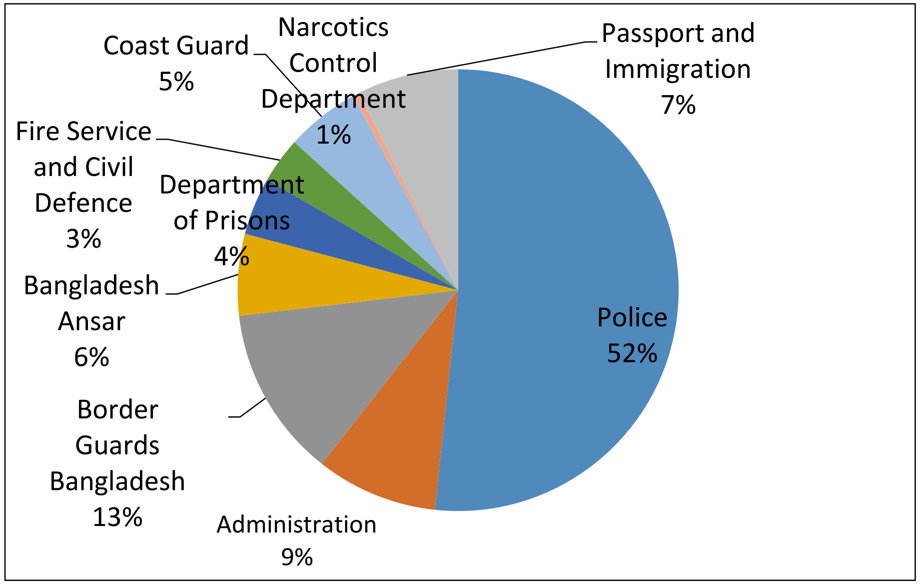
e. Public Order and Safety

- Budget allocation in Public Order and Safety for FY17 is Tk. **21,062** crore, which is a significant **54.5%** higher than the allocation for the previous year. In comparison, the average growth over the previous five fiscal years was only **14.9%** annually
- Share of total expenditure is **6.18%** for FY17 compared to **4.62%** in FY16

Classification of budgetary allocation in Public Order and Safety in FY17



Breakdown of the proposed expenditure in the Ministry of Home Affairs



e. Public Order and Safety

- ❑ Sources of the significant increase in expenditure in Public Order and Safety

Functional Classification	Contribution to the increase (% of Total)	% Change from FY16 Allocation
Police	45.1	49.5
Administration	12.8	118.5
Passport and Immigration	11.4	140.1
Coast Guard	10.8	309.4
Border Guards Bangladesh	9.2	38.8
Bangladesh Ansar	4.5	40.5
Fire Service and Civil Defence	3.1	55.1
Department of Prisons	2.5	29.1
Narcotics Control Department	0.4	51.2

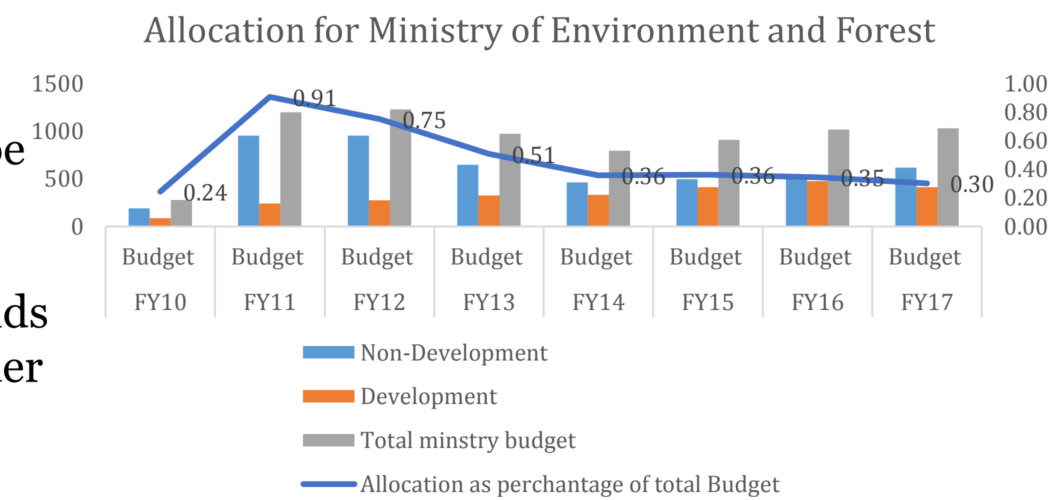
- ❑ The budget speech mentions that 50 thousand new posts will be created in the police force. This partially explains the rise in the allocation for this sector in FY17 budget

