

# The Challenges of Consolidation for Change

*A Rapid Assessment of National Budget 2010-11*



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**Acknowledgement**

The rapid assessment of the National Budget (2010-2010) is an output of the **Economic Policy Unit** of the Unnayan Onneshan, a multidisciplinary research centre based in Dhaka, Bangladesh. The report is prepared by a team, led by **Rashed Al Mahmud Titumir** and comprising of, **Jayanta Kumar Basak, Mohammad Tareq Hasan, Md. Rashedul Alam, Mohammad Shafiqul Alam, Mohammad Maher, Kashfi Rayan, Jhinuk Parvin, Aisha Siddika, Farah Masud and M. Mizanur Rahman.**



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## 1. INTRODUCTION

The independent review provides a rapid assessment of the policy options and instruments contained in the national budget for the year 2010-2011 in achieving the goals and targets set out in the “A Charter for Change,” for which the party in power was overwhelmingly elected. This second budget seemingly is a continuation of the previous one of the current government, yet hinges in constructing a trajectory for consolidation in realising the outcome of change, as one and half years have already elapsed, and end of the current budget would be the mid-point of current mandate of governance for five years.

This assessment is a sequel to the Unnayan Onneshan’s *Balancing the Imbalances* which contained a pre-budget analysis of the state of the economy of 2009-10. That analysis points out that the government is at a crossroad to strike balance, through budgetary policies and allocation, between meeting the targets of the election manifesto and the multiple challenges it is currently confronting on the economic front. It has highlighted that the inherited investment slump, inflationary pressure, and short supply of energy from the previous interim government have not been abated. Export sector, which is mostly readymade garment, has fetched a negative growth. The lack of institutional and administrative capacity and the rent-seeking behaviour of certain sections have impeded public investment, including low implementation of annual development programme. The government has continued to seek refuge to domestic borrowing. Besides the above, with the prevailing gap in the demand and supply of resources and the lagged impact of the global crisis, the paper suggested the government to adopt countervailing policies to enhance productive capacity and welfare measures to augment growth, decrease unemployment, and reduce reversal of reduction in poverty.

The current assessment is also related to the last year’s assessment of the budget in which Unnayan Onneshan’s asked *three questions* as the context has more or less remained the same:

- (i) How to translate the political agenda of the government through budgetary measures?
- (ii) What could be done to boost domestic demand and what could be the macroeconomic consequences? and
- (iii) How to ensure creation of wealth, reduction in poverty by addressing the existing development challenges?

The Unnayan Onneshan has endeavoured to conduct a rapid assessment of the proposed budget of 2010-2011 to examine as to whether the government’s suggested measures would lead to a sustained path of recovery, consolidate the progress and maintain the upturn for accomplishment of the promised outcomes, which by all means are expectations of all electorates.

Such an appraisal entails a thorough investigation into the sustainability of overarching barometres of the economy, broadly understood through indicators such as growth, investment, employment and reduction in poverty. The present paper would also analyse the possible macroeconomic consequences while implementing the proposed budget in the next fiscal. There is also a need to examine the performances of the real sectors, namely, agriculture, industry in response to budgetary measures. Unlike the tradition of assessments on budget confining on macroeconomic issues, the review also provides equal emphasis on the implications of budgetary options on social sectors, including health and education. Following that the assessment contains a full section social security.

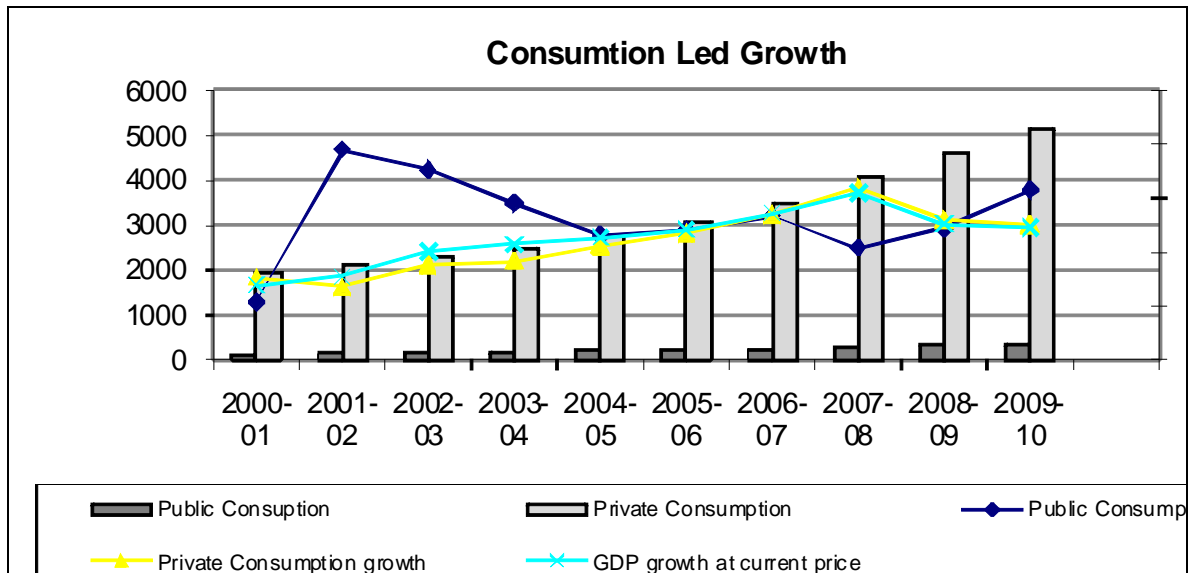
## 2. GDP, EMPLOYMENT AND POVERTY REDUCTION

The government, in the manifesto, targeted to increase the rate of growth of gross domestic product (GDP) to 8% by 2013 and 10% by the year 2017. The government projected growth rate for the upcoming fiscal year is 6.7%.

The challenge before the government is on three fronts: (a) to recover from the current slowdown, partly attributable to the lagged effect of the global slowdown and partly owing to inherited decline associated with steps of the previous interim government; (b) to escalate the rate of growth from the current annual average of 6 per cent to the level promised in the manifesto; and (c) to drive the growth through expansion of productive capacity in real sectors such as agriculture and industry, enhancing employment and reducing poverty.

For materialising the twin objectives of recovery from the current slump and the acceleration of growth require fundamental policy shifts and initiatives, **it took the last two decades to increase the country's average annual GDP growth from 4.0 percent to 6.0 percent.** Given such a track record of the economy over the decades regarding the rate of growth, there is no denying the fact that the proposed budget is required to coming up with fundamentally different policy initiatives targeting for such a huge acceleration. Despite the needed large-sized budget for the next fiscal, with 20 percent growth in the overall outlay and 35 percent in development spending for huge pollution with abject poverty and unemployment, the proposed budget **falls short of suggesting radical schemes and options to lift the economy to such a high growth trajectory.** Instead questions remains on the nature and sustainability of current growth pattern.

**First,** the growth that the economy has achieved over the years has been fuelled by **consumption** as opposed to being propelled by expansion in real sectors, with effects on employment creation and poverty reduction. It is found that the consumption has witnessed a secular upward trend. The rate of growth of private consumption has gone by over 20 per cent.

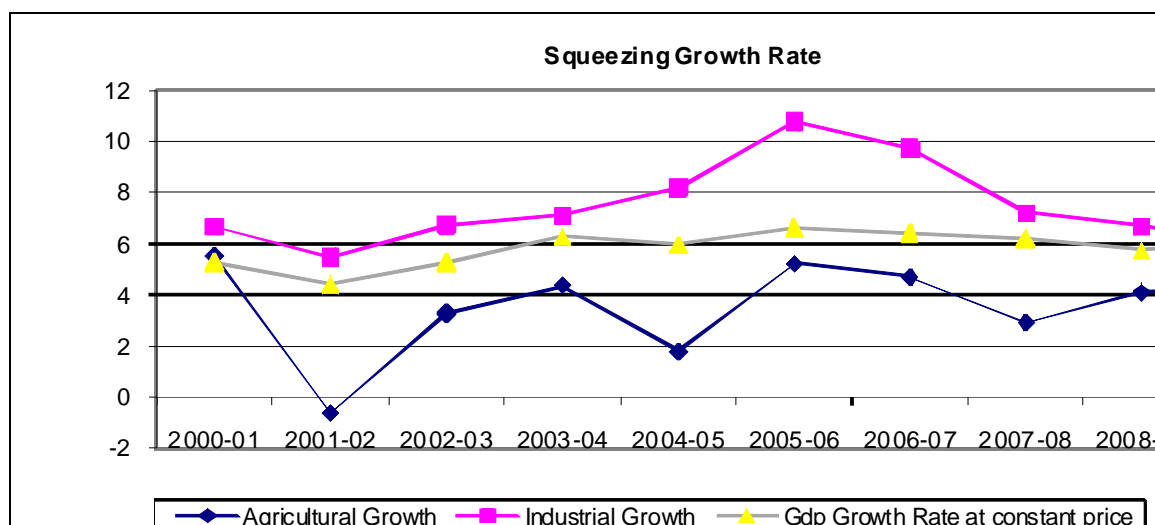


Source: Economic Review, 2010.

**Second,** the share of the **agriculture** (15.91 in 2008-09 to 15.65 in 2009-10) and **industrial sector** (17.90 in 2008-09 to 17.87 in 2009-10) to GDP over the years is on **declining trend.** The government

needs to come up with radical policy options in order to achieve the target growth of 8% within the year 2013, which means **the share of industry in GDP has to be around 40% from the current rate of 30%** and the decline of the agriculture sector has to be reversed.

For achieving 10% growth by 2017, the share of industry to GDP should be 30.40 % to GDP. The current share of industrial sector to GDP is 17.78% that has to increase by about at least 12.62 % in the next eight (8) years with other things (share of agriculture and others) remaining constant at the prevailing rate. Based on the pattern of the last decades, it is observed that **an additional percentage point share of industrial sector can lead to achieving 0.33% growth in GDP.**



Source: Economic Review, 2010.

**Third**, the Monitoring of Employment Survey (MES) 2009 conducted by BBS (Bangladesh Bureau of Statistics) shows that the **unemployment rate increased** from 4.3 % (2005/06) to 5.1% (2009). One might be tempted to conclude that the growth in national output has not been that of employment enhancing, leaving some commentators to term such an expansion of national output at the level of six per cent a **'jobless growth.'**

The Monitoring of Employment Survey (MES) 2009, conducted by the BBS, indicates that the labour force has increased by 8.48 % in comparison to the Labour Force Survey of 2005-2006. But **the rate of unemployment has increased to 5.1%, the highest among the last several years, implying that the employment generation is lagging behind the actual rate of inclusion of active labor force, placing the government on a huge challenge.**

The contribution of service sector in GDP in fiscal year of 2009-2010 is 49.67 % and the rate of growth is 6.59 % but the employment in this sector is very low and only 19.8 million people belong to this sector. So, the government along with private sector needs to create balances amongst the sectoral employment, since with gradual share in national output, agriculture continues to host highest sectoral employment, making it the flashpoint of continuance of poverty.

According to the statistics by the BBS, the real wage rate index value (general) was 149 in 2005-06. With the rising unemployment situation, the **real wage might be declining**; further being fuelled by the overall inflation rate of 6.26% with food inflation nearing about 10%. With the increased number of unemployed people and reduction in income and real wage, **the aggregate demand might be lowered**, might putting

negative effect on investment and production output. If policies of reversal are not taken, the rate of unemployment may grow.

**Table – 2.1: Status of Special Employment Programmes Proposed in FY 2010 and FY 2011**

Programs in FY2009-10/Implementation period/ Proposed Allocation	Target	Status	Remarks	Proposed Initiatives in 2010-11
One House One Farm July 2009 – June 2014 Tk.1246 Crore	1) Bring 578400 families under this program 2) Benefiting 2.9 million people	Still unknown. Tk.92 crore is allocated for FY 2009-10	According to HIES 2005, national poverty rate was 40%. So now, 57.52 million are poor. Thus this program can ensure financial support to only 5.04% of the poor people	No mention in FM's speech.
Employment generation For the Hardcore Poor (EGHP) Program Every Year Tk.1120 Crore (proposed)	Benefiting total 1.12 million people according to poverty map 1) 80 Hard core poor stricken Upzilas for 560000 people. 2) 253 upzilas for 33600 people. 3) The rest 147 upzilas for 224000 people.	Tk.12.9 crore from the allocation of Tk.15 crore for the 1st phase had been implemented.	According to HIES 2005, hardcore poverty rate is 19.4% Thus, at least 28.04 million people are ultra-poor and only 4% of the targeted people are the beneficiaries of this program.	FM said that employment generated for 6 lakh people. Another 1000 crore taka was allocated for 17 lakh people in the next fiscal year.
National Service Pilot Project (NSPP) From FY 2009-10 for two Years Allocation of Tk. 20 Crore	Total 13550 unemployed youth of 9 upzilas in Kurigram and 5 upzilas in Barguna	The project Started on march 5 of 2010 in Kurigram & later in April in Barguna	In LFS 2005-06, youth labour force (ageing 15-29) was 17.3 million which is now approximately 20 million. In this labour force, minimum SSC level passed and onwards are 35.2%.	Nothing was mentioned in FM speech.

An allocation of Tk.1000 crore was made for 'Employment Generation for the Hardcore Poor' (EGHP), which is lower than that of the previous year's allocation of 1120 crore. Nothing has been mentioned about the 'National Service Pilot Project (NSPP).' This provides room for question of how the government is going to reduce unemployed to 2.4 million by 2013 and to 1.5 million by 2021, from estimated 2.8 million in 2008.

**Fourth**, the recent perception survey, Welfare Monitoring Survey (WMS), 2009, conducted by the national statistics agency, the Bangladesh Bureau of Statistics (BBS), states that **37.0% people have reported that the poverty is increasing while 40% reported that the situation had remained the same.** The WMS reveals that lack of land as the main reason of being poor in Bangladesh (60%). **As the landlessness is growing, the government needs to respond on an urgent basis on the whole question**

**of land reform and address the other larger question of land fragmentation, which may inhibit the agriculture productivity due to lack of economies of scale.** The respondents also cite “want of work” as the second most important reason of poverty (36.8%). The other important reasons are lack of capital/ loss in business (18.4%), lack of education and training (17.2%), large family size (15.9%) etc.

**Table – 2.2: Main reason for being poor / extreme poor**

Fiscal year/Category	2009 (WMS)	2005(HIES)	2000(HIES)
Landlessness/ Inherited Nothing	60%	25.2% (lower poverty line) 46.3% (upper poverty line)	30.4% (lower poverty line) 46.6% (upper poverty line)

Source: BBS, Welfare Monitoring Survey (WMS), HIES-2000, 2005.

Moreover, **39.8% people are still under food insecurity and 80.8% of them are faced with long term food crisis.** Furthermore, the inflation rate is on the rise (8.78% in March 2010), while food inflation recorded at 12.07% in urban area and 8.81% in rural area.

The present government promised to reduce rate of poverty from 25% to 15% within 2013 to 2021. To achieve this target, they had committed to implement MDGs fully by 2017 and they also approved the second PRSP titled “**Moving Ahead: National Strategy for Accelerated Poverty Reduction**” from fiscal year 2008-09 to 2010-2011(NSARP -II). But poverty situation has been worsening since then because the average inflation rate was more than 6% overtime; with extreme case of 9.93% inflation in 2007-08.



