# Public Finance

## Fiscal Trends- strategies for achieving higher growth and development

8.1 The FY09 budget was formulated keeping in mind the second Poverty Reduction Strategy Paper (PRSP) titled "National Strategy for Accelerated Poverty Reduction (NSAPR)" commencing from July 2008. The tenure of implementation of the first NSAPR came to an end in June 2008. The budget was prepared within a Medium Term Macroeconomic Framework (MTMF). Both the total revenue and expenditure in the revised FY09 budget fell short of the initial projection. The budget deficit as percentage of GDP ended up 4.1 percent, which was lower than the target of 5.0 percent. The domestic borrowing of the government, which had surged to 3.7 percent of the GDP in the preceding financial year, was restricted to 2.3 percent of the GDP.

The broad objectives of the FY09 budget included maintaining macroeconomic stability, accelerated growth, and poverty reduction. Alongside these, priority was given to maintaining price level of essentials within tolerable limit, employment generation, widening and deepening of social safety-net programmes, reducing regional disparity, increasing agricultural production, ensuring food security, increasing power generation and the overall development of communication network including IT.

The revenue collection in the revised FY09 budget increased by 14.3 percent over the revised FY08 revenue. It was 0.3 percent lower compared to the target. The current expenditure in the revised FY09 budget was higher than both the target and the revised FY08 current expenditure. On the other hand, although the Annual Development Programme (ADP) of Taka 230.0 billion in the revised FY09 budget turned out higher than the revised FY08 ADP, it fell short of the target by 10.2 percent. The fiscal deficit (excluding grants) in the revised FY09 budget at 4.1 percent of GDP was much lower than both the projection and the revised FY08 fiscal deficit (Table 8.1).

Table 8.1 Bangladesh Government revenue and expenditure

(billion Taka)

| | FY08* | as % of GDP | FY09* | as % of GDP | FY10** | as % of GDP |
|---|---|---|---|---|---|---|
| **Total revenue** | **605.4** | **11.3** | **691.8** | **11.2** | **794.6** | **11.6** |
| a) tax | 480.1 | 9.0 | 555.3 | 9.0 | 639.6 | 9.3 |
| b) non-tax | 125.3 | 2.3 | 136.5 | 2.2 | 155.0 | 2.3 |
| **Total expenditure** | **936.1#** | **17.5** | **941.4** | **15.3** | **1138.2** | **16.6** |
| a) current | 522.5 | 9.8 | 626.8 | 10.2 | 695.0 | 10.1 |
| b) ADP | 225.0 | 4.2 | 230.0 | 3.7 | 305.0 | 4.4 |
| c) others | 188.6 | 3.5 | 84.6 | 1.4 | 138.2 | 2.0 |
| **Budget deficit** | **330.7** | **6.2** | **249.6** | **4.1** | **343.6** | **5.0** |

Source : Budget in Brief 2008-09 and 2009-10, Ministry of Finance
* = Revised budget, ** = Budget estimate, # = Including BPC's liability

## The FY09 Budget and Fiscal Outcome

### a. Revenue receipts

8.2 Against the target of Taka 693.8 billion, the total revenue receipts in FY09 was Taka 691.8 billion, which was higher than the FY08 revenue receipts by 14.3 percent. The tax revenue making up 80.3 percent of the total revenue receipts increased at a lower rate of 15.7 percent compared to 22.3 percent growth in FY08 (Table 8.1).

The non-tax revenue also displayed lower growth rate of 8.9 percent in FY09 compared to 22.6 percent increase in the preceding financial year. The total revenue receipts as percentage of GDP fell to 11.2 percent in FY09 compared to 11.3 percent in FY08. The total tax revenue receipts as percentage of GDP remained unchanged at 9.0 percent in FY09. The major revenue measures in the FY09 budget included:

- The tax exempted income limit for individual taxpayers enhanced from Taka 150,000 to Taka 165,000. The tax exempted income limit for persons having no income other than agricultural income increased to Taka 215,000.
- The tax free income limit for female taxpayers and senior taxpayers of age exceeding 70 years raised to Taka 180,000. The tax free income limit for female taxpayers and senior taxpayers of age exceeding 70 years having only agricultural income increased to Taka 230,000.
- The tax rate for companies listed for public trading revised downward to 27.5 percent from 30 percent, and for companies not listed for public trading to 37.5 percent from 40 percent. The 45 percent tax rate for banks, insurance, financial institutions and mobile phone operators remained unchanged.
- 20 percent income tax imposed on dividend income for corporate taxpayers.
- Section 16CC of the Income Tax Ordinance requiring all companies, irrespective of profit or loss, pay a minimum tax on the basis of their turnover, rescinded.
- The current tax exemption period for income from farms engaged in fisheries, poultry, cattle breeding, dairy, mushroom cultivation, silk worm production, seed production, marketing of locally produced seeds sectors and cultivation of flowers and plants extended by another three years from 1 July 2008 to 30 June 2011.
- The manufacturing Small and Medium Enterprises (SMEs) having annual turnover not exceeding Taka 2,400,000 exempted from tax.
- The income stemming from exports of handicrafts kept outside the purview of taxes from 1 July 2008 to 30 June 2011.
- The income emanating from computer software development, data processing, data entry and call centre kept tax free from 1 July 2008 to 30 June 2011.
- Agro-processing industry, diamond cutting, steel production from billet, jute industry, different units of textile sector, underground Rail, Monorail, and telecom infrastructure except mobile phone received tax holiday.
- The existing provision of tax exemption on income of foreign nationals working in Bangladesh as technician annulled.
- Further reduction of concessionary rate of duty on capital machinery and spares from 5 percent to 3 percent. Reduction of duty on basic raw materials from 10 percent to 7 percent and intermediate raw materials from 15 percent to 12 percent. The highest slab for finished products remained at 25 percent.
- The indemnity bond system was replaced with a concessionary rate of 1 percent customs duty for the importation of machinery and spares by the export-oriented enterprises. Similar benefit of 1 percent concessionary rate for the importation of machinery for textile industry and special rate of 3 percent in lieu of 5 percent for the importation of some other spares and inputs were offered.
- The duty exemption benefit for fertilizer, seed and capital machinery and spares used in the dairy and poultry industry continued.