f. ENVIRONMENT

Independent Review of IRBD Bangladesh's Development

f. Environment

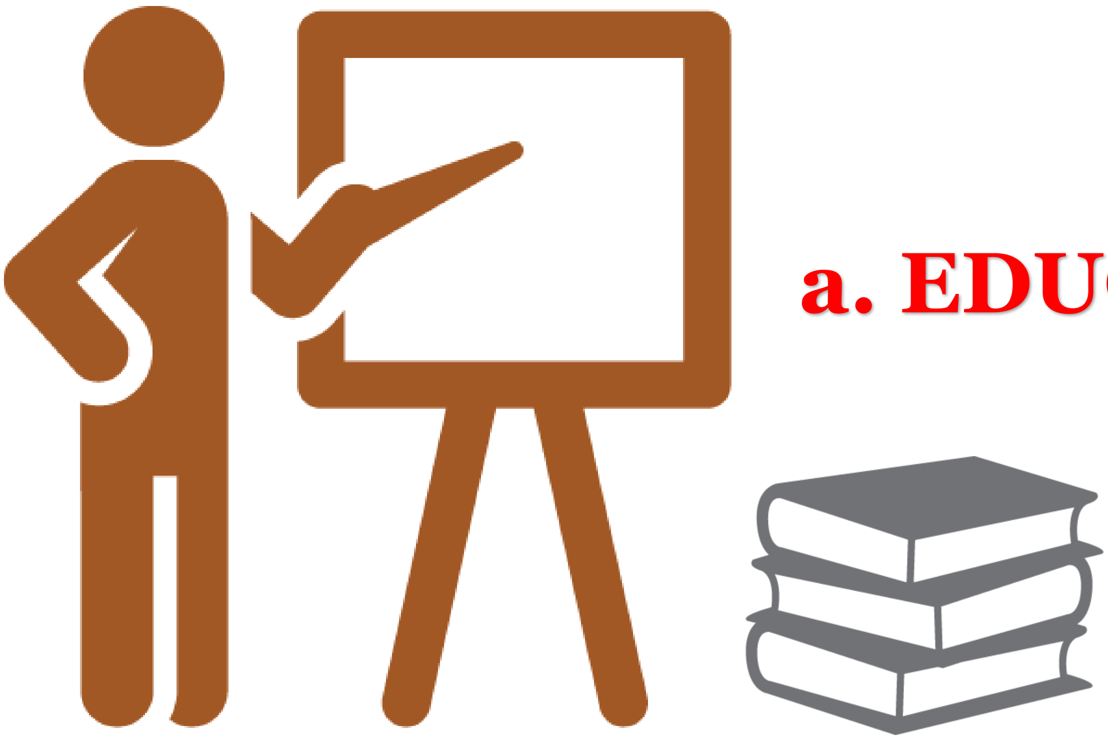
- Total allocation for the Ministry of Environment and Forests in FY17 budget is Tk. 1033 Cr., which is 5.2% higher than that of Revised FY16 (Tk.982 Cr.)
  - Allocation (as % of total budget) followed a declining trend since FY11 (from 0.91% to 0.29% in FY17).



- **Climate Change Trust Fund:** Allocation in F17 is proposed to be Tk.100 crore
  - Tk.700 crore has been allocated in last 7 years. Funds are allocated to projects under different ministries

- Out of 26 ADP projects, 10 are scheduled to be completed by FY17
  - If total FY17 allocation is spent; 6 projects will be completed on time
- There has been no new budgetary allocation for ensuring Arsenic free water supply, which was a pledge of the Government
- The budget states that formulation of Road Map for Nationally Appropriate Mitigation Actions (NAMA) is ongoing
  - Proper and timely implementation of the Road Map is important