### 3. MACROECONOMIC DEVELOPMENTS

#### 3.1 Savings - Investment

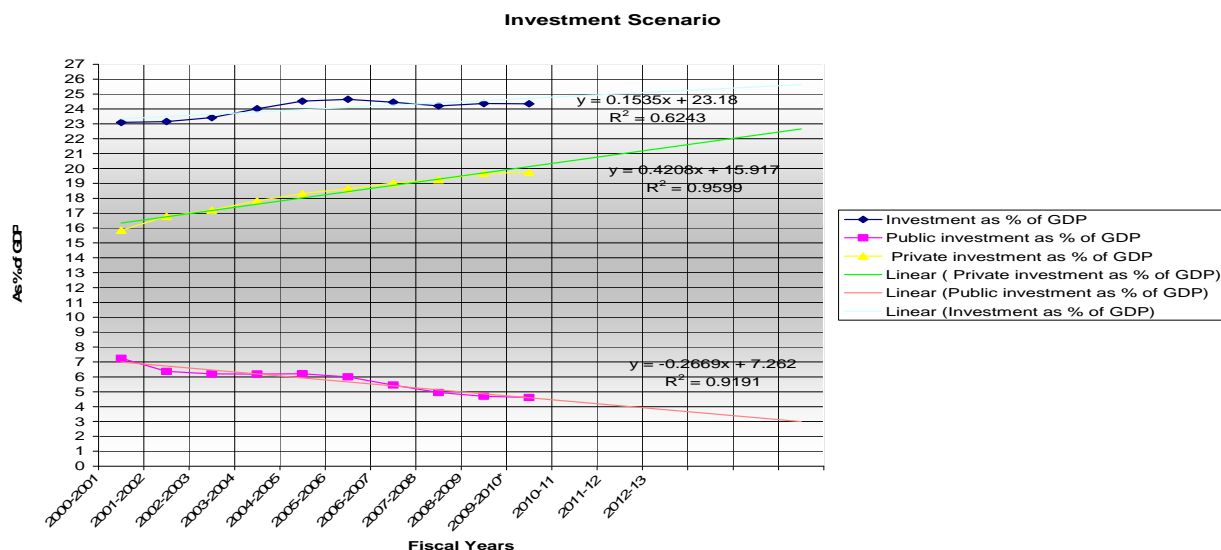
In the Budget Framework for 2010-11, the Finance Minister has projected that economic growth will be 6.7 percent. The expected progress will be achieved through ADP implementation, expediting private sector investment through increased supply of credit including PPP and making the external sector competitive through a stable exchange rate. So, investment is a crucial part for the success of this budget and to accomplish 8.0 % growth by 2013. This implies an increase in investment from current 24.35% of GDP to 32% of GDP, with enlarged ADP allocation from 4.1% to 6% of GDP.

**Table –3.1: Investment as Percentage of GDP**

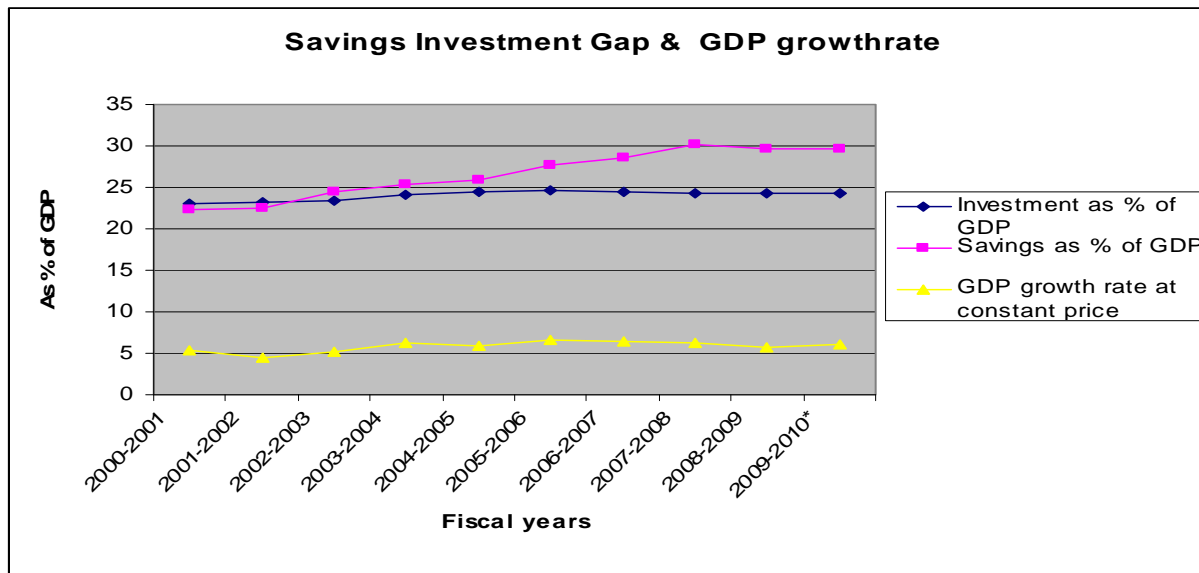
Fiscal Years	Investment as % of GDP	Public investment as % of GDP	Private investment as % of GDP
2000-2001	23.09	7.25	15.84
2001-2002	23.15	6.37	16.78
2002-2003	23.41	6.2	17.21
2003-2004	24.02	6.19	17.83
2004-2005	24.53	6.21	18.32
2005-2006	24.65	6	18.65
2006-2007	24.46	5.45	19.02
2007-2008	24.21	4.95	19.25
2008-2009	24.37	4.7	19.67
2009-2010*	24.35	4.62	19.74

Source: Bangladesh Economic Review 2010

Therefore **an increase to 32% of GDP, an annual growth of 2.55% each year is needed, which hardly can be achieved against the current situation that lags investment behind.** As public investment is declining by 0.26 % of GDP each year, this seems quite hard. According to the current situation, the private investment will be 20.99% of GDP with a growth rate 2.48% each year. The private investment needs to grow at least by 3% a year.



The gap between the saving and the investment is on the rise. With the fall in investment, GDP growth rate also has a downward trend after the mid of 2005-06. Bangladesh has a saving-investment ratio of 24% to 25% which is lower than countries like Malaysia and India with 36% and 39% respectively, as the country aspires to become a middle-income one.



The Finance Minister himself has said that an investment of \$US 28 billion will be required by 2013-14 to achieve the projected growth as per the preliminary estimates. But he falls in short of demonstrating as to how that level of investment to be made.

The much publicised ‘innovative’ Public-Private Partnership has not come in existence, despite allocation made in the last fiscal. This year 3,000 crore is allocated. This is also billed as a risky strategy by some as this is strategised in the budget to increase the power since **the record of the PPP is murkier**. In neighbouring India, only 14 % of the total PPP investment went into power sector. Moreover, only private sector invested 20 % of the total investment while the remaining was invested by the government. Moreover, the success of implementing such scheme is one in four as the World Bank review suggest.

As public investment is declining steadily over the last 10 years (poor ADP implementation), there are lower incentives to private sector and lower FDI flow especially to industrial sector, and so the government needs to have a radical departure from the current strategies to achieve its goal.

Over the years highly ambitious targets have been set for annual development programme (ADP), but utilization has fallen far short than the target. The laggard pace of the implementation has led the governments to revise the size at the end of each fiscal year, and it tends to continue this year also.

According to a report by Implantations, Monitoring and Evaluations Division (IMED) of the Ministry of Planning, in the first ten months of the FY 2009-10, only 59% of the revised ADP was implemented. To complete the rest 41%, it requires an implantations rate of 20.5% per month which is quite an impossible task. This scenario has been observed continuously for the last couple of years. The **public investment is facing lower utilization problem along with the gap between proposed and revised allocation**.

On an average, **the proposed ADP expenditure has been reduced by 7.82 % in the revised allocation and 81.82 % is implemented of the proposed allocation**, with highest implementation status in the last three months of every fiscal year.

For the current government, it is of a heightened interest as it aspires to uplift the economy from the slump it inherited and to jump upwards a MIC, which warrants **capital expenditure to grow** at high proportion to ensure crowd in of the private sector.

**Table – 3.2: ADP utilization: Proposed VS Revised**

(In crore Tk)

Fiscal Years	Proposed ADP	Revised ADP	Implemented	Implementation as % of RADP	Implementation as % of PADP	RADP as % of PADP
1991-92	7500	7150	6024	84.3	80.32	95.33
1992-93	8650	8121	6550	80.7	75.72	93.88
1993-94	9750	9600	8983	93.6	92.13	98.46
1994-95	11000	11150	10303	92.4	93.66	101.36
1995-96	12130	10447	10016	86.0	82.57	86.12
1996-97	12500	11700	11041	94.0	88.32	93.60
1997-98	12800	12200	11037	90.5	86.22	95.31
1998-99	13600	14000	12509	89.4	91.97	102.94
1999-00	15500	16500	15471	93.8	99.81	106.45
2000-01	17500	18200	16200	89.2	92.57	104.00
2001-02	19000	16000	14090	88.1	74.15	84.21
2002-03	19200	17100	15434	90.0	80.38	89.06
2003-04	20300	19000	16796	89.0	82.73	93.59
2004-05	22000	20500	18771	91.6	85.32	93.18
2005-06	24500	21500	19473	91.0	79.48	87.75
2006-07	26000	21600	17917	83.0	68.91	83.07
2007-08	26500	22500	18450	83.8	69.62	84.90
2008-09	25600	23000	19700	86.0	76.95	89.84
2009-10	30500	28500				
2010-11	38500					

RADP: Revised Annual Development Program. PADP: Proposed Annual Development Program

Source: Ministry of Planning

There has been a rapid decline in the amount of foreign direct investment. The impact of global financial crisis has moreover lingered the pace of foreign direct investment in the economy.

The capital mobility in the economy has been negatively affected by factors such as infrastructural constraints, political variables, international financial linkages and fiscal policy coordination.

**Table -3.3: Year-wise Foreign Investment (US \$ in million)**

Year	Agro-based	Textile	Chemical	Engineering	Service	Total
1990	2.797	19.915	26.34	0.195	64.325	113.572
1991	2.655	5.001	0.137	2.062	n/a	9.855
1992	31.641	4.57	3.035	48.659	0.2	88.105
1993	9.513	13.379	2.782	1.709	9.499	36.882
1994	51.82	527.88	405.522	45.023	28.098	1058.343
1995	54.01	90.815	416.185	125.242	779.511	1465.763
1996	29.965	111.331	567.926	9.734	93.539	812.495
1997	45.57	80.246	53.55	12.792	2796.981	2989.139
1998	34.753	115.534	109.352	97.894	3771.528	4129.061
1999	59.416	44.873	38.145	17.694	465.448	625.576
2000	3.618	9.832	1109.829	15.664	495.204	1634.147
2001	121.607	41.094	31.085	7.564	197.45	398.8
2002	27.127	40.692	62.315	73.134	153.124	356.392
2003	68.071	52.837	98.65	9.535	204.644	433.737
2004	32.876	118.115	16.641	9.175	275.604	452.411
2005	22.863	75.9	1873.073	86.834	1731.007	3789.677
2006	9.878	129.552	27.283	23.357	1272.67	1462.74
2007	46.537	185.367	40.186	27.132	14.373	313.595
2008	44.571	211.405	45.936	165.275	1979.213	2446.4
2009	0.506	46.432	19.168	20.98	534.265	621.351
2010 (March)	19.095	18.383	8.861	8.316	26.746	81.401

Source: Board of Investment, Bangladesh

### 3.2 Trade balance

The overall trade balance is showing negative growth, supported by downward export and import volume. This is an undesirable situation. The economy of Bangladesh has been observing **a declining trend in the volume of export in FY2009-10 compared to FY2008-09, because of RMG sector**. This trend will continue if the prevailing situation of the power crisis continues and government fails to disburse and implement its announced stimulus package to the affected sectors, especially the RMG sector.

**Table – 3.4: Item-wise export receipts**

Merchandise Export Receipt	(in million US \$)		
	2008-09 (July-March)	2009-10 (July-March)	% Changes over these two periods
Raw jute	102.84	155.53	51.23%
Jute products	199.21	320.34	60.81%
Leather products	139.21	153.13	10%
Frozen Shrimps & Fish	355.67	300.01	-15.65%
RMG	9215.3	8906.78	-3.35%

Source: Bangladesh Bank.

Jute products and leather industries have gained positive growth because of increase in cash subsidies provided by the govt. But the frozen food industry has a negative growth in spite of many facilities and one of the reasons for this may be is sanitary and phytosanitary measures.

**The export sector has not been yet recovered from the pressure of global recession because stimulus packages were not implemented in due time.** If the export sector is not diversified soon and present negative growth trend in the RMG sector continues, the economy will soon be in a precarious situation with a volatile export sector. The boom of RMG sector was due to the Multi-Fiber Agreement (MFA) in USA and Generalized System of Preferences (GSP) in EU. On the other side, **there is a widespread apprehension that EU will make the Rules of Origin (RoO) more stringent strict, particularly affecting the knit garments, as this part of the RMG was enjoying higher portion of the GSP, which might decrease the export earning.** Under the situation, with a view to diversifying the export sector, the budget has not proposed any tangible measures relating to jute, frozen food and leather sector. Also to make the RMG sector more competitive, there should have been incentives to create more value addition. The importance of establishing the backward linkage industries should have been given a priority.

Another problem of the export sector is that export market is concentrated in very small number of countries including the USA, UK and Germany, which make it more susceptible to the global shocks. A positive export growth is observed in case of Italy, Japan, Turkey and India, which indicate the future potential markets for knitwear, woven and leather goods. Japan can be a promising market for chemical products and frozen food, while increasing export of raw jute and jute goods, frozen food and chemical products in India reveal the future potentials. But the budget should have come up with policy options in securing new markets.

**Table – 3.5: Merchandize import (in million US \$)**

Items	2008-09 July-March	2009-10 July-march	% Changes Over the two periods
Food Grains	718.2	598.4	-16.68
Other food Items	1374.9	1848.3	34.43
Intermediate Goods	4869.6	4538.2	-6.8054871
Consumer Goods	3319.5	2837	-14.5353216
Capital goods & others	4727.6	4702	-0.54
Others n.i.e	1462	1704	16.54
<b>Total</b>	<b>16474.2</b>	<b>16230.2</b>	<b>-1.48</b>
<b>Import By EPZ</b>	<b>951.1</b>	<b>960.8</b>	<b>1.02</b>
<b>Grand Total</b>	<b>17425.3</b>	<b>17191</b>	<b>-1.34</b>

Source: Statistics department, Bangladesh Bank and author's calculation

It is revealed in the monthly update of Bangladesh bank that the import cost has declined in this fiscal year due to less import and fall in international price. The volume of food import and capital machineries has dipped in nine months of FY10. But there is a significant increase in opening of import LCs for consumer goods and industrial raw materials, capital machinery during July-January, 2009-10 compared to the same period of the previous year. However, opening of import LCs for intermediate goods declined a little during July-January, 2009- 10 compared to the same period of the previous year. The government lowered interest rate to 12% for importing daily essential food stuff and 13% for other items. But these interest rates should have been further lowered to ensure the daily needs. Maintaining 0% customs duty on rice, wheat, onion, pulse, edible oil etc is good but the precaution should be maintained that domestic producers of these items must not be harmed.