– The customs duty on equipments used in agriculture like irrigation pumps, diesel engines and tractors, reduced to 3 percent from various existing rates.

– A specific duty of Taka 7,000 per Ton on sugar imposed.

– A specific duty of Taka 2,500 per Ton on Mild Steel ingot and billet imposed.

– The threshold level for VAT enhanced from the existing Taka 2,000,000 to Taka 2,400,000.

– VAT at the production stage of handmade biscuits and fabrics produced from artificial fibre and thread using handloom withdrawn.

– Advanced Income Tax (AIT) and VAT on Electronic Cash Registers withdrawn.

– The provision of Taka 1,000 as AIT for fresh issuance of trade licenses repealed. Taka 500 instead of Taka 1,000 made payable for renewal of trade licenses.

8.3 In the revised FY09 budget direct taxes on income and profit increased at the rate of 23.0 percent to Taka 135.4 billion leaving its share in the total tax revenue to 19.6 percent from 22.9 percent in FY08. Receipts from stamp duty (non judicial), Value Added Tax (VAT), supplementary duty, excise duty, land revenue, taxes on vehicle, and import duty rose by 34.5, 18.3, 14.4, 14.3, 11.1, 10.0 and 2.9 percent respectively compared to that of the revised FY08 budget. On the other hand, receipts from other taxes and duties declined by 10.6 percent. Among other sources, receipts from narcotics and liquor duty remained unchanged (Table 8.2).

8.4 Under the non-tax revenue sector, receipts from defense, capital revenue, and tolls and levies sharply increased by 165.1, 100.0 and 89.5 percent respectively compared to that of the revised FY08 budget. Other sub-sectors showing increase included receipts for services rendered, 32.7; administrative fees and charges, 24.8; other non-tax revenue and receipts, 24.1; dividend and profit, 23.4; fines, penalties and forfeiture, 18.2; rents, leases and recoveries, 10.0; post offices, 10.0; non-commercial sales, 8.0 and railway 3.6 percent. On the contrary, receipts from interest fell by 16.2 percent (Table 8.2).

Table 8.2 Composition of revenue receipts

(billion Taka)

| | FY08* | FY09* | FY10** |
|---|---|---|---|
| **Tax revenue** | **480.1** | **555.3** | **639.6** |
| Value Added Tax (VAT) | 170.1 | 201.2 | 228.0 |
| Import duty | 93.0 | 95.7 | 104.3 |
| Supplementary duty | 79.7 | 91.2 | 104.9 |
| Taxes on income and profit | 110.1 | 135.4 | 165.6 |
| Stamp duty (non judicial) | 11.3 | 15.2 | 17.5 |
| Excise duty | 2.1 | 2.4 | 2.6 |
| Land revenue | 3.6 | 4.0 | 4.9 |
| Taxes on vehicles | 5.0 | 5.5 | 6.6 |
| Narcotics and liquor duty | 0.5 | 0.5 | 0.5 |
| Other taxes and duties | 4.7 | 4.2 | 4.7 |
| **Non-tax revenue** | **125.3** | **136.5** | **155.0** |
| Telegraph and telephone board | 18.8 | - | - |
| Administrative fees and charges | 14.1 | 17.6 | 19.0 |
| Dividend and profit | 24.8 | 30.6 | 36.8 |
| Interest | 11.1 | 9.3 | 15.1 |
| Capital revenue | 0.5 | 1.0 | 0.4 |
| Receipts for services rendered | 4.9 | 6.5 | 7.5 |
| Non-commercial sales | 2.5 | 2.7 | 3.2 |
| Rents, leases and recoveries | 1.0 | 1.1 | 1.1 |
| Defense receipts | 6.3 | 16.7 | 18.2 |
| Tolls and levies | 1.9 | 3.6 | 4.8 |
| Fines, penalties and forfeiture | 1.1 | 1.3 | 1.3 |
| Railway | 5.6 | 5.8 | 6.4 |
| Post offices | 2.0 | 2.2 | 2.2 |
| Other non-tax revenue and receipts | 30.7 | 38.1 | 39.0 |
| **Total :** | **605.4** | **691.8** | **794.6** |

Source : Budget in Brief 2008-09 and 2009-10, Ministry of Finance
* = Revised budget, ** = Budget estimate

## b. Expenditure

8.5 The total public expenditure in the revised FY09 budget amounted to Taka 941.4 billion, which was 5.8 percent lower than the initial projection of Taka 999.6 billion and 0.6 percent higher than the FY08 expenditure of Taka 936.1 billion. The current expenditure of Taka 626.8 billion in FY09 was 3.2 percent higher than the initial projection of Taka 607.6 billion. The ADP of Taka 230.0 billion was 10.2 percent lower than the initially targeted Taka 256.0 billion (Table 8.1).