VI. SOCIAL SECTOR

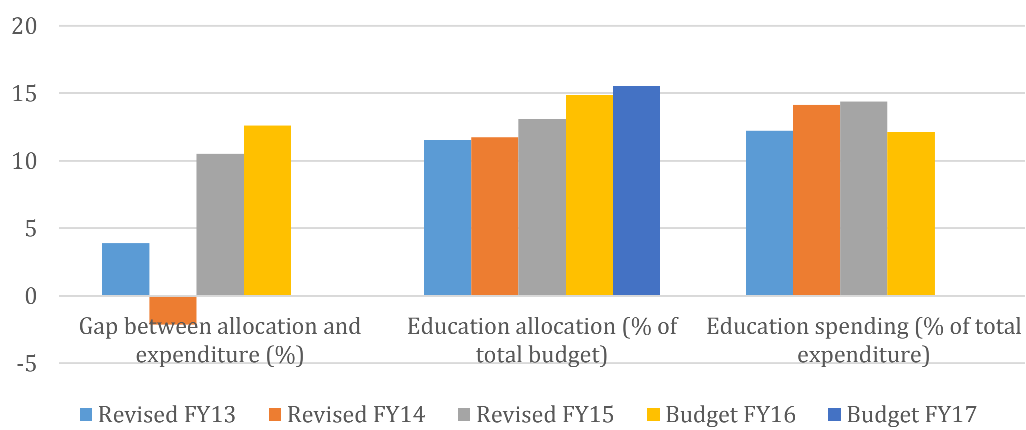


a. EDUCATION

a. Education

- ❑ Allocation for the 'Education and technology' sub-sector (Tk.52914 cr.) has jumped up by 35% during FY17 (Figure). This is a welcome development.
  - ➢ However, gap between allocation and expenditure has widened over time.
  - ➢ Significant increases in non-development allocation (rise in pays and allowances).
- ❑ Allocation for the education sector is 2.7% of GDP and 15.5% of the total FY17 budget: remains short of UNESCO's suggested share of 3.8% of GDP and 20% of total budget.
- ❑ Ministry of Primary and Mass Education (MoPME) — massive overhaul as plans to expand primary education to grades 6-8 by 2018 requires increased expenditure.
  - ➢ Allocation in FY17 will increase by 32% over FY16: Salaries (7.6%), construction (85%), training facilities (22%) and allowances (85%).
  - ➢ Concerns remain that MoPME budget allocation has not risen sufficiently to ensure adequate and timely payments of primary school teachers under the new pay scale, as teacher number is projected to rise significantly when implementation of National Education Policy begins.
  - ➢ There is urgent need to pay attention to quality enhancement in primary education.

Education Sector Allocation and Expenditure



a. Education

- Ministry of Education prioritises increased student stipends and teacher quality for FY17.
  - Allowance and training institute allocations have increased by 33% and 12% compared to FY16.
- Maximum completion rate amongst selected large ongoing ADP projects remain low at 20 to 40 per cent.
  - Large projects such as SITAIE, PIDSPSS and ROSC remain behind the targeted timeline — PEDP-3 is projected to pick up pace in response to increased allocation in FY17.

Completion Status of Selected Projects (figures are in Crore Tk.)

ADP Project name	Total cost	Total potential expenses by end FY17	Potential expenses as % of total cost	Current project status	End date
Primary Education Development Programme – 3 (PEDP-3)	18,154	14,212	78	Continuing	31/12/2017
Selection of Information Technology to Assist Improvements to Education (SITAIE)	5,548	1,489	27	Continuing	31/12/2018
Secondary Education Quality and Access Enhancement Project (SEQAEP)	3,827	3,126	82	Continuing	31/12/2017
School Feeding Programmes in Poor and Distressed Areas (SFP)	3,146	2,546	81	Concluding	30/06/2017
Physical Infrastructure Development for Selected Private Secondary Schools (PIDSPSS)	2,253	2,051	91	Carryover	30/06/2016
Reaching Out of School Children (ROSC)	1,140	464	41	Continuing	31/12/2017