Reduction in import of raw materials indicates a downfall in new investment in the economy, especially in manufacturing sector. Moreover, the decline in imports of raw materials of textiles and garments (e.g. cotton, yarn, and other products) indicates slowing down in these sectors. Due to the fall in import of food along with a shortfall of production of Aman paddy, an upward pressure on rice price has been created in recent time.

### 3.3 Revenue Mobilisation

The government has estimated the total expenditure to be 16.9% of the GDP, but to meet the expenditure the projection of revenue mobilization is made at 11.9% of GDP. Tax and non-tax revenue is the only source of government income. The government has not brought any change in the individual and corporate tax structure.

The major tax revenue, as per the government target is collected by the National Board of Revenue (NBR). In case of NBR tax collection, on an average, revised target is 97.66% of the proposed target whereas 96.84% of the target is achieved at the end of each fiscal year. Same scenario is found in case of non-NBR tax. On an average, revised target is 97.29% of the proposed target and 95.32% of the proposed target is achieved at the end of each fiscal year.

**The targeted income tax for FY 2009-10 was Tk.16560 crore and till April 2010, the total collection is Tk. 11252.92 crore which is 67.95% of the target.**

The area of collecting VAT must also be increased. The targeted VAT (Import + Domestic) for FY2009-10 is Tk. 22789 crore and till April 2010, the total collection is Tk. 18846.26 crore which is 82.70% of the target. As long as there are more service oriented products in the market, government must increase the area of VAT collection.

**Table – 3.6: Revenue collection**

(in crore Tk.)

FY	NBR			Non-NBR			Non-tax		
	Target	Revise	Collected	Target	Revise	Collected	Target	Revise	Collected
2001-02	20730	20730	20207.71	1293	1200	1108	6433	5740	5740
2002-03	23750	23750	23691.12	1750	1200	1066.3	7584	6170	6170
2003-04	27750	27050	26193.77	1321	1250	1237	7100	7100	7100
2004-05	32190	30500	29904.46	1450	1450	1421	7660	7250	7250
2005-06	35625	34456	34456	1660	1719	1719	8410	8693	8693
2006-07	41055	37479	37219.32	1860	1855	1855	9627	10225	10225
2007-08	43850	45970	45970	1988	2042	2042	11463	12577	12577
2008-09	54500	53000	53000	2289	2526	2526	12593	13654	13654
2009-10	61000	61000	46865*	2955	2956	2956	15506	15528	15528
2010-11	72590			3452			16805		

Source: Ministry of Finance. NBR. Bangladesh Economic Review 2010.

\* Discrepancy between NBR data and Ministry of Finance.

The government has proposed to bring at least 5 lakh new tax-payers into the tax net. But currently there are about 22 lakh TIN holders amongst which 6 lakh people pay tax. **There is no clear direction on what the government will do with the 16 lakh TIN holders, who are not returning their wealth statement, despite the fact the wealthier sections of the society are expanding.**

It is seemingly positive that government has decided to impose concessional capital gain tax on all stock exchange listed companies and on the stocks traded by the directors of the respective listed companies.

There could be two implications; the first scenario is that this is as par with progressive taxation. But imposition of tax may create a downward pressure in market capitalization in the short-run.

The introduction of Bangladesh Infrastructure Finance Fund (BIFF) is an innovative idea by the government and it may help increase the volume of market capitalization and revenue income as well.

Tax imposition on real estate business may increase the cost of making homes by the real estate developers. So this may create a problem for the home seekers for purchase of flats.

The obligatory rule to use TIN for taking gas and electricity connection may create a problem among the public utility users in the short-run. But this might enhance the tax net, if initiatives are taken to ensure that the TIN holders also pay the taxes on a regular basis.

The imposition of VAT on stock and security brokerage house will create a short-run downward pressure in the stock market.

Imposition of supplementary tax on filament bulbs and lifting VAT from electrical bulbs and energy saving bulbs and 5 years tax holiday for industries engaged in making solar panels and energy saving bulbs are in positive direction. This may not help to reduce the demand and generation gap of power but will help encourage people to use energy saving equipments and will help save the available generated power.

**But the increase in VAT in various products will create pressure on general people.** This is in contrast to the principle of progressive taxation. Successive governments have pronounced rhetorics relating to equity, yet in practice have always resorted to the regressive tax mechanism such as VAT instead of expanding and implementing instruments of progressive taxation. .

From 3<sup>rd</sup> term budget implementation report of the FY2009-10, by finance minister, it is found that the revenue collection is 68% of the target (July-March, FY10) which is 17.16% higher than the previous year. But the average inflation rate is 6.26%. So if we adjust the collection of revenue with inflation rate, the real value of the collection is not as what it seems.

### 3.4 Budget Deficit

Bangladesh is facing increasing budget deficit over the years. The persistent budget deficits have raised considerable concern. It has been observed that total **budget balance as percentage of GDP has remained negative throughout the previous decade.** It has remained highly negative in the fiscal year 2000-01 and again in 2007-08. **Government's internal debt has mostly remained higher than external debt.**

**The increasing deficit is not a huge problem if the economic growth rate is greater than the inflation rate and the interest payment can be managed.** But estimated GDP growth is lagging behind the rate of inflation.

An interesting aspect relating to deficit is actual deficit is lower than the proposals made in budget. This is due to the fact that the successive governments proposes higher budget to increase the aggregate demand, assuming that such will lead to higher output, meaning higher rate of growth. This lessens as the government reduces the size in the revised budget due to implementation failures.

The other observable factor is that **the deficit financing from the non-banking sector is increasing more than the target because of higher interest rate of savings bond.** The rate of interest, on an average, is 1% if financed from external Sector, 7.75% if financed by treasury bond and 11.75% interest if financed by savings bond, though the Government is planning to lower this rate by 1%. Still it is very high and thus a large part of revenue will go as the interest payment to the bond holders.

**Table - 3.7: Debt Financing as % of GDP**

years	total budget balance(excluding foreign grants)	Deficit financing from net internal Source	Deficit financing from net external Source
2000-2001	-6.1	2.8	2.5
2001-2002	-5.1	2.7	2
2002-2003	-4.4*	1.3	1.7
2003-2004	-4.2*	2.2	2.3
2004-2005	-4.2*	1.8	2.4
2005-2006	-3.9*	2.2	1.7
2006-2007	-3.7	1.9	1.8
2007-2008	-6.2**	3.7	2.5
2008-2009	-4	2.2	1.8
2009-2010	-4.5	2.5	2
2010-11p	-5	3	2

P for provisional.\* According to Government real calculation total budget deficit as % of GDP is 3.5%,3.4%,3.5% & 3.7 % in FY 2002-03,2003-04,20004-05,2005-06, 2006-07 and 2007-08

\*\* Excluding grant and including BPC

Source; Bangladesh economic review 2010, Ministry of Finance,

**Table - 3.8: Budget deficit and deficit financing (Taka in Crore)**

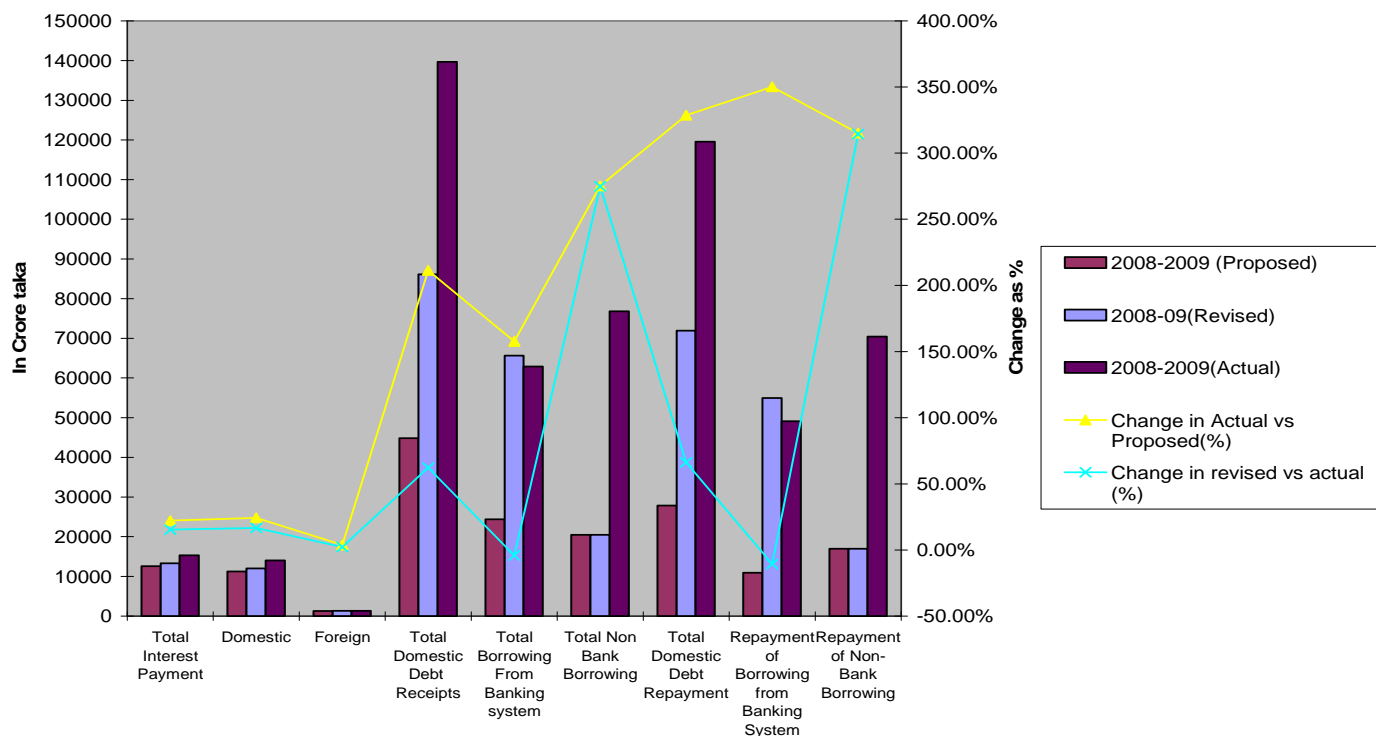
	2010-11 Budget (proposed)	2009-10 Budget (Revised)	2009-10 Budget (proposed)	2009-10 Budget Proposed Vs Revised (as %)
<b>Budget Balance</b>	<b>-39323</b>	<b>-31039</b>	<b>-34358</b>	
<b>Deficit Financing</b>	<b>39323</b>	<b>31039</b>	<b>34358</b>	<b>-9.66%</b>
<b>External Borrowing(net)</b>	<b>10834</b>	<b>9972</b>	<b>8673</b>	<b>14.98%</b>
<b>Domestic Borrowing(net)</b>	<b>23680</b>	<b>17325</b>	<b>20555</b>	<b>-15.71%</b>
<b>Bank Borrowing(net )</b>	<b>15680</b>	<b>8661</b>	<b>16755</b>	<b>-48.31%</b>
<b>Non-Bank Borrowing (net)</b>	<b>8000</b>	<b>8664</b>	<b>3800</b>	<b>128%</b>

Source: Bangladesh economic review 2010, Ministry of finance, Bangladesh Ban

**Total interest payment by government increased 22.18% from the proposed allocation and 15.30% from revised allocation.** Another important feature of this debt burden is continuous borrowing increase from non-bank sources and repayment. In FY 2008-09 borrowing increased from revised to actual budget by 274% and repayment also increased by 314.50%. In the current year the increase from proposed to revised budget is by 25.26% & 5.17% respectively. There is a possibility that it may increase in the actual budget. So **the target for this year total non-bank borrowing may increase from 28461 Crore taka,** unless any steps are taken.



### Debt Scenario



**The lack of designing of the framework for financing the deficit budget is growing to a situation of continuous debt burden and leading towards “policy led contraction”.** The general public rather than Source: Ministry of Finance & authors’ calculation

investing in the capital market is now more interested to buy savings bond and thus capital market is also falling short in terms of investment. Government needs to rethink this situation with importance as its goal is to increase investment from 24.2% to 32% of the GDP.

For Fiscal year 2009-10 Finance Minister allocated Tk. 15,808 crore for interest payment, from this Tk. 14,471 crore is for domestic interest payment. The Government also borrowed Tk. 6,915 crore (till March, 2010) from foreign source. The increasing internal debt payment is squeezing the fund for ADP in its revised edition. Government’s increased borrowing from the commercial banks would reduce capital available for investment, which would result in crowding out of private investment in the economy. As **the economy has already been suffering from lack of investment, this increasing debt would be a further threat.** The central bank raised the cash reserve requirement for banks from 5.5% to 6.5% in May, which would further result in shortage of credit flow from the commercial bank. A higher borrowing of the government would pressurize the credit flow, having negative impact on investment. Thus it would be challenging for the government to utilize the borrowed money in a planned and effective way for enhancing aggregate demand in the economy. The share of interest payment is 11.1% of the total outlay in this fiscal year.

**The upcoming fiscal is likely to witness an upward inflationary trend as a result of endogenous factors** due to increased fiscal deficit leading to increase government borrowing, the failure of the monetary policy to interest rate to fall, leading increased consumption spending.

Unlike exogenous factors that have immediate impact on inflation, the endogenous factors have lag-effect i.e. any disturbances in fiscal and/or monetary policy now would have a later impact. **These disturbances could occur if the ambitious expenditure planning is not coordinated by the suitable monetary**

**policy. The concern is that there is no immediate remedial measure for inflation that arises from macroeconomic disturbances.**

### **3.5 Inflation**

Inflation has soared to 8.99 per cent in January 2010, showing rising trends in recent months. The food inflation has surged to 12.07 per cent in urban areas in January 2010 from 11.08 per cent in December 2009. It was lower in rural areas at 8.81 per cent in January 2010. Non-food inflation has slightly declined to 6.53 per cent in January from 7.04 per cent in December 2009.