8.6 The current expenditure in FY09 surpassed initial allocations for all the accounts, namely social sector, interest on domestic debt, defense, public order and safety, interest on foreign debt, agriculture sector, transport and communication, local government and rural development, and housing (Table 8.3). The proposed non-development current expenditure in FY09 had the following revisions:

– An additional amount of Taka 15.0 billion was allocated for agriculture subsidy.

– An additional amount of approximately Taka 8.0 billion was included in supply and services head of the revised budget on account of electricity, municipality tax, land development tax, telephone, travel expenses, contingent staff, petrol and lubricant, training expenses, transport expenses, hiring charge, seminar and conference, food procurement, computer equipments, honorarium allowance/fee against some ministries.

– An additional amount of Taka 7.5 billion was allocated for interest payments.

– Additional allocation was made for financial stimulus package for tackling world economic recession.

8.7 The Annual Development Programme in FY09 was revised downward by 10.2 percent from Taka 256.0 billion to Taka 230.0 billion. Consistent with the growth and poverty reduction objectives, 24.5 percent of the total outlay was spent for the infrastructure sector (power; oil, gas & natural resources; transport; and communication), and 26.0 percent for the social sector (education & religious affairs, and health, nutrition, population & family welfare) (Table 8.5).

### c. Financing the FY09 Budget Deficit

8.8 The deficit (excluding grants) in the revised FY09 budget stood at Taka 249.6 billion (4.1

Chart 8.1

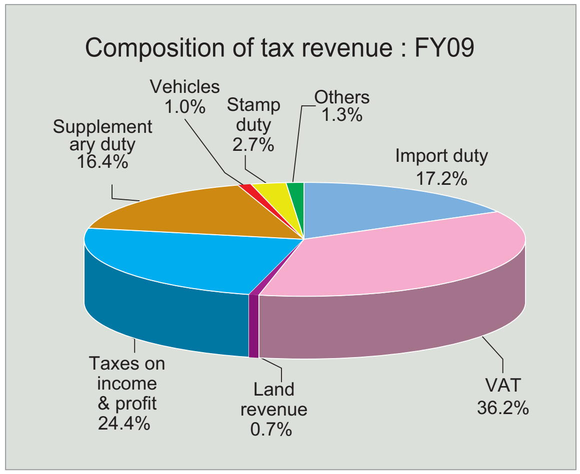



Chart 8.2

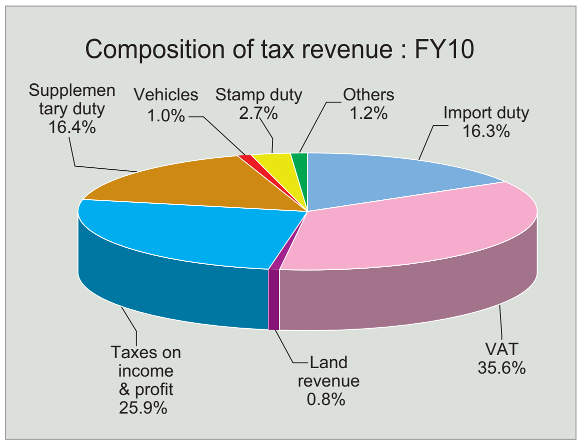



Table 8.3 Composition of revenue expenditure

(billion Taka)

| | FY08* | FY09* | FY10** |
|---|---|---|---|
| Social sector | 155.0 | 193.6 | 216.0 |
| Public services | 44.9 | 61.9 | 104.8 |
| Interest on domestic debt | 106.2 | 120.0 | 144.7 |
| Defense | 44.8 | 53.7 | 52.5 |
| Public order and safety | 43.5 | 50.8 | 51.6 |
| Interest on foreign debt | 13.5 | 13.1 | 13.4 |
| Agriculture sector | 60.9 | 82.2 | 60.9 |
| Transport and communication | 32.0 | 26.5 | 25.8 |
| Local government and rural development | 13.9 | 15.2 | 15.5 |
| Housing | 5.6 | 5.8 | 6.2 |
| Others | 2.2 | 4.0 | 3.6 |
| **Total :** | **522.5** | **626.8** | **695.0** |

Source : Budget in Brief 2008-09 and 2009-10, Ministry of Finance
* = Revised budget, ** = Budget estimate

percent of the GDP). This ratio was lower than what was initially projected. The domestic borrowing component of the deficit financing in FY09 was Taka 142.0 billion (2.3 percent of the GDP). Of this, Taka 107.0 billion (1.7 percent of the GDP) was bank borrowing (Chart 8.3). The other component Taka 35.0 billion (0.6 percent of the GDP) of domestic financing of the deficit was non-bank borrowing, mainly National Savings Schemes. The foreign financing component of the budget deficit was Taka 107.6 billion (1.8 percent of the GDP), made up of foreign grants and loans.