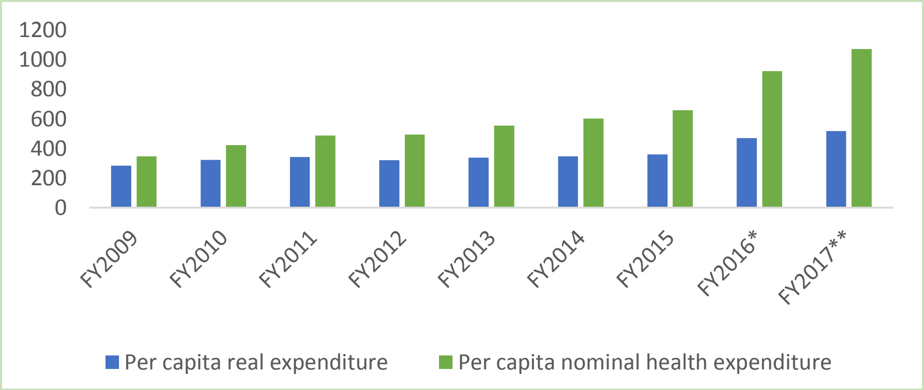
b. HEALTH

Independent Review of Bangladesh's Development

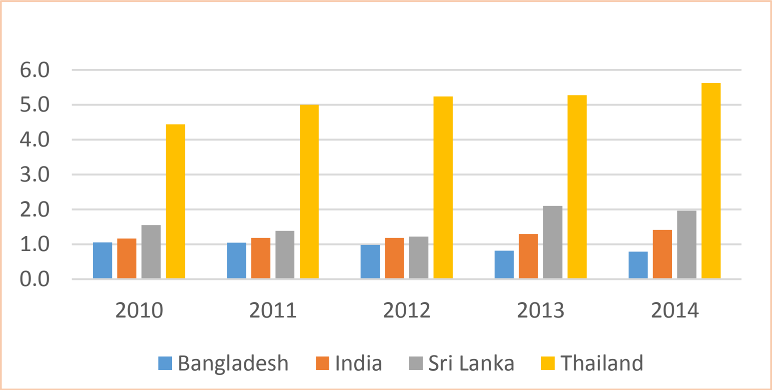
b. Health

- Allocation for the health sector (Tk. 17,487 cr) has increased by 18.1% over RBFY16 (37.7 % higher than BFY16)
- Proposed allocation is far behind the strategic financing target: 5.1% of total budget against 10% target set for FY16 (12% for FY21) in "Health Care Financing Strategy 2012-2032"
- Health sector has remained squeezed in overall expenditure: from 6.1% in FY10 to 5.1% in FY15)
- Despite the rise in public health expenditure, Bangladesh is still behind other comparable countries
- Figures show that growth in real per capita expenditure on health is much lower than is shown by the nominal figures
- Public health expenditure in BD, as % of GDP is much lower than other developing countries

Per capita real & nominal expenditure for health



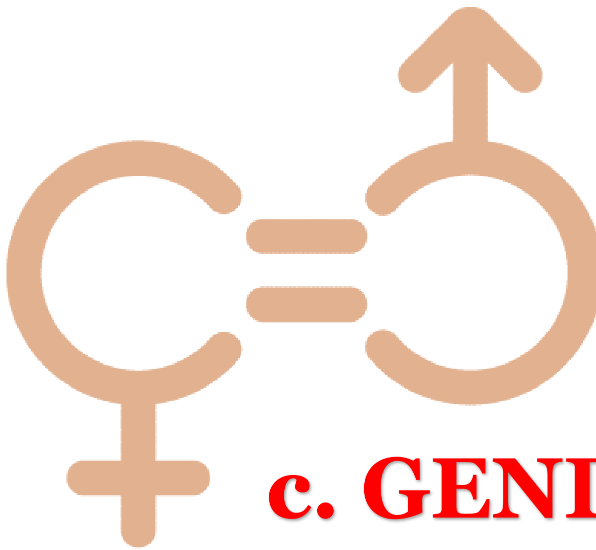
Health expenditure, public (% of GDP)



Source: World Development Indicator

b. Health

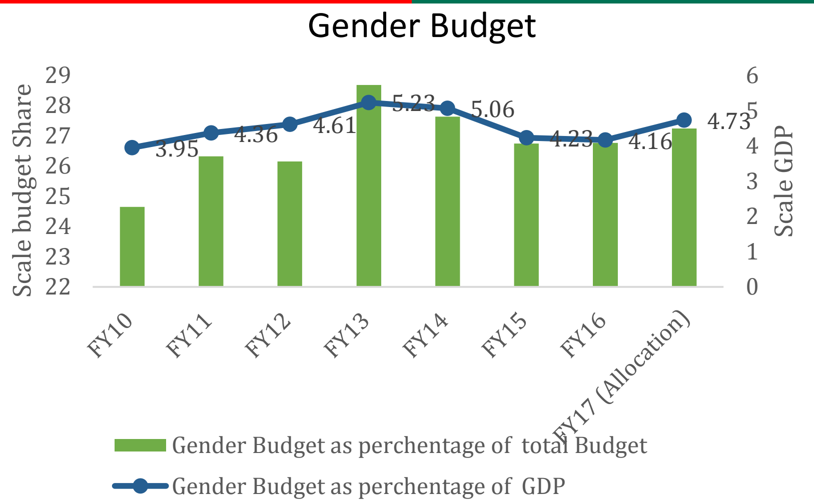
- Major projects (Tk. 200 cr. and above) will likely be implemented sluggishly in FY17
  - 6 projects will overrun of their targeted time line (FY16); of those, only 1 project will be completed by FY17
  - All 4 projects supposed to be completed in FY 17, will be carried over (possible completion rate by FY17 is between 53% and 88%)
  - Project on 'Health, Population and Nutrition Sector Development Programme (HPNSDP)' (Tk. 19571 crore) to develop health infrastructure : 59% was completed up to March, 2016 (Deadline 30 June 2016)
    - Allocation is not supposed to be carried out if timeline is not extended further (however, funds have been earmarked for this project in FY17 budget)