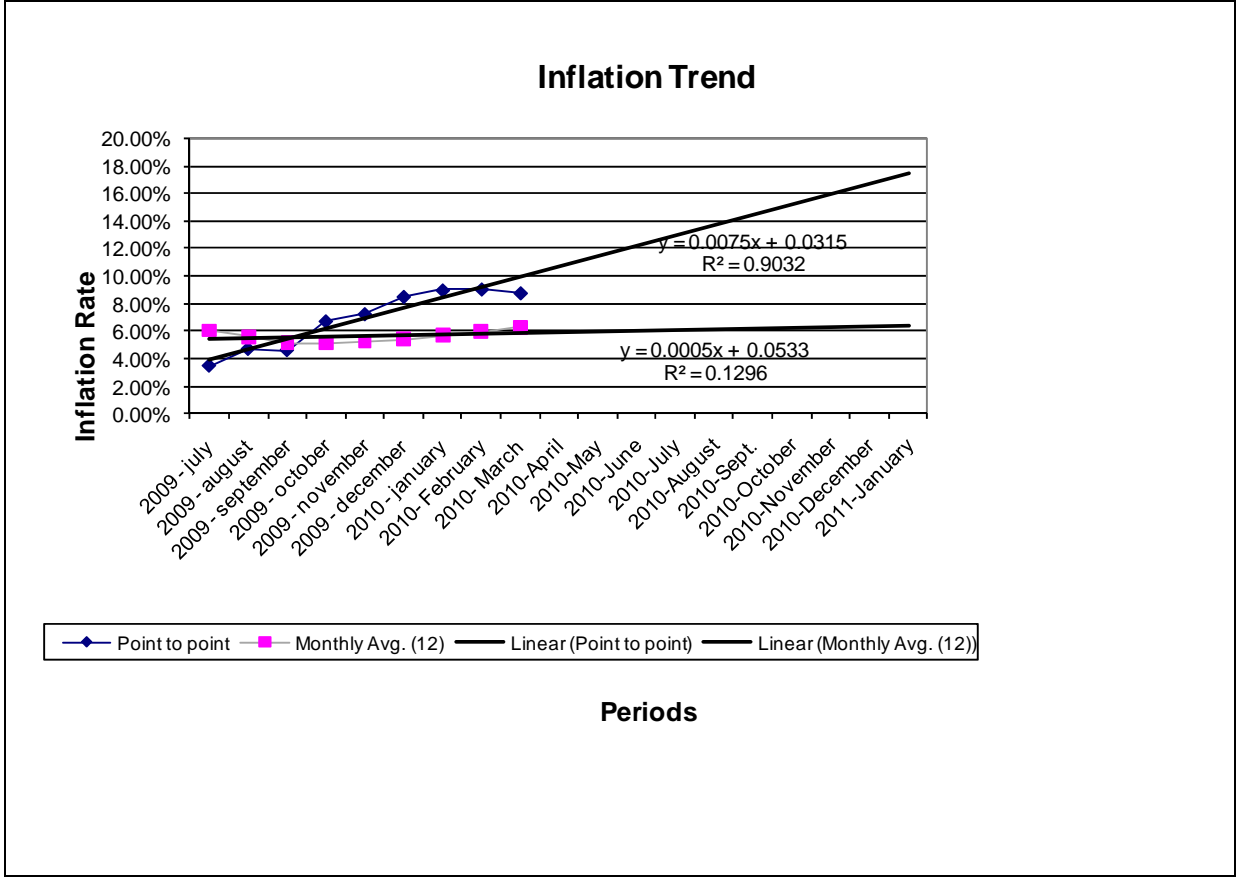
The growth of money supply is one of the major reasons behind this mounting inflation. The monthly update of Bangladesh bank reveals an upward trend in reserve money (Tk. 29518.50 crore to Tk. 41079.30 crore with 13.85% increment) and broad money base as a result of the rapid buildup of net foreign assets (NFA) stemming from continued large remittance inflows and the decline in import payments.

The poor yield of Aman paddy, coupled with lower import of rice has triggered the rice price. The production of Aman paddy has declined in this season. The production was about 1.15 crore tonnes, a bit lower than the production target. Moreover, there is a drastic fall in rice import. For these reasons there occurred an insufficient supply of rice to meet the demand and this pushes the rice price up.

**High inflation is widely seen to have a wide range of economic and social costs.** Inflation will have different effects both on individuals and also the performance of the economy as a whole.

- **Impact on Savers:** Inflation leads to a rise in the general price level so that money loses its value. As the inflation is high, people may lose confidence in money as the real value of savings is severely reduced.
- **Impact on Employment:** As inflationary pressure leads to a decrease in real wage of the labourers, there is a negative impact of inflation on employment.
- **Impact on Investment:** Inflation will also disrupt business planning, i.e. investment. Due to uncertainty of price and costs, the planned investment spending may be reduced. Lower investment would have a detrimental effect on the economy's long run growth potentials.

The government has placed the budget for the upcoming fiscal year at the time when the monthly (12) average inflation rate increased from 5.95% to 6.26% in March 2010. However, the monetary and the fiscal policy should be harmonized to keep a moderate level of inflation. The policy makers and the authority of Bangladesh Bank should be aware of further fitting their policies related with budget deficit financing, interest rate and money supply.



An estimation conducted by Unnayan Onneshan in 2010 shows that with the prevailing rate of point-to-point basis and monthly average basis inflation will continue to rise.

## 4. Real Sectors

### 4.1 Agriculture

According to Finance Ministry Abul Maal Abdul Muhith, “*I stated that we want to achieve self sufficiency in food in Bangladesh by the year 2012*” (Budget speech, 2010). To achieve food sufficiency in 2012, it is necessary to increase food grain production at a certain rate. The Unnayan Onneshan estimates that the total population will be 171.5 million in 2012 and for that targeted population, **more than 43.2 million ton food grain (39.4 million ton rice and 3.8 million ton wheat) will be required.**

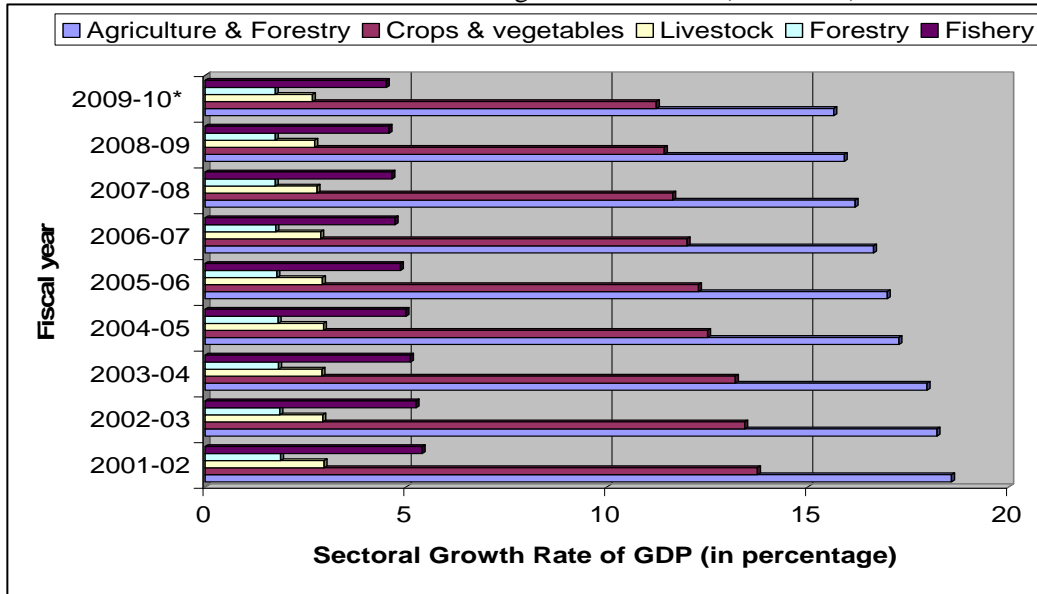
In FY 2008-09, the total food grain production was 32.2 million ton (31.3 million ton rice and 0.84 million ton wheat) which is 11 million tons (more the 34 percent) away from the targeted level (Bangladesh Economic Review, 2009). Therefore, **11 million ton food grain production must be increased to achieve food sufficiency.** It is not easy to achieve the target level because of the climate changes in recent decades in the forms of natural calamities like drought, flood, fluctuation in rainfall pattern, cyclone, and sea level rise also pose serious threat to production of agricultural produces. Moreover, **decreasing arable agricultural land and unsustainable agriculture practices in Bangladesh, together with increasing population and changing climatic conditions make this challenge more acute.**

Agriculture plays a pivotal role in the Bangladesh economy, although its share in GDP is declining day by day. The sectoral share of gross domestic product (GDP as percentage) of the board agriculture at constant prices (Base year: 1995-96), the share of the board agriculture sector (including fishery) in total GDP is 20.60 in FY 2008-09 where the allocation for the sector in ADP was TK. 2316 crore (proposed ADP) and the implementation was only TK.1235.2 crore which was only 53.33 percentage (Bangladesh Economic Review, 2009 and Budget in Brief, 2009). Therefore, a huge gap between proposed and implementation of ADP in agricultural sector.

Moreover, the allocation of this sector is continuously increasing but it is not sufficient to protect the declining rate of agricultural GDP. Bangladesh government announced about Tk. 3192 crore in the FY 2010-11 of the total ADP but there are questions to be raised whether this allocation to agricultural sector is sufficient to reduce the declining the growth rate of this sector.

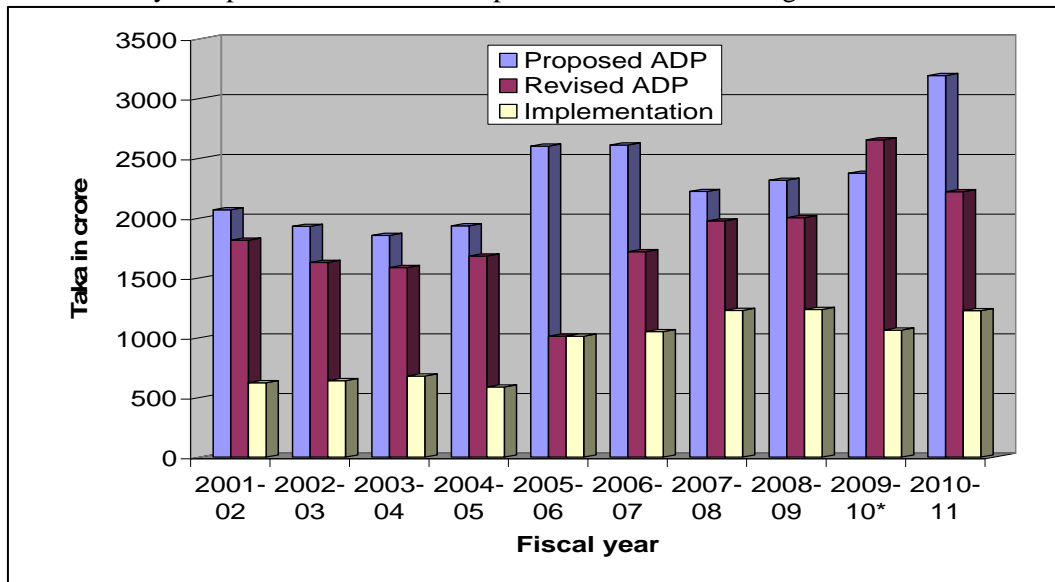
The revised and future implementation of ADP allocation have been predicted by taking the weighted average of the past trends. **From the analysis of the last 10 years data, it is found that percentage of implementation to proposed budget is 38.4 and the implementation to revised budget is 55.17. If the implementation rate goes at business as usual rates, the predicted amount of revised and implementation budget will be Tk. 2220.30 crore and Tk. 1225 crore, respectively.**

Growth Rate of GDP for Agricultural sector (Year wise)



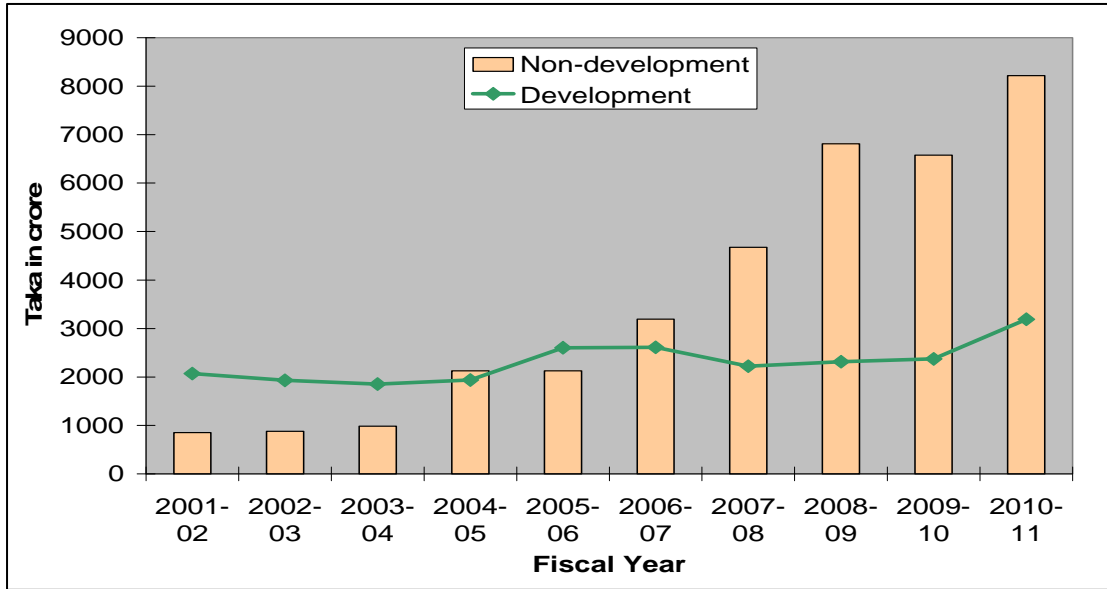
(\*: up to March month, 2010; Source: Authors' calculation based on Bangladesh Economic Review, 2010)

Yearly- Proposed, Revised and Implementation ADP for Agricultural Sector



(\*: up to March month, 2010; Source: Authors' calculation based on Bangladesh Economic Review, 2010)

Development and Non-development expenditure (Year wise)

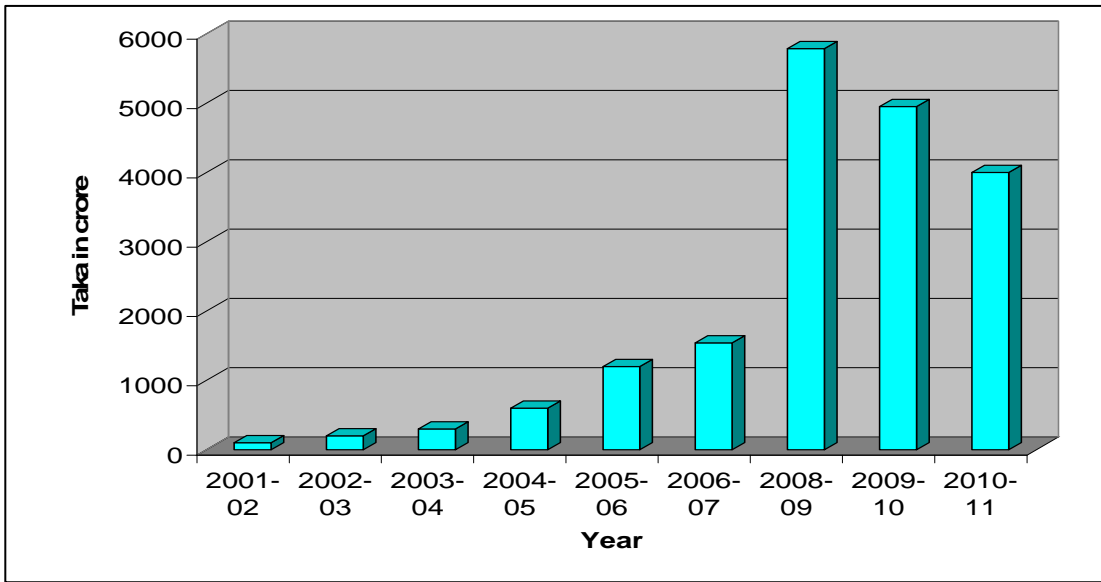


(Source: Ministry of Finance, 2010)