Table 8.4 Composition of social sector revenue expenditure

(billion Taka)

| | FY08* | FY09* | FY10** |
|---|---|---|---|
| Education & technology | 85.9 | 92.7 | 101.2 |
| Health | 28.1 | 34.1 | 37.8 |
| Recreation, culture and religious affairs | 5.4 | 7.0 | 5.0 |
| Labour and employment | 0.2 | 0.2 | 0.2 |
| Social security and welfare | 35.4 | 59.6 | 71.8 |
| **Total :** | **155.0** | **193.6** | **216.0** |

Source : Budget in Brief 2008-09 and 2009-10, Ministry of Finance
* = Revised budget, ** = Budget estimate

Table 8.5 Sectoral shares in ADP expenditure

(percent)

| | FY08* | FY09* | FY10** |
|---|---|---|---|
| Agriculture | 6.0 | 6.1 | 5.6 |
| Rural development & institutions | 14.1 | 15.6 | 11.9 |
| Water resources | 4.0 | 3.8 | 2.9 |
| Industries | 1.2 | 2.0 | 1.7 |
| Power | 13.8 | 11.6 | 11.7 |
| Oil, gas & natural resources | 2.0 | 0.9 | 2.3 |
| Transport | 11.5 | 11.0 | 15.3 |
| Communication | 1.8 | 1.0 | 1.3 |
| Physical planning, water supply & housing | 7.2 | 10.8 | 11.9 |
| Education & religious affairs | 13.6 | 14.1 | 13.6 |
| Health, nutrition, population & family welfare | 11.1 | 11.9 | 10.6 |
| Others | 13.7 | 11.2 | 11.2 |
| **Total :** | **100.0** | **100.0** | **100.0** |

Source : Annual Development Programme 2009-2010, Ministry of Planning
* = Revised, ** = Estimate

**The FY10 budget**

8.9 The budget for FY10 has been formulated bearing in mind the need to maintain macroeconomic stability in the context of current global economic meltdown, to achieve desired economic growth and thereby contribute to poverty reduction. In fulfilment of the strategy for attaining prosperity, priority has been given to massive employment generation, enhancement of social safety net, creation of selfemployment, reduction of regional disparity, increasing emphasis on agricultural development, achieving the target of power generation, acceleration of industrialization and building necessary infrastructure for "Digital Bangladesh".

The FY10 budget is based on certain assumptions contained in the Medium Term Macroeconomic Framework (MTMF). It has been estimated in this framework that the economic growth in the next financial year would be 5.5-6.0 percent considered in the context of the global outlook. However, in the next two years the economy is expected to pick up and post a higher growth rate. Annual inflation would come down to 6.5 percent from 7 percent of FY09. The shocks emanating from the global recession may negatively impact the export sector. Though the growth of remittance is expected to slow down, the total remittance would still cross US$ 10.0 billion mark. The revenue collection would increase following the expansion of tax and non-tax revenue net.

Box 8.1

## Public-Private Partnership to Invigorate Investment

The concept of Public-Private Partnership (PPP) has received greater attention by the policy makers in recent times and it has been coined as an important vehicle for invigorating investment in order to accelerate the pace of economic growth of a country. PPP describes a government service or private business venture which is funded and operated through a partnership of government and one or more private sector companies. It involves a contract between a public sector authority and a private party, in which the private party provides a public service or project and assumes substantial financial, technical and operational risk in the project. In some types of PPP, the cost of using the service is borne exclusively by the users of the service and not by the tax payers. In other types, capital investment is made by the private sector on the strength of a contract with government to provide agreed services and the cost of providing the service is borne wholly or in part by the government. Different countries are implementing different PPP implementation models (e.g. BOO-build- own operate basis, BOT- build-operate transfer basis).

Under the PPP initiative the government and public pay contracted prices or fees to the private sector for purchasing services of the infrastructure that is financed, built, managed and maintained by the private sector with the approval and support from the government. Some of the characteristics of PPP are as follows:

- Private sector arranges resources to build infrastructure
- Private sector bears the cost of building the infrastructure
- Private sector bears both the fiduciary and safety related risks related to the construction
- Government and public avail the service by paying appropriate prices of fees
- Private sector cannot raise the prices, fees or charges unilaterally, and
- PPP initiatives are usually long term (15-30 years) in nature

As a paradigm shift to bring qualitative change in the investment strategy in order to take the economy to the higher trajectory of growth, the government of Bangladesh has taken special initiatives to involve the private sector under PPP to meet the probable investment gap in infrastructure development and maintenance alongside government's investment .In fact, PPP in Bangladesh commenced after the adoption of Independent Power Producer(IPP) policy in 1996. Around 50 initiatives in telecommunication, land port and other physical infrastructure projects have been successful. There has been remarkable progress in PPP sector inFY1998-99 when initiatives were taken to build two mega power plants at Haripur and Meghnaghat with private sector involvement for the first time in Bangladesh. Although these initiatives have been successful in financing and implementing a few small scale infrastructure development projects, they are not sufficient to cater to the requirements and potential of the country. Therefore, to reduce the plight of the public and to boost economic development, a new initiative as been undertaken to revisit the current PPP framework and facilities. The Bangladesh Private Sector Infrastructure Guidelines (PSIG) issued by the Cabinet Division in 2004 is in use for implementation of projects under the PPP.