c. GENDER

c. Gender

- ❑ Allocation for 'Gender Budget' in FY17 (Tk. 92765 Crore) has increased by 29.1% against RBFY16.
- ❑ Share of the Gender Budget in total budgetary allocation in FY17(27.23%) is yet reach the peak of FY13(28.68%). Same is the case in terms of Share in GDP (4.73% in FY17 as against 5.23% in FY13).
- ❑ Impact assessment of 'gender budgeting' is a right initiative: One hopes that it is done professionally.



- ❑ Out of the 40 ministries under the gender budget in FY17, allocation has increased for 34 ministries and decreased for 6 ministries
  - ➢ Highest allocation for women is in "Ministry of Primary and Mass Education" (Tk. 10938 Crore or 11.79 % of Gender Budget) and lowest in "Ministry of Commerce" (Tk. 38 Crore or 0.04% of Gender Budget).
  - ➢ As percentage of total allocation Ministry of Women and Children Affairs has the highest share (76.99% of total ministry budget).
- ❑ Budget FY17 proposes increase in allowance and number of female beneficiary for 4 social safety net programmes.(Programme for the Widow, Deserted and Destitute Women,VGD, Maternity allowances, Working Lactating Mother Assistance programme).
- ❑ **3 projects** are planned to be completed in FY17; however only one will be completed (Nalitabari Working women hostel cum Training Centre)

d. CHILD AND SENIOR CITIZEN

d. Child Budget

- ❑ Child budget has been announced for the second time; coverage has increased
- ❑ Tk. 49612 cr. worth of child budget will be implemented by 7 ministries and department
  - ➢ Number of ministry & department increased to 7 in BFY17 (5 in BFY16)
  - ➢ Allocation has marginally increased (14.6% of total budget in BFY17 from 14.5% in RBFY16)
  - ➢ Per capita child budget is Tk. 7,736.2 (FY17) and Tk. 5,938.0 (FY16)
- ❑ Highest allocation under Ministry of Primary and Mass Education (Tk. 220.29 bn) lowest under Ministry of Social Welfare Tk. 795 crore (18.61% of the ministry)

Ministry	Ministry Budget (Bn Tk.)		Budget of Child focused Activities (Bn Tk.)		Child-focused budget as % of Ministry Budget		Child-focused budget as % of total budget	
	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16	2016-17	2015-16
Ministry of Primary and Mass Education	221.63	168.48	220.29	165.69	99.4	98.34	6.47	6.26
Ministry of Education	268.58	202.67	178.73	138.37	66.55	68.27	5.25	5.23
Ministry of Health and Family Welfare	175.16	148.41	43.41	38.82	24.78	26.16	1.27	1.47
Ministry of Social Welfare	42.73	33.15	7.95	6.19	18.61	18.67	0.23	0.23
Ministry of Women and Children Affair	21.51	17.61	8.26	5.88	38.4	33.39	0.24	0.22
Local Government Division	213.26	192.21	21.4	13.26	10.03	6.9	0.63	0.50
Ministry of Disaster Management and Relief	80.05	77.71	16.08	15.67	20.09	20.16	0.47	0.59
Total (Selected 7 Ministries)	1,022.92	840.24	496.12	383.88	48.5	45.69	14.56	14.50

d. Senior Citizen

- Elderly population is projected to grow in the country and its share will rise from 5.2% in 2016 to 6.0% in 2026.
  - Elderly-centric budgetary allocations are projected to increase in FY17 due to increased provision of elderly destitute health care and services, and life-skill training and employment for able elderly persons, expansion of elderly safety net coverage to 96.5%, and 10% increase in the income tax threshold.
- Improvement in Old Age Allowances (OAA) (31.3% increase over FY16): both in number and coverage (20% increase in amount, Tk. 500/month, and 5% increase in no. of beneficiaries).
  - This is a step in the right direction, as currently over one Crore senior citizens face abject poverty.
  - OAA allowances levels, however still remains low compared to global elderly allowance schemes.
- FY17 budget — additional resources for aged Freedom Fighters by doubling monthly allowance to Tk.10,000, speedy construction of rehabilitation facilities and increased access to micro-credit.