Bangladesh government has allocated Tk. 5971.52 crore for agriculture sector wherein Tk. 5076.33 crore for the non-development sector which is 85 percentages in the total budget of FY 2009-10 for Agriculture Ministry. Similarly, 56 percentages has been allocated for non-development sector for the Ministry of Fisheries and Livestock and 69 percentages for the Ministry of Forest. Similar trends are also focused in the current budget FY 2010-2011. **More than 84 percentage has been allocated for the non-development sector of Agriculture Ministry and 56 percentage for Ministry of Fishery and Animal Resources. Maximum allocations are gone to the non-development sectors and small amounts are allocated to the development sectors.**

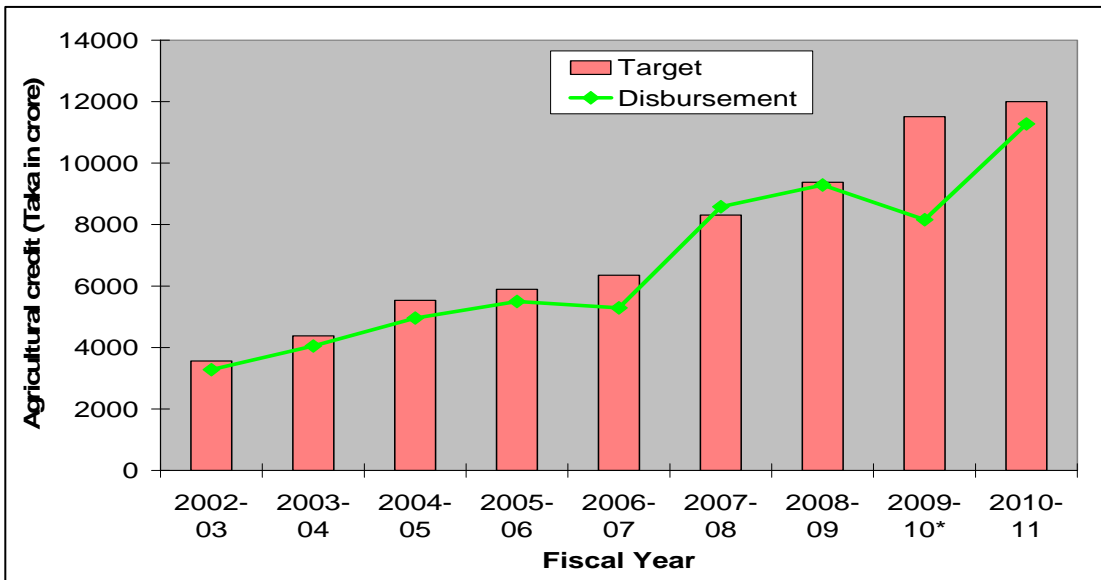
**Subsidy in agricultural sector has declined by 20 % compared to the last year budget 2009-2010.** In FY 2009-10, the total allocation for agricultural subsidy was Tk. 4950 crore while the current budget proposes Tk. 4000 crore. The government targets to distribute credit to the tune of TK 12000 crore. From the analysis of the last 10 years' data, it is found that more than 6 % could not be distributed. Accordingly, estimation is that the credit disbursement may not be more than Tk. 11275 crore.

### Year wise Subsidy allocation for Agricultural sector



(Source: Authors' calculation based on Bangladesh Economic Review, 2010)

### Agricultural Credit Target and Disbursement (Year wise)



(\*: up to March month, 2010; Source: Authors' calculation based on Bangladesh Economic Review, 2010)

For ensuring 'Food for all', it is necessary to increase allocation for research and extension services. Innovative new agricultural practices, varieties are essential to meet the future food demand for its huge population. Therefore, government should have given a special priority for research and agricultural extension services and provided sufficient fund to carry out those successfully.

In FY 2010-11, the government has allocated TK 412 crore for agricultural research which is more than Tk. 226 crore than the previous years. It might be assumed as a good indication for agricultural research,

but the research organization must be able to access those funds. In the past that maximum fund for research purposes did not reach to the research organization for various complex administrative structures.

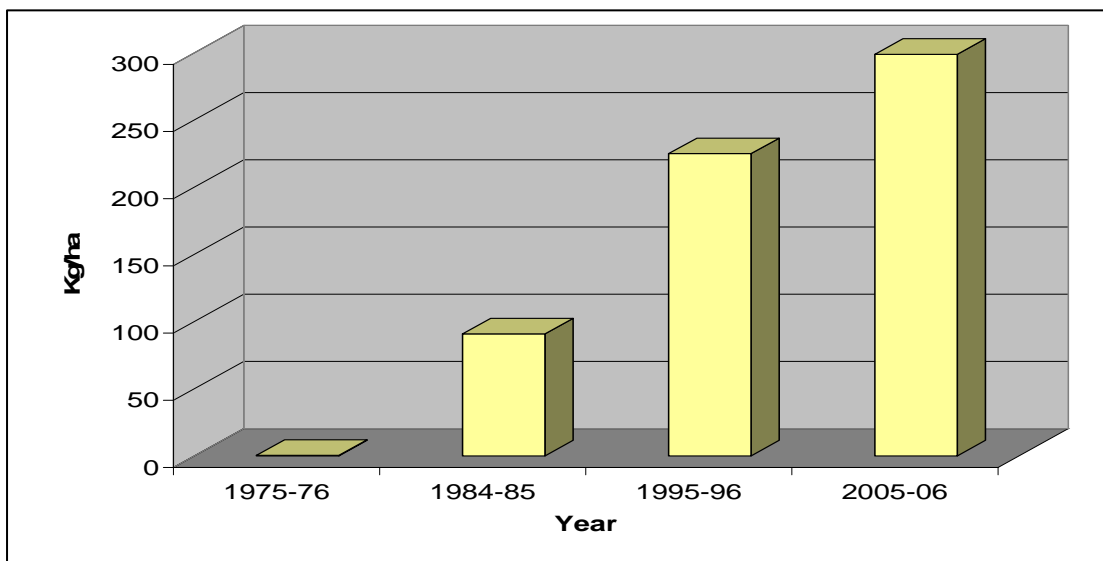
In the FY 2010-2011, government has decided to support 1.82 crore farmer families under the agro-input assistance card. Therefore, a huge amount of fund must be allocated to support farmers but in the current budget there is no fund being allocated. **For boro rice production in the last fiscal year 2009-10, Tk. 750 crore was allocated for purchasing diesel. Therefore, more than Tk.1483 crore will be required for only purchasing diesel during boro season under the card facilities.**

Finance Ministry in his speech stated “*we have taken an initiative to introduce an Agriculture Insurance scheme to provide the small and medium farmers with crop price support in the event of crop failure due to natural disasters*”. **But there is no guideline about the landless farmers who are the most sufferers. Besides, there is no fund allocated for the Insurance Scheme.**

More than 1.5 times per capita food grain production increased in the last few decades. It might be assumed as a good indication for food security in Bangladesh, but its sustainability in future is in question because of the gradual decrease in agricultural land for food production and excessive use of chemical inputs and ground water. **For example in Bangladesh, fertilisers’ application increased 890 times in same piece of land. In 1975-76, fertilisers application were 0.36 kg for a hectare of agricultural land, whereas in 2007, it was above 298 kg.** So, it is clear that fertilisers create a force to increase productivity of land. On the other hand, soil fertility is decreasing due to use of huge amount of chemical fertilisers, which is not at par with sustainable conception of agriculture.

Moreover, irrigation application mainly depended on the groundwater source. Groundwater water application increased many times to augment production, causing at the same time salinity of soil to increase and consequently declining land fertility. Therefore, proper attention should have been given for sustainable agriculture practices and sufficient fund should have been allocated to enhance sustainable agricultural practices.

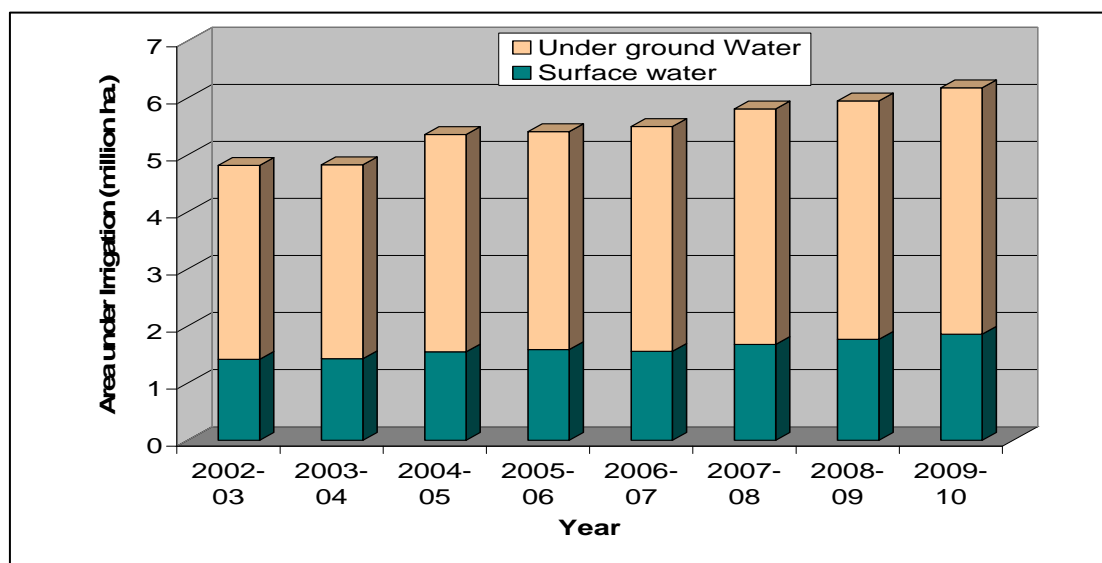
Chemical fertiliser application (Kg per hectare) in Bangladesh (Year wise)



(Source: Authors’ calculation based on Bangladesh Fertiliser Association (BFA) data, 2008)



Area under Irrigation (Year wise)



(Source: Authors' calculation based Department of Agricultural Extension (DAE), 2010)

In FY 2010-11 government has taken hopeful stapes to distribute organic, green and bio-fertilisers to 97 lakh families in country to popularize the use of natural fertilisers and to increase agricultural production and also allocated Tk. 300 crore to expand irrigation facilities which is less than Tk. 127 crore in the last year budget. For the distribution of organic fertilisers, no fund has been allocated for the recent budget. Therefore, a question has automatically risen how the total process will succeed. Besides, the fund which has been allocated for the irrigation project will not be sufficient for the implementation because of many sub-sectoral issues such as mitigating water logging problems in the south-west region, draining out water in Haros areas etc.

**Land fragmentation can be seen to have negative effect on agricultural productivity, reduced labour productivity, hampered management practices and other expenses. The fragmentation rate is continuously increasing due to huge population pressure in Bangladesh.** A piece of land is divided because of the sharing of land among their present generations. Industrial development and expansion of human settlement also create pressure on agriculture land which influences the rate of fragmentation significantly. For increasing agricultural production, the budget did not mention land related Policy which is one of the vital issues for agricultural production

Agriculture is one of the most sensitive sectors in terms of climate change particularly is affected by temperature, rainfall pattern and likelihood of extreme events such as droughts, flood, cyclone, salinity intrusion etc. Unnayan Onneshan in 2009 has conducted a research for future food security situation in Bangladesh. **The rice shortage may have occurred for more than 35 percent for population due to growing population and increasing temperature in 2050 compared to the total rice production in 2006-07 in Bangladesh** (Basak, 2009).

Therefore, more investment will be necessary in this sector to achieve self sufficiency in food in Bangladesh by the year 2012. Moreover, the concern of agricultural investment and subsidy do not depend only on the amount that has been allocated but also the effective utilisation of the fund and proper distribution of subsidy. It is often claimed that subsidy does not benefit the real beneficiaries. Because, the benefit of fund is going to large and medium farmers and those who are landless they have not got the benefit of the subsidy and Input Assistance Card.

## 4.2 Industry

The present government's aim is to increase the contribution of the industrial sector to GDP from 29.95% (FY 2009-10) to 40% by the year 2021. To achieve this goal a sustainable growth in industrial sector is needed. The industrial growth and labour force absorption depend on scope of settling new industries, increase in efficiency and production of the industries and increase in the quality and value addition of the intermediate products. **But the growth rate of the manufacturing sectors show a gradual decreasing trend.** Besides, the **disbursement of industrial term loan also shows a declining trend.**

**Table 4.1: Growth rate of the manufacturing sectors**

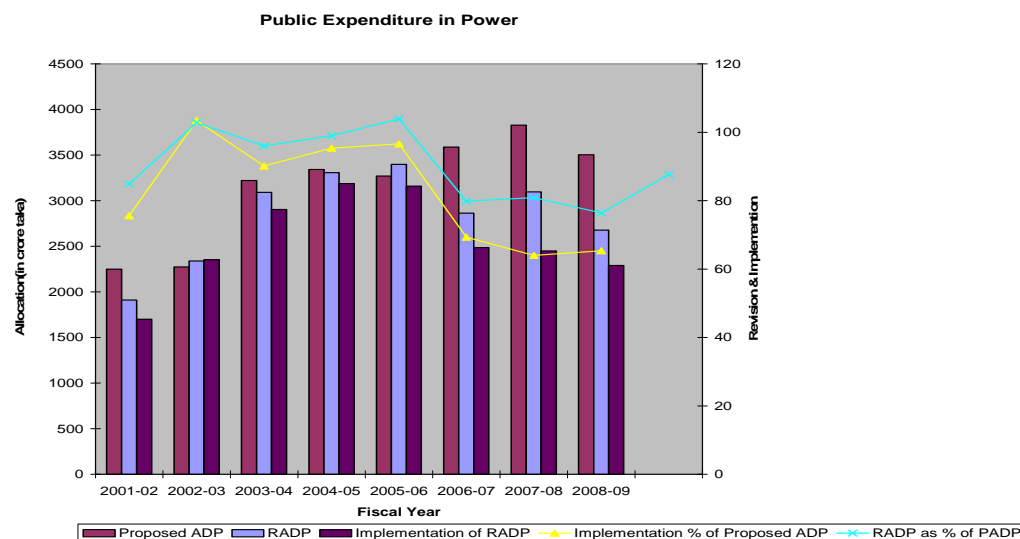
Fiscal years	Small and cottage industries	Medium and large industries
2002-03	7.20%	6.60%
2003-04	7.45%	6.95%
2004-05	7.93%	8.30%
2005-06	9.21%	11.41%
2006-07	9.69%	9.74%
2007-08	7.10%	7.26%
2008-09	6.90%	6.85%
2009-10 (p)	6.61%	5.64%

Source: Bangladesh Economic Review 2010.