The Government will undertake 5 strategic actions in order to transform the present PPP framework to a fast and attractive PPP initiative which will ensure extensive participation of private sector in infrastructure development. They are:

- Reforming the guidelines and institutional framework stated in the present PSIG-2004
- Setting up a dedicated unit for PPP budget formulation and implementation
- Significant budgetary allocation for the PPP
- Provide tax incentive to investors
- Extensive and continuous publicity of the new PPP initiative

To gain the confidence of private investors regarding government's eagerness and strong position in the new PPP initiative, significant budgetary allocation has been made in FY 10 budget. The government is committed to take timely measures to attract private investment in the country through PPP and has created three new 'expenditure heads' to facilitate new projects under PPP. The first expenditure head is named as PPP Technical Assistance to cover expenditure related to pre-feasibility studies and other preparatory work before asking the private sector to submit their bids for PPP projects. In FY10 Taka 100 crore has been allocated as assistance and grants for providing technical assistance to PPP projects. Taka 300 crore has been allocated as Viability Gap Funding as subsidy or seed money to attract initiatives for the construction of power plants, hospitals, schools, roads and highways which are non-profitable but essential for public services. Taka 2100 crore has been allocated to accelerate the process of investment through PPP. This allocation will be used for setting up an Infrastructure Investment Fund. Depending on the type of projects, the Government will provide equity or loan to the private investors to ensure Government's participation. Different financial incentives will be extended from this Fund to encourage investments.

Many countries, particularly ASEAN and SAARC countries have successfully implemented PPP projects. For the successful implementation of PPP projects, Bangladesh should learn experiences from these countries. The existing PPP framework should be more transparent. The PPP projects should require a proactive regulatory framework, with appropriate checks and balances, to ensure transparency.

The total size of the FY10 budget stands at Taka 1,138.2 billion. The estimated non-development and development outlays are Taka 772.4 billion and Taka 330.6 billion respectively. The budget provides Taka 14.2 billion from revenue budget for development programmes and Taka 11.4 billion for non-ADP Food-for-Work and transfer. The total outlay can be classified into three broad categories such as social infrastructure, physical infrastructure and general services. About 32.7 percent of the total outlay has been allocated for social infrastructure of which 18.8 percent goes to human resources development. The physical infrastructure sector receives an allocation of 27.7 percent of the total outlay, of which 15.5 percent goes to the overall agriculture and rural development sector, 6.5 percent to the broad communication sector, 3.8 percent to the power and energy sector. 22.6 percent has been earmarked for general services sector of which 9.3 percent is apportioned for newly proposed Public Private Partnership (PPP), fiscal stimulus package and implementation of the Pay Commission recommendations. Beyond these major three sectors, 17 percent of the total outlay is to be spent for interest payment and net lending, of which interest payment accounts for 14 percent.

The large size of the ADP has been proposed keeping in mind the commitment to regional parity, improved infrastructure and quality of expenditure.

The total developmental expenditure for FY10 stands at Taka 330.6 billion, which is 4.8 percent of the GDP. This developmental expenditure turns out 33.8 percent higher than that of the revised budget of the previous year.

**a. Revenue receipts**

8.10 The revenue receipts in FY10 has been targeted to grow by 14.9 percent to Taka 794.6 billion compared to that of the previous year's

Chart 8.3

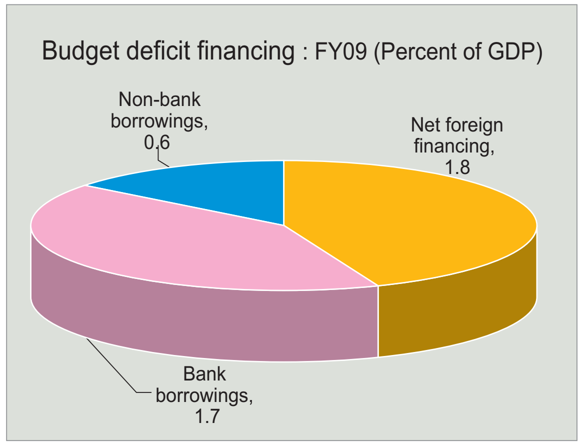
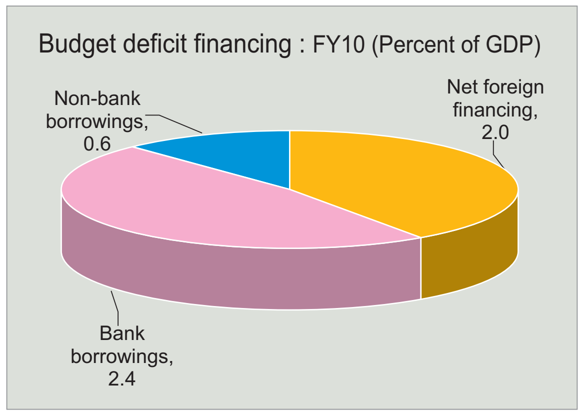



Chart 8.4




revised budget. The tax and non-tax receipts are expected to rise by 15.2 percent and 13.6 percent respectively, against increases of 15.7 percent and 8.9 percent respectively in FY09. It leaves the projected total revenue-GDP ratio at 11.6 percent in FY10 compared to 11.2 percent of FY09 (Table 8.1). A higher 22.3 percent increase in receipts from the direct taxes on income and profits has been projected against 12.6 percent growth projected for indirect taxes (VAT, import duty, supplementary duty, and other taxes and duties) (Table 8.2).

Among non-tax revenue sources, capital revenue has been projected to decrease by 60.0 percent compared to 100.0 percent increase in the preceding financial year. Receipts from interest, dividend and profit, and defense are expected to rise by 62.4, 20.3 and 9.0 percent respectively in FY10. The targeted growth rates for tolls and levies, railway, and administrative fees and charges have been set at 33.3, 10.3 and 8.0 percent respectively for FY10. Receipts from rents, leases and recoveries; fines, penalties and forfeiture; and post offices are expected to remain unchanged (Table 8.2).