Senior Citizen centric budgetary allocation based on Social Safety Net Program estimates

Fiscal Year	Allocation - nominal (crore Tk)	Allocation - real (crore Tk)	Allocation per capita - nominal (Tk)	Senior citizen spending as % of total budgetary allocation
Revised FY13	6795.28	4136.90	440.65	3.54
Revised FY14	8527.65	4913.09	545.48	4.45
Revised FY15	11126.18	6054.73	702.18	5.80
Budget FY16	15036.37	7677.1	936.22	7.84

d. Senior Citizen

- India and Sri Lanka devoted 2.0 and 6.6% (respectively) of the FY16 budget to servicing pension payment.
  - Both India and Sri Lanka maintain various National Policies for senior citizens that provide a wealth of benefits including travel concessions, income tax relief, medical benefits, extra interest on savings, security measures, support for old homes and transport.
  - For FY17, India aims to increase elderly healthcare allowance coverage and ease access to retirement tax exemptions, while Sri Lanka will introduce half tax holidays for construction of elderly housing facilities.
- In FY16, GoB only devoted 0.5% of budget towards pension — projected to increase to 1.7% in FY17.
  - GoB recently introduced online salary and pension fixation system for government employees (December 2015).
  - Pension scheme reforms in FY17 will include introduction of contributory pension plans for government employees and systematisation of banking Deposit Schemes to provide for all private sector workers.
- Ministry of Social Welfare (MoSW) implemented a National Policy for Older Persons (NPOP) in 2013, but resource utilisation for this policy is yet to be reflected in the budget, nor have new ADP projects for senior citizens been introduced for FY17.
- To this extent, CPD proposes introduction of a separate budget for addressing senior-centric policy concerns and implementation to be administered under MoSW.
  - Fiscal initiatives such as increased tax exemption threshold in FY16 for senior citizens are good policy measures, and can be enhanced with institutionalised implementation of 2013 NPOP by taking cue from Indian and Sri Lankan approach.
  - Budget must be transparent, addressing resource mobilisation and fiscal allocation for social safety, security, employment and healthcare through reallocation of resources and implementation of new ADP projects.

e. SOCIAL SECURITY

e. Social Security

- There is no comprehensive list of safety net programmes for FY17 as yet
- CPD has been advocating for increasing the SSNP allocation and coverage using the fiscal space and unutilised budgets
- Government has increased both allocation and coverage of a number of important programmes under the SSNPs for FY17 - a welcome initiative
- However, the additional allocation is still inadequate to attain respective NSSS targets

Allocation for major SSNPs for FY17 vs. NSSS targets (crore Tk.)

Programmes	Budget				NSSS target	Projection vs Target			
	FY14	FY15	FY16	FY17	FY17	MTBF FY18	NSSS FY18	MTBF FY19	NSSS FY19
Old Age Allowance	980	1,307	1,440	1,890	3,530	1,840	3,740	1,840	3,960
Child School (Primary and Secondary) Stipend	1,000	971	1,159	1,550	6,830	1,550	7,240	0	8,140
Allowances for the Widowed, Deserted and Destitute Women	364	486	534	701	2,040	834	2,160	834	2,420
Programmes for people with disabilities	132	240	360	540	1,910	578	2,020	761	2,270

e. Social Security

- ❑ Allocations for the selected four important SSNPs will increase between 31-50% in FY17, but these are still 45%-77% short of NSSS targets
- ❑ Around 97%-367% growth in allocation will be required in FY18 to meet NSSS targets

Programmes	Growth in FY17 over BFY16	Budget allocation in FY17 as % of NSSS Plan	Required growth in allocation in FY18 to meet the NSSS target (%)
Old Age Allowance	31.3	53.5	97.9
Child School (Primary and Secondary) Stipend	33.7	22.7	367.1
Allowances for the Widowed, Deserted and Destitute Women	31.2	34.4	208.2
Programmes for people with disabilities	50.0	28.3	274.1