## 4.3 Power

The present Awami League led government vowed to people to provide 7000 megawatts of electricity by 2013 and 20000 megawatts by 2021. The government promised to make electricity available for all by 2020. Till the end of 2009 (after completion of one year), only 47% of total population has access to electricity. The share of electricity to GDP is too low although the overall infrastructure is much dependent on this sector.

Over the last few years, a significant portion of ADP has been allocated for the power sector, but the implementation of these has not been done properly. **Only 33% of total ADP allocation has been utilized in the power sector during July- March period of 2009-2010 budgets, which can be said as "less than necessary."**



An estimation (by taking weighted average of last 9 years data sets) conducted by Unnayan Onneshan in this year show that the proposed annual development expenditure of Tk.4995 crore which may be revised to Tk.4470 crore and implementation of the proposed ADP may be 85.90%(3768.72).

The government has unveiled a mega plan recently in generating about 9426 MW of electricity in which 792 MW of electricity in this year by setting up first track rental power plant with high per unit cost.

**An estimation of the Unnayan Onneshan shows that per day demand of electricity in 2014-15 will be 14056.92 MW with about 830.92 MW of shortage [(Demand of 14056.92 MW less total generation of {(9426+3800) MW}=13226 MW)] if and only if the proposed plan will be fully implemented and full generation of 9426 MW (without net generation system loss and present generation of 3800 MW will be available in 2014-15.**

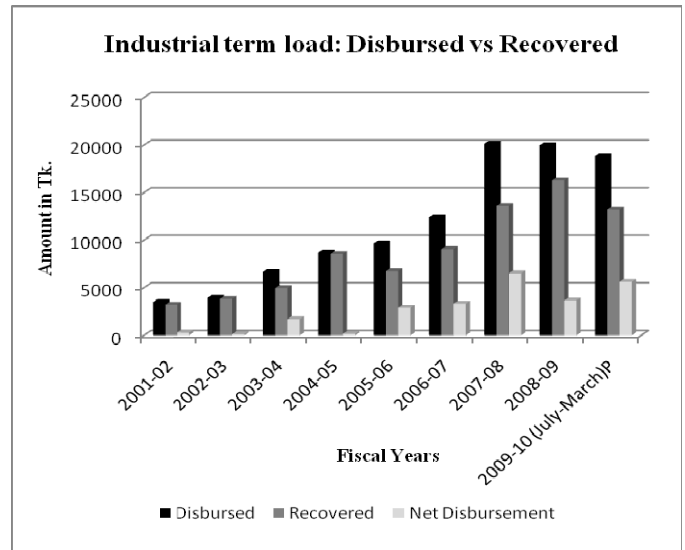
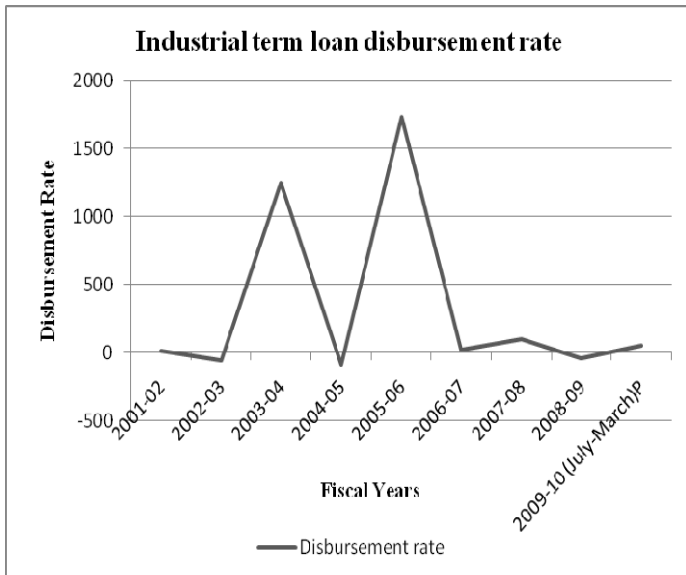
In the Road Map of Power and Energy Development by Ministry of Finance, it is stated that in the medium term, 2600 MW of electricity will be generated by coal and another 5114 MW of electricity will be generated by gas and hi-sulfur furnace oil. But the policies related to coal are yet to be finalized. Nor there are clearer direction with respect to exploration of gas.

The government proposes to allocate Tk 4995 crore for the power division in new budget. The government is providing huge subsidy to the rental power plants. It is depending upon the PPP. This warrants caution and some are calling it a riskier strategy as the investment track record through PPP in power is dismal. In the neighbouring India, only 14 per cent of the total PPP investment went to power sector. The World Bank in its report indicates that only one out of four who signed projects has implemented the projects. Moreover, the private sector has invested only 20 per cent out of total investment.

#### 4.4 Transportation and Communication

Election Manifesto 2008 of Bangladesh Awami League Government speaks of eight different targets in the transportation and communication sector.

- construction of extensive road networks connecting to the districts, upazilas, villages and growth



centers.

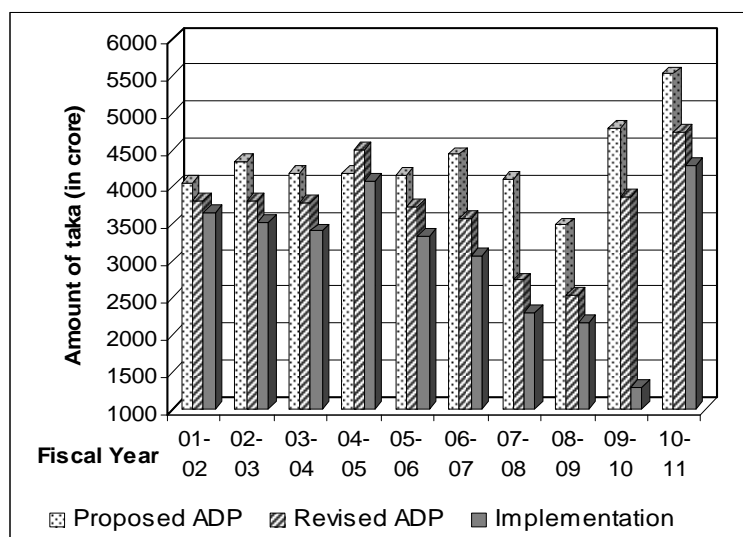
- Construction of Padma and Karnafuli bridges, Dhaka-Chittagong four lane express way.

- Rail and road connection with neighbouring countries under the Asian Rail and Highways.
- Dredging of every big and small river, modernization of cost effective river transport.
- Construction of deep sea ports and modernization of Chittagong and Mongla ports.
- Facilitation and modernization Bangladesh Biman.
- Expansion of Telecommunication up to villages and internet facilities up to upazilas in the next five years.
- Installing railway link with the capital.

Besides, there is provision of construction underground railway, mono or circular rail and navigable river route around Dhaka to solve the public transportation problem and traffic jam in the capital.

The amount of revised and future implementation of ADP allocation in 2010-11 fiscal year has been estimated by taking the weighted average of the previous allocations. The Proposed ADP (PADP) of 2010-11 fiscal year in transport and communication sector is 5531 crore taka and the estimated amount of Revised ADP (RADP) and Implementation of ADP might be 4748.07 crore taka and 4287.39 crore taka respectively.

Public expenditure in Transportation and Communication Sector

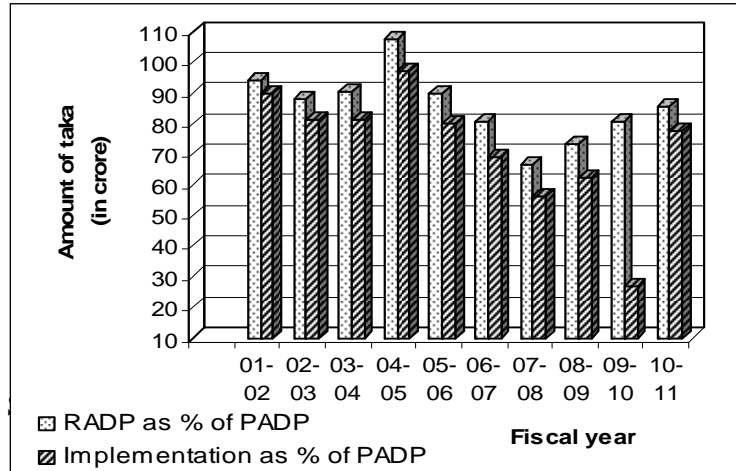


Source: Ministry of Finance & Economic Review 2009

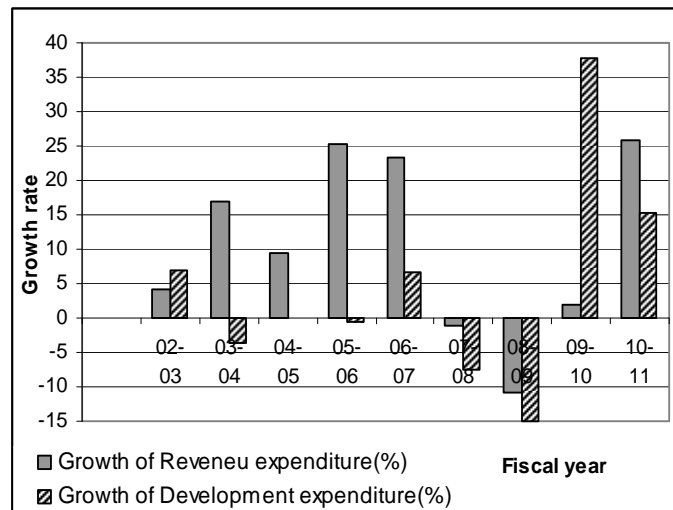
\* Amount of implementation of year 2009-10 has been taken up to March 2010

The past scenario has shown that **revised ADP (RADP) is always lower than proposed ADP (PADP) with only exception in year 2004-05. Implementation rate of proposed ADP (PADP) is also very low.**

Figure 2: Rate of public allocation & implementation



Analyzing the growth of revenue expenditure and development expenditure of the past years in this sector, it is observed that both revenue and development expenditure growth rate is negative.



Source: Ministry of Finance

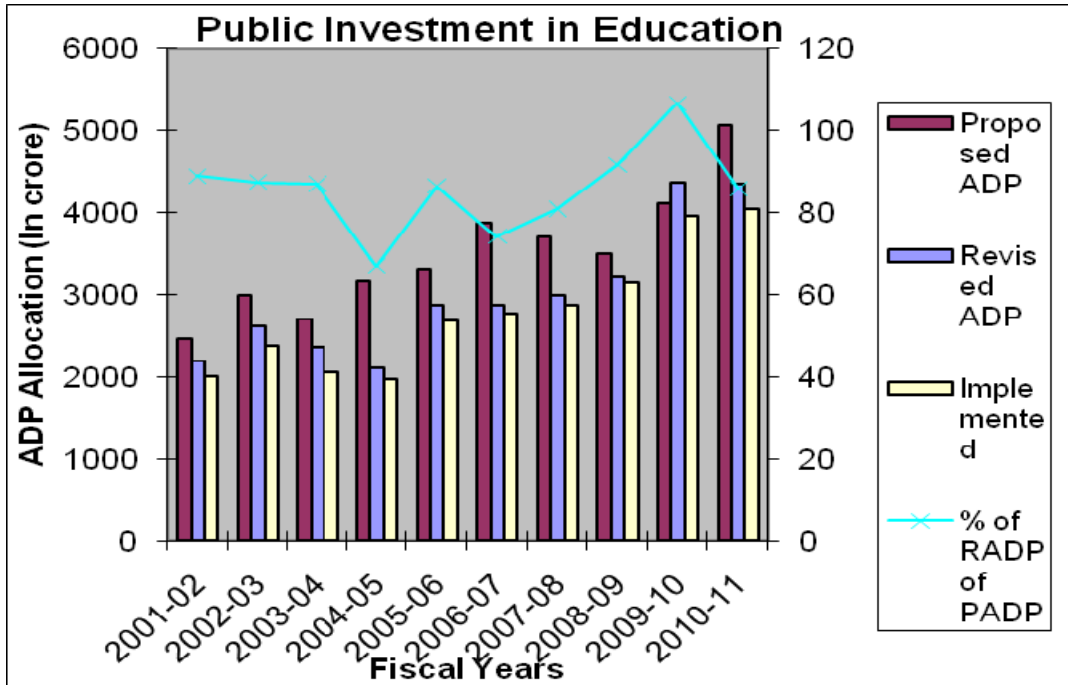
The present budget as well as budget in fiscal year 2009-10 focused on the Integrated Multimodal Transport Policy (IMTP). Some of the targets of the manifesto have been taken up. These are Padma bridge and Bekutia bridge, development of rail way sector, dredging of rivers, construction of water way around Dhaka city, enhancing the Mongla port, construction of elevated express way connecting Uttara and Jatrabari.

## 5. SOCIAL SECTORS

### 5.1 Education

In Education Vision 2021, the government commitment includes net enrolment at primary level of 100% by 2021, literacy rate of 100% by 2014 and making degree level education free by 2013

The rate of budget implementation in Education Sector cuts a poor figure also. From the calculation of weighted average of the past years it is observed that 85.835% of the proposed ADP is revised and 80% is implemented over the years.



But the average implementation is only 80% of proposed ADP and with this rate how this target will be achievable is a big question. This figure shows that there is a continuous gap between proposed and implemented ADP

Table 5.1: Cost of Implementing New Educational Policy

(Taka in crore)

Cost of Implementing New Educational Policy	Allocated Amount	Balance
22530	17469	-5061

Source: Ministry of Education & Ministry of Finance

The table shows the gap between the needed and allocated amount of money. **There is a gap of 5071 crore taka which clearly indicates that government is not on the way of implementing the new policy.** But the implementation of new educational policy is core component in the election manifesto of present government.

The government wants to establish a knowledge based and technology dependent digital Bangladesh and for this reason a number of steps has been taken like free and compulsory education up to class eight,

distribution of books free of cost up to secondary level, recruitment of 45 thousand teachers (20 thousand is done), subvention of 100% salary to Registered Non-government and Community Primary School teachers, school feeding program, establishment of 1500 primary schools and so forth which are really praiseworthy. **But how this allocated money will be sufficient to meet the increased demand is a matter of question as in revised budget it will shrink to 4345.8 crore and implementation will be 4050.89 crore in an average rate.** The finance minister has claimed that this allocation is 13.5% higher than the revised budget of FY 2009-10 but the point is how much higher the revised allocation will be than that of last FY. Noticeably, in the last year the revised budget was higher than the proposed allocation and if the budget is revised in an average way that amount will be less than the increased revised budget of last year by almost 29 crore taka. But as government has taken some new measures, it will be a big deficit while implementing those. So, first of all the revised budget should be increased like the last year if the government tries to achieve the abovementioned target.

## 5.2 Health and Family Welfare

In the election manifesto, the government has committed to ensure health facilities to every citizen, nutrition to children and mothers, improve traditional medicine, eliminate contagious disease, ensure primary healthcare for all by formulating 'Health Policy', 'Population Policy' & the 'Pharmaceutical Policy'.