The FY10 budget outlines the goals and objectives of revenue mobilisation as (a) establishing social justice and equity, (b) providing reasonable protection to domestic industries, (c) supporting growth of agriculture and rural economy and patronizing small and medium enterprises, (d) attracting more investment and increase employment opportunities, (e) developing the human resources through increased investment in education and health sectors, (f) introducing automated system of tax collection based on modern technology in order to build Digital Bangladesh and (g) augmenting revenue collection through broadening the tax base, establishing transparency and accountability in tax management and increasing efficiency in tax administration.

The budget stresses the need to undertake automation of income tax department, its organizational restructuring and expansion, to create a tax-friendly environment by simplification of tax law and to expand tax base in order to achieve the set target for income tax revenue. With a view to protecting local industries and retaining export market as well, the import tariff has been restructured. Considering VAT as instrumental in gradually mobilizing more domestic resources in line with the growth trend, some measures have been undertaken in this regard.

**b. Expenditure**

8.11 The total public expenditure in FY10 is expected to increase by 20.9 percent to Taka 1,138.2 billion over the revised figure of FY09. The current expenditure is expected to grow by 10.9 percent, the ADP by 32.6 percent and the other expenditure by 63.4 percent. The ratio of total expenditure to GDP is predicted to increase to 16.6 percent in FY10 from 15.3 percent in the revised FY09 budget (Table 8.1).

8.12 The projected current expenditure for FY10 budget stands at Taka 695.0 billion (Table 8.1 & 8.3). Almost one third of the total current expenditure has been allocated for the social sector, in which the major shares go to the education and technology, health, social security and welfare programmes promoting human resources development and widening social safety net (Table 8.4).

The FY10 budget marks the first ever allocations for projects under the Public Private Partnership (PPP). Three new "expenditure heads" have been created in the FY10 budget to facilitate new projects under PPP. The first expenditure head has been named as PPP Technical Assistance to cover expenditure related to pre-feasibility studies and other preparatory work before asking the private sector to submit their bids for PPP projects. Relevant agencies would be able to receive necessary funds quickly from this head to prepare PPP project documents and to appoint PPP consultants. Taka 1.0 billion has been allocated in favour of this sector for FY10. Taka 3.0 billion has been provided as Viability Gap Funding as subsidy or seed money to attract private initiatives for the construction of power plants, hospitals, schools, roads and highways which are non-profitable but essential for public services. Taka 21.0 billion has been allocated in the PPP budget to accelerate the process of investment through PPP. This allocation would be used for setting up an Infrastructure Investment Fund. Depending on the type of projects, the Government would provide equity or loan to the private investors to ensure Government's participation. Different financial incentives would be extended from this fund to encourage investments. In total, Taka 25.0 billion has been earmarked for the PPP projects.

Taka 40.0 billion has been allocated for several agricultural projects to support food production. These projects include expanding irrigation facility using surface water in southern areas, addressing water logging in the south-western region, expanding cultivable land by improving drainage system in the haor areas and by creating opportunities for multiple-cropping. Taka 1.9 billion has been provided to agricultural research and agricultural rehabilitation assistance for maintaining the growth of crop production.

Human resources development is an integral part of the total development planning. Keeping this in view, the Government has identified health, education and technology as the priority areas for human resources development and has attached the highest priority in terms of allocation of resources. For this purpose, Taka 213.7 billion has been allocated, development and non-development combined, for health, education and technology for FY10. This allocation forms 19.0 percent of the total budget, which is 14.0 percent higher than the revised budget of FY09. Taka 3.0 billion has been allocated for free distribution of textbooks at the secondary level in order to achieve the target of removing illiteracy from the country by 2014.

Taka 1.0 billion has been allocated to meet the emergency expenditure in the ICT sector. The amount of the existing Equity Entrepreneurship Fund relating to ICT promotion has been enhanced from Taka 1.0 billion to Tk. 2.0 billion.

The monthly rate of Old Age Allowance has been enhanced from Taka 250 to Taka 300 per person and the beneficiary coverage has been widened from 2.0 million to 2.3 million. This would increase the allocation from the existing Taka 6.0 billion in FY09 to Taka 8.1 billion in the budget for FY10. The monthly allowance for destitute women has been raised to Taka 300 per person. Taka 3.3 billion has been apportioned in favour of this account.

The monthly rate of allowance for the Insolvent Freedom Fighters has been increased from Taka 900 to Taka 1,500 per person. The number of beneficiaries has been enhanced from 100,000 to 125,000. Taka 2.3 billion has been allocated for this purpose.

The monthly allowance for Poor Lactating Mothers has been increased by Taka 50 to Taka 350 per mother. This would require an allocation of Taka 0.3 billion. At the same time, Taka 0.3 billion has been allocated for launching a similar programme named "Allowance for Lactating Low Income Working Mothers in Urban Areas."

The allocation for the capitation grant has been increased to the tune of Taka 61.9 million for 16 thousand orphans in public orphanages. The total allocation would stand at Taka 233.9 million. In addition, 45 thousand private orphanages and 48 thousand orphans would also be given Capitation Grant. For this purpose the allocation would increase by Taka 25.2 million and the total allocation would stand at Taka 403.2 million. Another Taka 56.7 million would be spent for the welfare of the shelterless street children.