- ❑ These SSNPs are still inadequate from the point of view of coverage
- ❑ Bangladesh Bureau of Statistics (BBS) in cooperation with the World Bank is developing a National Household database for the poorer sections of the population and for social safety net coverage
  - ➢ This is to be implemented within four years (2013 to 2017) involving a cost of Tk. 328.8 crore
  - ➢ The project got an allocation of Tk. 223.2 crore in FY2017 ADP
  - ➢ Only Tk. 5.7 crore was spent in July-March of FY16 while the cumulative financial progress was 6.1% up to March 2016

VII. LOCAL GOVERNMENT

VII. Local Government

❑ Local Government Reforms

- FY17 budget speech states: "existing LG system now seems to be the main impediment to progress" and argued in favour of reforming the system. However, no concrete measure has been spelt out. It is also unclear how devolution of power to the LGIs can be ensured whilst **"retaining the power of revenue collection in the hands of the central government".**
- A **democratic district government** system has been proposed. However, the idea of **District Budget has virtually been abandoned now** after three years (following its introduction in FY14). This sounds rather an empty promise.

❑ Budget Allocation in FY17

- Allocation for **LGD** and **Ministry of Chittagong Hill Tracts Affairs** in FY17 has increased (growth in FY17 over RBFY16 for the two were 11% and 7.7% respectively). However, allocation for both the agencies **as a share of total budget has decreased** compared to FY16.
- Allocation for **Rural Development and Cooperatives Division** in FY17 has increased from BFY16 but **decreased from RBFY16** (growth in FY17 over RBFY16 is -6.3%).

❑ ADP Allocation in FY17

- ADP allocation for **LGD** in BFY17 as a share of total ADP (16.8%) has **decreased** compared to share of ADP allocation for LGD in RBFY16 (18.4%) and BFY16 (17.2%).

VII. Local Government

Projects under LGED in FY17 ADP

- Total 77 (investment) projects and four (technical assistance) projects
- 13 projects are supposed to be completed by June 2016. **Only one project is on track** (>90%) to be completed by FY16. **Eight projects are not on track** for possible completion **even by FY17**
- 28 projects (includes one technical assistance) are to be completed by FY17. Among these, **8 projects have the maximum possibility of completion** (> 90%)

Projects under LGD in FY17 ADP

- Total five (investment) projects and two (technical assistance) projects.
- Four projects are to be completed by June 2017. **Three projects are on track** (> 90%)

Table: Maximum possible completion of FY17 Projects under LGED and LGD

	No. of Projects to be completed by FY16	Possible completion in FY16 (%)			No. of Projects to be completed by FY17	Maximum possible completion in FY17 (%)		
		<50	(50-90)	>90		<50	(50-90)	>90
LGED	13	7	5	1	28	9	11	8
LGD	0	N/A	N/A	N/A	4	0	1	3

Carry over and incomplete projects dominate the scenario

VIII. REFORM MEASURES

Reform measures mentioned in budget FY17

Administration

- Public Financial Management Reform Strategy 2016-21 which includes Budget and Accounts Classification System (BACS) and Integrated Budget and Accounting System (iBAS ++)
- Authorized Economic Operator (AEO) System in NBR
- Tax Deduction at-source Zones
- Electronic at-source tax management system
- Automated Tax Information Unit
- Separate unit in NBR for dealing with transfer mispricing, taxation of foreign nations and combating money laundering.
- Complete automation of VAT System under the VAT online Project (VoP)
- Establishment of new land management system

Institutions

- Real Time Gross Settlement (RTGS) System has been introduced
- National Strategy for Development of Statistics (NSDS) has been formulated
- Minimum Tax System proposed.
- Machine Readable Returns, Forms and Certificates introduced.
- Initiatives taken to establish Land Information Service Centres.
- Financial Reporting Council to be constituted in FY17.

Policies

- VAT and SD Act, 2012 "will gradually be implemented."
- Direct Tax Act, 2018 declared.
- Contributory Pension Scheme introduced in public sector
- National Integrity Strategy has been formulated
- 'Guidelines for Preparing Voluntary Information Disclosure Manual' will be formulated for all office in public sector.