Health Indicators	Election Manifesto	
	Target	Target Year
Infrastructure (community clinics)	18000	2021
Life Expectancy Rate	70 years	2021
Infant Mortality Rate (per thousand)	15	2021
Maternal Death Rate	1.5%	2021
Usage of Birth Control	80%	2021
Sanitation Facility	Every House	2013
Pure Drinking Water	Every House	2011
Nutrition Coverage	85%	2021

In the budget of FY 2010-11 the allocation in the health sector is 8129 crore Tk. (including development and non-development budget), which is 6.15% of the total budget. This allocation is 1296 crore Tk. greater than the revised allocation of the last budget. But still **it is far away from the committed allocation (up to 12%) of total budget in the draft National Health Policy.** If the government can appropriately allocate the committed amount of national budget in the health sector then the better health indicators along with better public health investment in the health sector could be ensured.

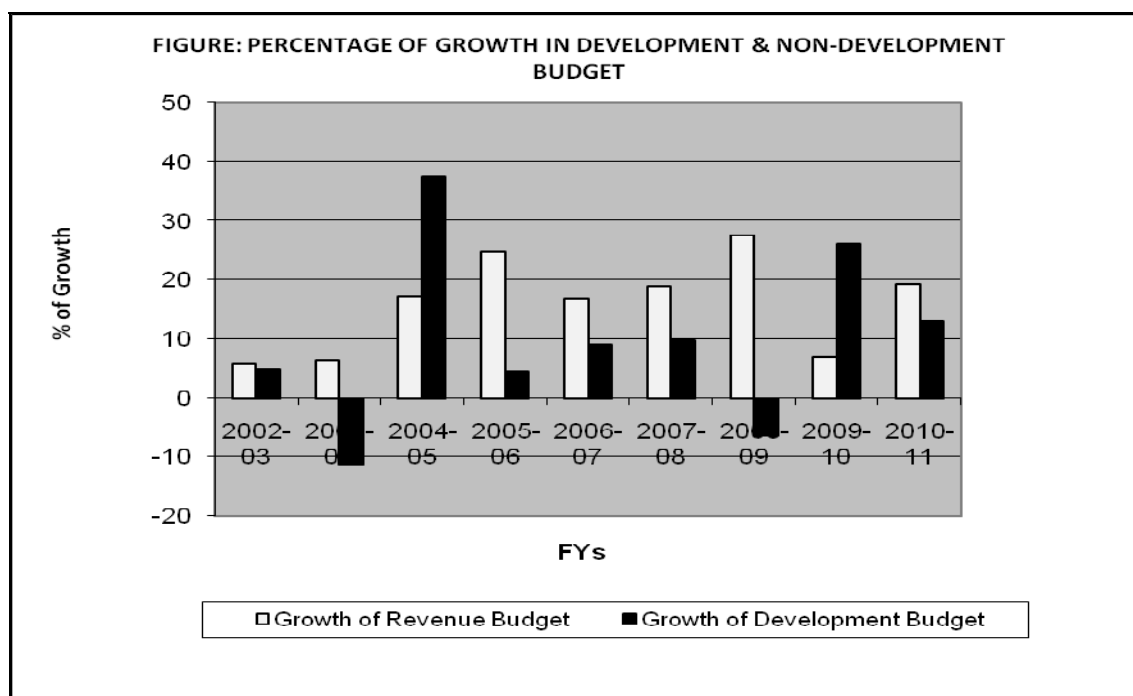
Table : 5.2 Public Investment in health

Fiscal Years	Proposed ADP	RADP**	Implementation	Implementation as %	Implementation as	RADP % of
2001-02	1621	1363	1110.42	68.50216	81.46882	84.0839
2002-03	1702	1463	1149.01	67.5094	78.53794	85.9577
2003-04	1512	1848	1391.48	92.0291	75.29654	122.2222
2004-05	2080	1372	1389.38	66.79712	101.2668	65.96154
2005-06	2177	2151.05	1866.88	85.75471	86.78924	98.80799
2006-07	2375	2275	1786.32	75.21347	78.51956	95.78947
2007-08	2606	2363	2094.53	80.37337	88.6386	90.67536
2008-09	2439	2615	2110.76	86.54203	80.7174	107.2161
2009-10	3075	2829	1576.06	51.25398*	55.71085	92
2010-11	3473	3241.085	2369.665	68.23107	73.11332	93.32236

Source: Budget in Brief, Ministry of Finance; Bangladesh Economic Review 2009, Ministry of Finance.

\* Till July-April. \*\* RADP-Revised Annual Development Programme. \*\*\*PADP-Proposed Annual Development Programme.

The proposed public investment in health, population and family welfare sector has marked negative revision during most of the period between fiscal year 2001-02 and fiscal year 2009-10 as shown in the figure because the data of previous years shows that on an average 93.32% of proposed ADP remains as revised ADP. Among these years only two years (2003/04 & 2008/9) show the increasing revised allocation than the proposed allocation. The average percentage of implementation status for proposed and revised ADP, among these years, is 68.23% & 73.11%, respectively. So, through the weighted mean calculation **it can be predicted that from the proposed 3473 crore Tk. as ADP allocation in FY 2010-11 approximately 3241.085 crore Tk. may remain as revised ADP of which 2369.665 crore Tk. might be implemented.** It is true that the development budget is increasing but **its share in proportion to GDP is declining gradually over the years (0.64% in fiscal 2001-02 to 0.55% in fiscal 2004-05, before rising to 0.76% in 2005-06 & again a downward trend to 0.77% in 2008-09).** The negligence of the public investment reflects the poor quality of the public health system across the country, both in urban and rural areas. Given the prevailing poor quality of the public health system the budgetary allocation is insignificant. The proposed 8129 crore Tk. for 143.8 million people is too few in comparison to the present needs because **the per capita allocation in healthcare is 565 Tk. in a year. That means the daily allocation for healthcare is 1.55 Tk. This rate is not favourable for attaining the MDG goals.** This share of allocation is very low for ensuring a sustainable health systems development in Bangladesh. So the allocation of the committed amount of GDP of draft NHP (up to 5%) is indispensable to ensure the access of all classes to the health treatment.



From 2001-2002 to 2005-06, the development expenditure was higher than the revenue expenditure share of total budget. Since then, revenue expenditure share has been about equal or greater than the development expenditure share. In 2007-08, the difference began to widen, reflecting both higher growth in the revenue expenditure and a falling off in development expenditure. The increase in revenue expenditure since the fiscal year 2007-08 was due to increases in interest payments, pay and allowances, supply and services, expanded coverage of social safety net programmes, increased expenditure on



operation and maintenances due to transfer of physical items from development projects into revenue setup etc.

It is seemed from the Budget Speech and Budget in Brief of FY 2010-11 that most of the initiatives of the current budget are continuation of incompleteness of last budget (2009-10). The following table depicts this position:

Particulars	FY 2009-10	FY 2010-11	Comments
Community Clinic (CC)	Targeted to establish 13500 clinics	9525 (70.5%) CCs are completed	Only 30% implementation of the 2009-10 is targeted and no initiatives to establish rest 4500 CCs as committed (18000 CCs) in the election manifesto.
Maternal Health Voucher Programme	Expanded to 45 upazilas	35 upazilas covered & new 17 upazilas are identified	Low target of implementation than the previous year.
Population Control & Reproductive Health Service	498 crore Tk. earmarked for the procurement of contraceptives	213 crore Tk. more earmarked	Replica of previous year, no new plan; Ignorance to implement one child policy; Population policy overlooked.
National Nutrition Programme	Extended to 123 upazilas	The programme still running; recruitment of 46000 staffs/officials	Low implementation status of FY 2009-10; no new initiatives for service improvements but appraisable initiative for recruiting workforce.
Hospital	Upazila & district-level hospital will be upgraded to 50 & 250-bed hospitals	142 upazilas are covered and 144 are under implementation process; 9 districts are covered	Only 61% & 14% of upazila & districts respectively are covered; either low implementation status or low forecasting capacity & allocation efficiency.
Medical College & Health Technology Institutes	5 colleges & 6 institutes will be established	Three colleges are completed & rest two are under implementation process; only two institutes are done	Only 50% of the target of 2009-10 are achieved; the FY 2010-11 target the remaining 50% budget; no new steps.
Nursing Institutes & Nursing Colleges	12 new nursing institutes with up gradation of 6 nursing institutes into colleges	One new nursing institutes & up gradation of 3 nursing institutes are under implementation	Lower implementation efficiency reflects a deadlock situation for the availability of skilled human resources for the health sector.
Institute of Tropical & Infectious Diseases	Establishing 100-bed hospital	Still running & will be complemented in this year	Incomplete target of FY 2009-10 & the FY 2010-11 is set out to complete it; Slow implementation process.
Drug Policy 2005	Pragmatic formulation of Drug Policy 2005	No progress	Nothing tangible mentioned
Department of Drug Administration	Would be modernized	Plan to establish a world-class drug testing laboratory	No progress is detected in budget 2009-10; New target set out for 2010-11
Patient's Welfare Funds	Formulation of policy	Draft policy is done	Draft policy is done and now the implementation will be a challenge.

The initiatives taken by the government is not favourable for implementing draft NHP because several crucial strategies are missing in the budget. In the last two budgets the government seemed to allocate lower amount in comparison to the NHP and has not been able to meet most of the targets. This situation will badly affect the government's commitment to ensure quality health, nutrition and family welfare services, which are affordable, attainable and acceptable to its citizens and also government's focuses on increasing health status, reducing health inequalities, expanding access to social safety network and encouraging affordable service delivery systems for everybody.

### 5.3 Gender

**“We constitute half of the society. If we remain backward how can the society move forward? If somebody’s legs are bound up, how far can she/ he walk? Indeed, the interest of women and men are not different. Their goal and aim of life and those of ours are the same.”- Begum Rokeya.**

This speech of Begum Rokeya has now started to reflect in almost every country’s development process. As it is realized that, if development is not engendered it will become endangered, so women are now seen as equal as men in any development process. In this connection, GoB took an important decision to have gender budget from the fiscal year 2005-06 for four ministries (e. g., MOWCA, Education, Social Welfare and Agriculture) under medium term budgetary framework. It is observed that, when a budget is made gender sensitive then it not only empower women but also it increase country’s economic progress and human development. In FY 2010-11, in continuity of the process of engendering budget, allocation of resources by GoB covers ten ministries, while in FY 2009-2010 the coverage was only on four ministries. This is commendable but the question which arises is that, will this initiative bring any change to women’s inferior life? An apprehension is also raised on the proper implementation of allocated resources. In FY 2010-11, **the percentage of gender related expenditure in total budget is only 25.9% and 4.4% of GDP, which is less than last FY, when the rank of Bangladesh in GDI and GEM is respectively 148 among 182 and 108 among 109 countries according to HDI 2009.**

**Table 5.3: Gender Related Expenditure**

FY	(%) of Total Budget	(%) of GDP
2007-08	16.44	2.72
2008-09	23.08	3.82
2009-10	29.74	4.93
2010-11	25.9	4.4

Source: Ministry of Finance

Awami League (AL) government promised to take all school going student of primary level to school within 2011 and remove illiteracy within 2014 in their election manifesto. To meet this goal GoB made highest allocation on education sector in 2010-11 FY. But **share for women’s development in total ministry budget is only 23.29% in FY 2010-11, while it was 24.9% in FY 2009-10, after having a high drop out rate of girls in secondary (77.5%) and higher secondary level (31.0%) in 2006.** This type of allocation creates a doubt on government’s promise of ensuring gender equality and empowerment. **Share for women’s development in the health ministry is only 32.33%. Again maternal mortality rate became 3.5 in 2008, while it was 3.37 in 2006 (rural- 3.9 in 2008 and 2.4 in 2006, urban- 3.75 in 2008 and 1.96 in 2006).** Resources are allocated by Health Ministry mainly in such projects which are restricted to women’s reproductive health, while their general health remains neglected. In Bangladesh women’s health problem is mainly characterized by malnutrition, frequent pregnancies, and poor healthcare services etc.

It is considered that agriculture is a ‘masculine work’, and assumed that farmers are male, inspite of women’s huge contribution in this sector. Though the share of women in wage employment in agriculture sector is 45.5% in 1990 and 66.54% in 2005 (BBS, 2009), but gender as (%) of budget of Ministry of Agriculture is very low. In FY 2010-11, share for women’s development in total ministry budget is only 26.53%.

Gender related expenditure in Ministry of Environment and Forest is importantly highlighted this year as women’s contribution and their local knowledge in natural resource management is seen as an important issue for sustainable environment.

Women actually face discrimination in almost all sectors. Transportation sector is an important productive sector in Bangladesh. Some buses were facilitated for women in metropolitan cities to reduce difficulties they have to face in times of transportation. This step is really an affirmative action in increasing women’s communication and mobility. But this type of action is only taken for women in metropolitan cities; no allocation was made in any budget for women in other cities and in rural areas.

## 6. SOCIAL SECURITY

The constitution of the people's republic of Bangladesh recognizes the need for social security in the form of public assistance (Article 15, the constitution of Bangladesh). The present government's election manifesto pledged that the number of poor people will be reduced to 45 million from 65 million by 2013 and will further come down to 22 million in 2021. The Outline Perspectives Plan of Bangladesh 2010-2021 mentions that a comprehensive social security system is necessary to implement vision 2021(Planning commission, 2010), that is, by 2013 poverty level and proportion of ultra-poor will be brought down to 25% and 15% respectively.

Social Security may be conceptualized as: 'the protection which society provides for its members through a series of public measures against the economic and social distress which otherwise would be caused by the stoppage or substantial reduction of earnings resulting from sickness, maternity, employment injury, unemployment, invalidity, old age and death; the provision of medical care; and the provision of subsidies for families with children" (ILO, 1999). For the FY 2010-11 the government has proposed Tk. 9664 crore for social security and welfare sector.

Over the years governments have proposed budgets for social security and welfare sectors. If the trend is examined it can be seen that governments allotted more money for revenue expenditure than development expenditure since FY 2006-07. The gap between development expenditure and revenue expenditure drastically increased; **if growth rate is considered, the average growth of revenue expenditure of social security and welfare sector is 36.43%, whereas, the growth rate of ADP is 17.25%** (FY 2001-02 to FY 2009-10).

The growth of revenue expenditure was highest in FY 2006-07, which is 103.9% and second highest growth can be seen in 2008-09, which is 97.11%. And for ADP the growth rate was negative during 2006-07 and 2007-08; which was -53.76 % and -10.39%, respectively. From the available data it can be inferred that the budgets were proposed to reduce social vulnerability of people in the short run negating structural development that would improve social security of the poor in the long-run.