Taka 54.1 million has been allocated for a new programme titled "Disabled Service and Assistance Centre." Taka 920.0 million has been earmarked for the implementation of "One Household, One Farm" Programme. Taka 11.8 billion has been given for a major programme titled "Employment Generation for the Hard Core Poor."

Alongside the operation of open market sales, Taka 58.8 billion has been allocated under the non-development budget for the Food for Works Programme, VGF, VGD, TR (Food), GR (Food) and also for the food assistance in the form of food security programmes for the Chittagong Hill Tracts.

8.13 The Annual Development Programme (ADP) for FY10 has been projected at Taka 305.0 billion, exceeding the revised ADP of Taka 230.0 billion in FY09 by 32.6 percent. 30.6 percent of the total ADP has been allocated for infrastructure sector. On the other hand, social sector would receive 24.2 percent of the total ADP (Table 8.5).

**Deficit and its financing**

8.14 The FY10 budget deficit, estimated at Taka 343.6 billion, is higher by Taka 94.0 billion than that of the revised FY09 budget. The budget deficit-GDP ratio for FY10, 5.0 percent, turns out higher than 4.1 percent of FY09. The deficit is expected to be financed with domestic bank and non-bank borrowing to the extent of Taka 205.6 billion (3.0 percent of the GDP), against Taka 142.0 billion (2.3 percent of the GDP) in the revised FY09 budget, and with external financing for the remaining Taka 138.0 billion (2.0 percent of the GDP) in FY10, against Taka 107.6 billion (1.8 percent of the GDP) in FY09 (Charts 8.3 and 8.4). In the domestic borrowing of Taka 205.6 billion, borrowing from the banking system is projected to be Taka 167.6 billion.

8.15 The FY10 budget is the first budget of the present Grand Alliance Government. The budget was proposed on 11 June 2009 and passed by the National Parliament on 30 June 2009.

The global economy encountered a slowdown in 2008. The crisis began with the debacle of sub-prime mortgages in the United States. The contagion of the crisis first spread to Europe and then to all the developed economies of the world before engulfing the emerging economies and finally hitting the developing countries as well with all its wrath. In the context of deepening of the crisis and its lingering prospect until the latter half of 2010, the FY10 budget year would be a real challenge for the Bangladesh economy. In particular, the first half of the FY10 would be very critical.

The global recession impacted the Bangladesh economy in three fronts, namely export, import and remittance. To address the crisis a stimulus package was announced in the Q4 FY09. The package proposals were designed consistent with the charted strategies for poverty reduction, economic growth and macroeconomic stability. The programme under stimulus package would be expanded consistent with the need and within affordability. A provision of Taka 50.0 billion has been made in the FY10 budget to continue the programme.

In order to attain the higher growth target, investment in infrastructure development, especially, power and energy, ports, communication, supply of drinking water and waste management, education and health has been given the highest priority. A huge investment is required to achieve this target. In addition to the existing public and private investment programmes, an investment of US$ 28.0 billion would be required by FY14 to achieve the projected growth as per the preliminary estimates.

The government alone cannot provide such huge amount of resources. It would be difficult to maintain macroeconomic stability if the government has to finance such huge investment by borrowing from domestic sources. Again, it would not be possible to obtain such funds as concessionary loans from the

Box 8.2

## Salient Revenue Measures in FY10 Budget

**A. Income Tax**

- The tax exempted income limit for individual taxpayers remains unchanged at Taka 165,000.
- The age bar lowered from 70 years to 65 years to help reduce the personal income tax burden on senior Bangladeshi citizens.
- The corporate tax rate for mobile phone operators reduced to 35% subject to the condition that they are listed in the stock exchange as a publicly traded company and at least 10% share of the company's paid-up capital is transferred (of which Pre Initial Public Offering Placement cannot exceed 5%).
- The tax rate for deductions of income tax at source against capital gain from the sale of land within the areas under city corporations, municipalities and cantonment boards reduced to 2% from 5% and for other areas where the price of nonagricultural land exceeds Taka 100,000, slashed to 1% from the existing 5%.
- Income emanating from Pensioners' Savings Certificates kept tax free.
- Undisclosed money to be accepted without any questions during the period from 1 July 2009 to 30 June 2010 provided that a payment of 10% tax is made and it is invested in (1) certain new industries and also BMRE of units in the same industries and provision of physical infrastructure facilities, (2) shares of listed companies of the stock exchanges.
- Investment to be accepted without any questions for the purchase of flat or construction of house by paying tax at a specific rate according to the measurement of the flat/ house.
- Taxes on vehicle imposed at a specific rate on the basis of engine capacity (CC).

**B. Import Duty**

- The duty on basic raw materials reduced from 7% to 5%. Other slabs of 3% (capital machinery and parts), 12% (intermediate raw materials) and 25% (finished products) remain unchanged.
- Imports of fertilizer seeds and major food grains along with medicine and raw cotton continues with zero tariff. VAT on the imports of raw materials for pesticides withdrawn.
- 5% regulatory duty imposed against tariff lines with 25% customs duty on luxury items and products detrimental to public health.
- Supplementary duty on the imports of luxury vehicles increased and duty slabs restructured.
- 12% customs duty imposed on mobile phone sets on an ad valorem basis instead of the existing specific duty of Taka 300 per set applicable irrespective of quality and all existing VAT, supplementary duty and AIT waived.
- 3% customs duty imposed on the import of newsprint to be used in the newspaper industry. VAT applicable for importation of pulp which is a virtual raw material for this industry withdrawn.
- 5% regulatory duty in addition to 12% customs duty imposed on milk powder imported in bulk.