Progress on reforms measures

Area of Reform	Implemented	Ongoing	Lack of Progress/ No Update
Reforms concerning Development Administration	1.“Digital Executive Committee on National Economic Council (ECNEC) 2.Digital Land Management System 3.Merger of Privatisation Commission with BOI	1. Online Public Procurement 2. 30 Centres	1. Authoritative Land Records (ALR) 2. Pension Fund Management Authority
Reforms related to Development Supporting Institutions	1.Insurance Development and Regulatory Authority 2.Bangladesh Infrastructure Finance Fund Limited 3.Fast Track Project Monitoring Committee 4.National Human Resource Development Fund (NHRDF)	1.Pension Fund Management Authority 2.Palli Sanchay Bank 3.Special Economic Zones 4.Financial Reporting Council 5.Accreditation Council 6.Tannery Industry City 7.Competition Commission	1. Road Maintenance Fund Board 2. Banking Commission 3. National Tax Tribunal 4. Reserve for Reward and Financial Incentives Fund 5. Tax Information Management and Research Centre 6. ICT Capacity Development Company 7. Technology Park in every divisional headquarter 8. Shammridhi Shopan Bank

Progress on reforms measures

Area of Reform	Implemented	Ongoing	Lack of Progress/ No Update
Reforms as regards Development Facilitating Policies and Acts	1. Amendment of loan rescheduling policy 2. Rajshahi Krishi Unyan Bank Act, 2014 3. 10 Per cent rebate on accrual interest/ profit to borrowers who repay loans 4. Bank Companies Act, 2013 5. Exchanges (Demutualization) Act, 2013 6. PPP Act, 2015	1. Issuance of land ownership certificate 2. VAT Rules, 2014	1. Insurance Corporation Act 2. National Insurance Policy, 2014 3. Agricultural Land Protection and Land Use Act 4. National Training Policy

Summary of status

- Of the reforms proposed in FY15- FY16 (based on budget speeches):
  - There are 39 priority reform measures considered for the present analysis
  - Of these 39 reforms, 33% had been implemented, 31% are in the process of being established and 36% are either lacking progress as of FY17 budget speech or any update on their progress are unavailable
  - The highest proportion of unimplemented reforms belongs to the category of "development supporting institutions."
  - Proportion of committed reforms that has not been implemented as of budget FY 17 is higher than implementation ratio.
- CPD Recommendations reflected in the budget FY17:

CPD Recommendation	Budget FY17
Enactment of Financial Reporting Act	Financial Reporting Act has been enacted in 2015. There is a commitment to set up the Financial Reporting Council in FY2016-17
Amendment and update of Customs Act, 1969	Amendment of Customs Act, 1969: Sections 2, 6, 9, 18, 115, 129, 156, 193A, 196A, 219 & 219A have been amended to make assessment process easier.

VIII. CONCLUDING REMARKS

VIII. CONCLUDING REMARKS

- Implementation of budget for FY17 will continue to face a number of familiar challenges –
  - Attaining the proposed fiscal framework for FY17 is going to be an uphill task
  - Because of -
    - Inability to mobilise the targeted domestic resources
    - Inability to spend the earmarked allocation
    - Failing to use foreign aid in the pipeline and opting for non-concessional foreign loans
    - Quality of public expenditure will continue to remain suspected
- Structural and institutional weaknesses continue to stand between the nation and its potential achievements. The vision is not supported by courage and innovation in this regard

VIII. CONCLUDING REMARKS

What can be done to improve budget utilisation performance?

- Ensure greater involvement of parliamentary standing committees in formulating and overseeing implementation of the budget
- Develop a detailed work plan to implement the budget
- Provide quarterly reports on budget implementation in Parliament (The Finance Minister missed out 11 out of 21)
- Establish an effective result-based-monitoring system to ensure high quality delivery
- Make closing fiscal framework figures of elapsing fiscal year (FY16) available at the earliest and revise budget for FY17 at an early stage

VIII. CONCLUDING REMARKS

- Bring more transparency in budget formulation, implementation and assessment procedures:
  - Establish a Public Expenditure Review Commission
  - Formulate appropriate follow up mechanisms for monitoring government tax incentives
  - Disclose financial accounts of state-owned enterprises including BPC and contingent liabilities in detail
  - Establish transparency in government's asset acquisition
  - Formulate an appropriate foreign aid policy in view of the changed global aid architecture and Bangladesh becoming the (lower) middle income country
  - More sunshine in defence economy
  - Introduce separate but integrated budget for local government
  - Integrate NGO financing in the public expenditure structure

Thank You