**C. Value Added Tax (VAT)**

- VAT imposed on the services of specialist doctors withdrawn. VAT on domestic production of drugs for cancer prevention withdrawn.
- 2.5% supplementary duty applicable to the processing of liquid milk to be converted into powdered milk withdrawn. Tariff value for powder milk fixed at Taka 100 per kg which results in only Taka 15 per kg as VAT instead of the current Taka 50 per kg.
- VAT exemption offered for the next one year for complete manufacture of refrigerators and motorcycles.
- The threshold level for imposing excise duty on bank deposits raised to Taka 20,000 instead of the existing Taka 10,000.
- VAT on the internet services used in the educational institutions withdrawn.
- The threshold value of the plants and machineries of cottage industry for VAT exemption raised by 67 percent from Taka 150,000 to Taka 250,000. The condition of barring subcontracting for VAT registered units for cottage industry withdrawn. The limit of turnover for cottage industry increased to Taka 4 million from the existing Taka 2.4 million.
- The penalty for evasion of VAT or supplementary duty re-fixed at minimum equivalent amount to maximum two and half times the tax amount.
- VAT on domestic generation of power along with domestically produced/ assembled generators withdrawn. Solar Panel exempted from all VAT at stages of import, domestic production and supply.

Box 8.3

## Salient Expenditure Measures in FY10 Budget

**A. Development Expenditure and Non-Development Expenditure**

- The total size of the budget stands at Taka 1,138.2 billion.
- The estimated non-development and development outlays are Taka 772.4 billion and Taka 330.6 billion respectively.
- Taka 14.2 billion from non-development budget for development programmes.
- Taka 12.3 billion for non-ADP project.
- Taka 11.4 billion for non-ADP Food-for-Work and transfer.
- 19.0 percent of the total budget for human resources development.
- Taka 25.0 billion for new projects under the Public-Private Partnership (PPP).
- Taka 158.1 billion (non-development) for the interest payment sector, which is 18.7 percent higher than that of the revised budget of previous financial year.
- Taka 143.9 billion (development and non-development) for the education and technology sector, which is 14.8 percent higher than that of the revised budget of previous financial year.
- Taka 89.5 billion (development and non-development) for the agriculture sector, which is 14.1 percent lower than that of the revised budget of previous financial year.
- Taka 88.8 billion (development and non-development) for the social security and welfare sector, which is 17.4 percent higher than that of the revised budget of previous financial year.
- Taka 87.1 billion (development and non-development) for the local government and rural development sector, which is 17.3 percent higher than that of the revised budget of previous financial year.
- Taka 74.3 billion (development and non-development) for the transport and communication sector, which is 41.4 percent higher than that of the revised budget of previous financial year.
- Taka 69.8 billion (development and non-development) for the health and family welfare sector, which is 12.7 percent higher than that of the revised budget of previous financial year.
- Taka 43.1 billion (development and non-development) for the fuel and energy sector, which is 48.2 percent higher than that of the revised budget of previous financial year.

**B. Annual Development Programme (ADP)**

- The ADP is estimated at Taka 305.0 billion, which is 32.6 percent higher than that of the revised budget of previous financial year.

development partners. Past experience suggests that it has been difficult to ensure economic use of public resources and the quality of service delivery when the government is involved in infrastructure development and maintenance as its involvement is not determined through a competitive market process. At the same time, direct involvement of the government in project execution process takes away the focus from its basic obligation to provide social and other important services. Since the implementation and funding of any infrastructure development projects is a long drawn process, the investment risk is much higher and at the same time, the investment is not, in many cases, commercially viable. It is therefore, difficult to attract private investment in all projects in this sector.

In this context special initiatives have been taken to involve the private sector under Public Private Partnership (PPP) to meet the probable investment gap in infrastructure development and maintenance, alongside the government's investment. It is expected that successful application of PPP concept would open up the door for increased flow of investment from both local and foreign investors.

The major challenge to be confronted is the implementation of ADP. The ADP implementation has always been deficient. The GoB is particularly concerned about the possible implementation snags because of the ambitious size of ADP for FY10. Though the proposed ADP is quite ambitious, it is achievable subject to effective supervision and monitoring. Creation of domestic demand at this stage is extremely important. The domestic and regional markets for goods and services have to be expanded by reducing dependence on export.

The tax system of the country is highly exemption-ridden and a considerable part of the economy remains outside the tax-net. Moreover, many taxable areas are enjoying various exemptions like tax holiday in income tax, zero rate and other special exemptions for imports, truncated base for VAT etc. These exemptions have created distortions in the tax system and reduced the base for tax collection.

For development with self-reliancez, domestic resources need to be harnessed. The tax revenue collection has to be augmented as this is the main source of government revenue receipts. Two alternatives for increased revenue collection are available. Firstly, imposition of new taxes or increase in tax collection under existing rate of taxes. Secondly, radical reforms in tax collection system and overall improvement in the system. The GoB is not in favour of increasing the tax revenue by increasing the tax burden for middle and lower income groups. Rather it wants to enable them to pay higher taxes in future. The tax-GDP ratio has to be raised to a desirable level by ensuring transparency, accountability and efficiency in the revenue administration through identifying taxable areas and implementing meaningful reforms.