Table 6.1: Allocation in Social Security and Welfare

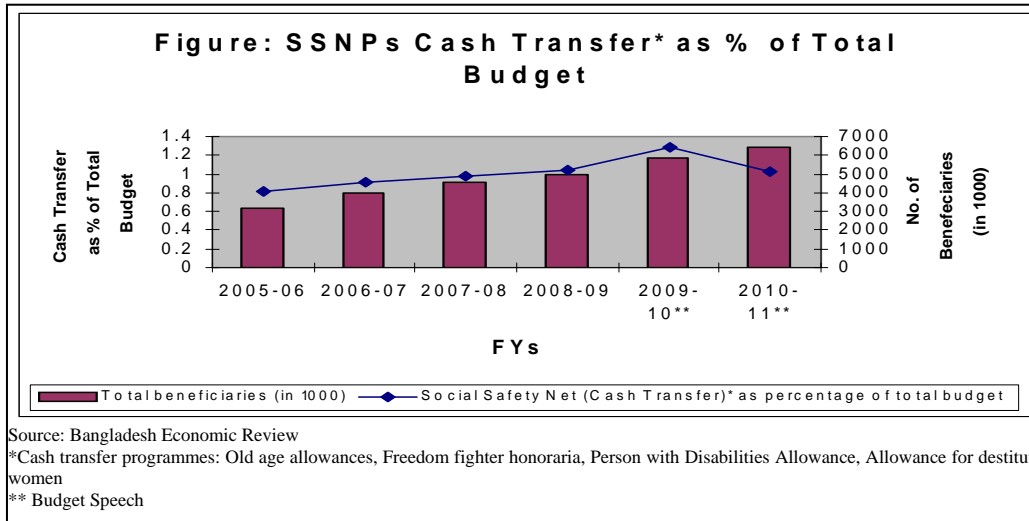
FYs	Revenue expenditure (in crore)	Development Expenditure (in crore)	Growth Rate of Revenue Expenditure	Growth Rate of ADP
2001-02	790	734	-	-
2002-03	879	924	11.26582278	25.88556
2003-04	888	1207	1.023890785	30.62771
2004-05	933	1655	5.067567568	37.11682
2005-06	1147	1977	22.93676313	19.45619
2006-07	2339	914	103.9232781	-53.7683
2007-08	3085	819	31.89397178	-10.3939
2008-09	6081	1300	97.11507293	58.73016
2009-10	7188	1694	18.20424272	30.30769
2010-2011	7571	2093	5.328324986	23.55372

Source: Budget in brief, MoF

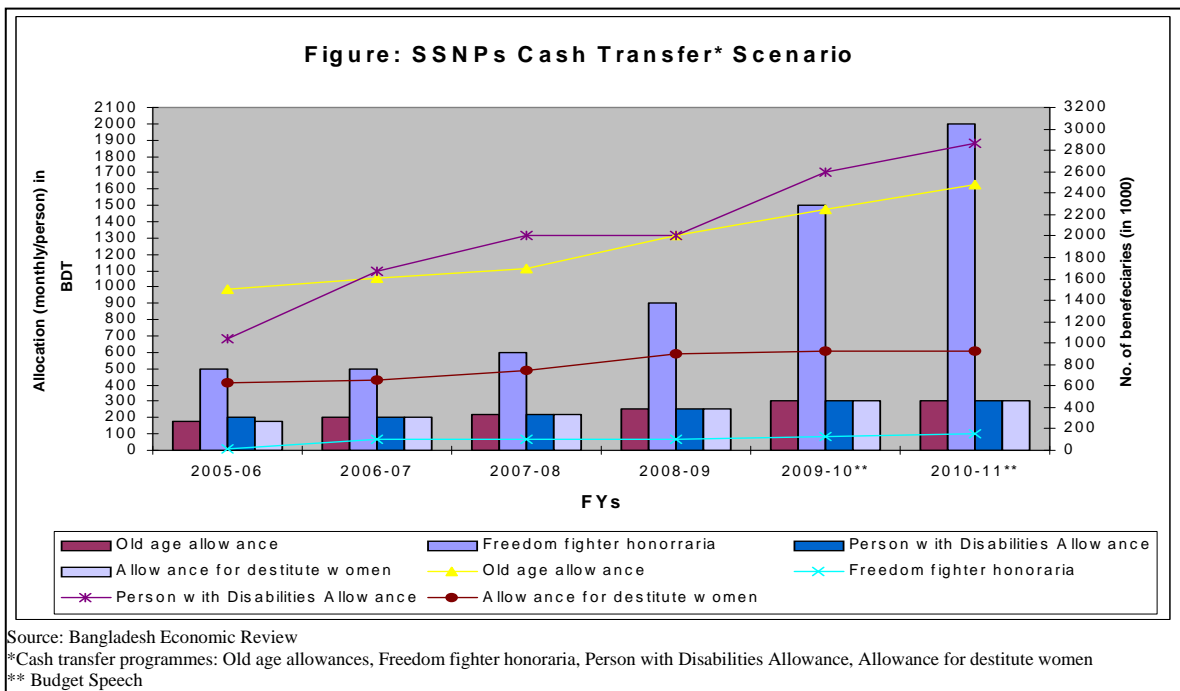
Continuing the trend in the FY 2010-11 for the social security and welfare sector the government proposed Tk. 9664 crore, which is 7.3% of the total budget. **In the total allotted budget 78.34% is proposed for revenue expenditure, whereas 21.65% for development expenditure.**

Government has initiated different safety net programmes for improving social security and to protect the poor from falling into deeper poverty. There are cash transfer and kind (food) transfer programmes. Allocation for cash transfer programmes (Old age allowances, Freedom fighter honoraria, Person with

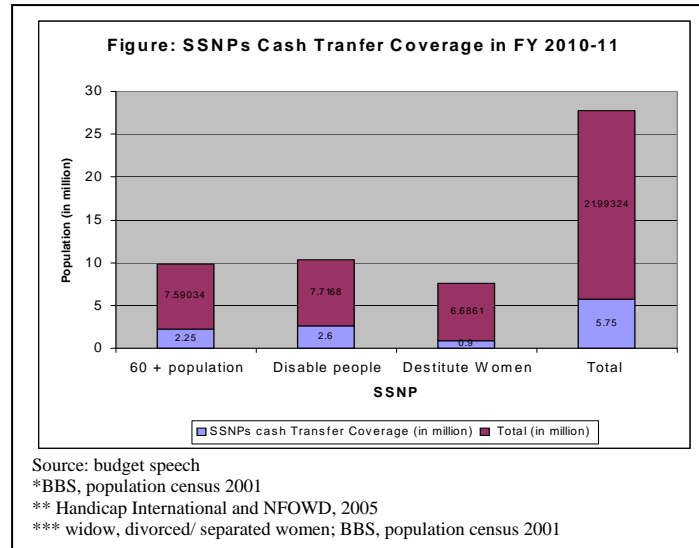
Disabilities Allowance, Allowance for destitute women) was 0.819% of total budget in FY-2005-06 which increased gradually to 1.282% in FY 2009-10. The budget for FY 2010-11 proposed to increase beneficiaries for the cash transfer programmes. **In cash transfer programmes a total of Tk. 1355.16 crore has been allocated which is 1.025% of the total proposed budget. This share is 20.6% lower than the FY 2009-10.**



If cash transfer scenario is examined it can be seen that **the amount per person per month is increased only for insolvent freedom fighters allowance, however, coverage for old age allowances, person with disabilities allowance is increased but neither allowance nor coverage for destitute women allowance is increased.**

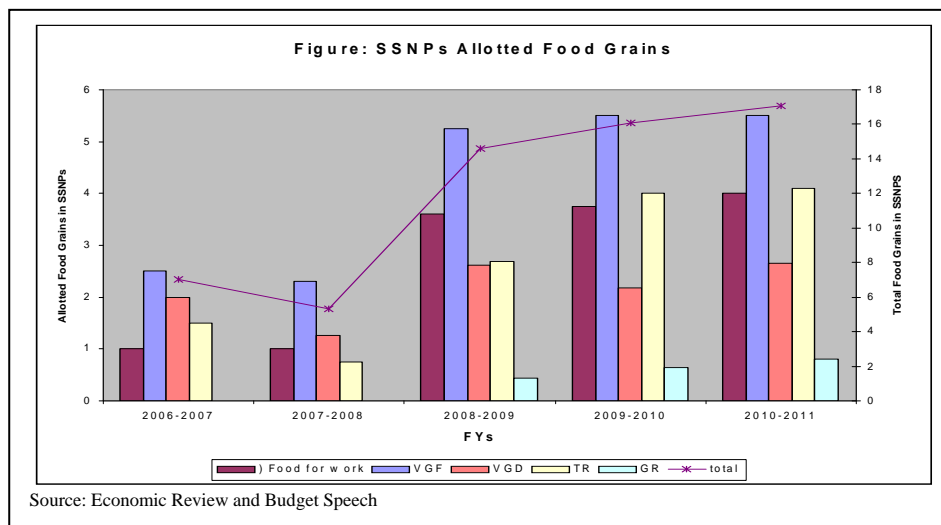


From the available data it can be understood that **the government is diverging from its election manifesto which promised that the number of recipients of old age allowance and destitute women allowance would, at the least, be doubled to achieve its vision of 2021.** The situation would be clear from the following data which shows a significant number of people are outside of the safety net allowances coverage.



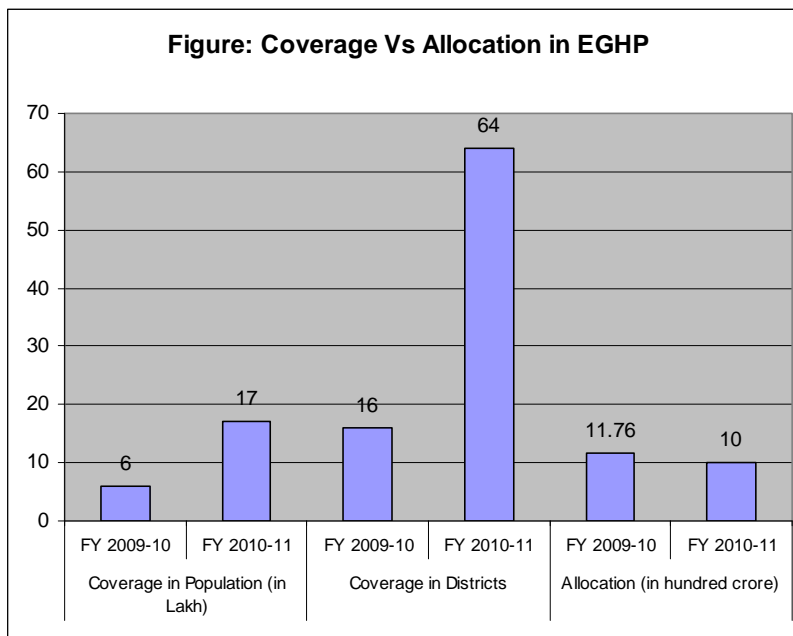
Furthermore, the inflation rate is on the rise (8.78% in March 2010), while food inflation recorded at 12.07% in urban area and 8.81% in rural area (total food inflation is 10.56%). So, for food management 54.3% of the household adopt the strategy of starving one or two times a day. On the other side, children of 36% household are deprived of food (WMS, 2009). Therefore, **the high inflation rate is bound have a deteriorating effect on the food and social security situation. Moreover, the government has predicted the inflation rate to be 6.5% for the FY 2010-11, therefore, the allowance and coverage of the cash transfer programmes should have been revised and increased considering the inflation rate.**

To improve food security situation Government has increased allocation for food transfer programmes by 6.098%.



Though the programmes are expanding the un-sustainability or ineffectiveness of the programmes are depicted by the small coverage (total 27 million people are hardcore poor, BBS HIES-2005) and also by the revealing facts of Welfare Monetary survey that reveals 39.8% of population are food insecure among which 80.8% people faced long term food crisis and 19.2% short term food crisis (WMS, 2009).

In case of Employment Generation for the Hardcore Poor (EGHP), during the first phase, employment has been generated for about 6,00,000 people in 16 districts. In the second phase, government has planned to create employment opportunities for about 17,00,000 people in 64 districts across the country. However, budget allocation for FY 2010-11 is Tk. 1000 crore whereas, in the FY 2009-10 it was Tk. 1176 crore.



Source: Budget speech

**In FY2009-10 TK. 20 crore was allotted for the ‘National Service’ programme and to establish 125 Youth Training Center but no direction is provided in the budget speech 2010-11.**

In the *Ghare Fera* (Retraining Home) programmes though 221 families have been selected for rehabilitation, the desired coordination between programmes on planned housing, employment generation, *Adarsha Gram* and *Ashrayan* could not be established for which Tk. 92 crore was allocated in the FY 2009-10.

No statements regarding the Women and Freedom Fighters Self-employment Fund and Assistance to Poultry Farms was in the Budget Speech for FY 2010-11 for which Tk. 20 crore and 100 crore were allocated, respectively in FY 2009-10.

**In FY 2009-2010 the government promised to conduct a survey for rehabilitation and to stop begging as a profession a survey would be conducted but progress was limited.** In the budget of FY 2010-11 the government has promised to initiate specific programmes for rehabilitation and employment of beggars.

Government ministries/divisions/ agencies are operating micro credit programmes along side the non-government organization for employment and income generation as well as development of the poor and deprived. **But in the proposed budget of FY 2010-11 no efforts are seen to upscale the technology**

base in utilizing micro credits (as profitability of micro enterprises is small and often not sustainable on a long-term basis because of enterprise decapitalization, saturation of market products that are traditionally produced by micro credit borrowers), bring transparency in interest rate fixation (because there is a vicious cycle of microcredit – the poor borrow from one organization to repay another) and in offering micro credits.

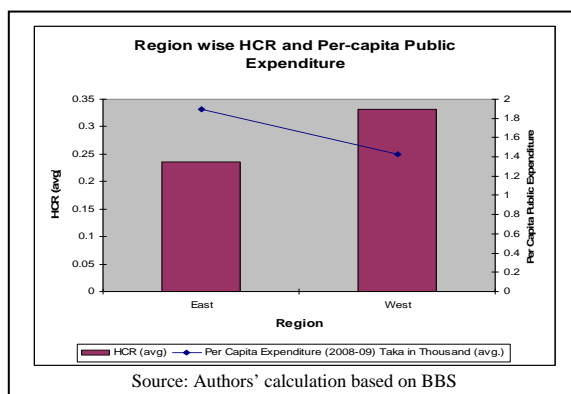
The programmes that are undertaken to ensure social security excludes some of the fundamental issues such as issues of violence against women, the problem of floating people, child labour, etc.

Though Tk. 2 crore for acid burnt women and rehabilitation of physically disabled and women Self-employment fund for FY 2010-11 the programme does not include the other violence against women such as rape and other injuries, in 2007 total 13244 cases were reported as violence against women, out of which only 147 were acid throwing cases, others were 3345 rape cases, 676 serious injury and 9084 others (*Police Head Quarter, Ministry of Home, 2008; BBS 2009*).

**Furthermore, the national population census 2001 estimated that the number of total floating population is 109429, who are outside of the safety net programmes.**

Moreover, according to the second National Child Labour Survey (NCLS) in 2002/03 there are about 4.9 million children working in the age group of five to fourteen years. The total working child population between 5 and 17 years old was estimated 7.9 million. The proportion of boy and girl child workers, in the age group of 5-17 years, is 73.5 per cent and 26.5 per cent, respectively. A total of 1.3 million children are estimated to be working 43 hours or more per week (URL: [www.ilo.org](http://www.ilo.org)). **The safety net programmes though have some provisions for street children and orphans most of the child labours of different sectors are remaining outside of the social security framework.**

The programmes that exist to ensure social security are disharmonized by the public expenditure trend. If the trend is observed it is evident that there is disparity in per capita public expenditure in the eastern and the western regions. From the available data it is seen that **the poverty level to some extent is related to the government expenditure carried on in these regions.**



Thus, the poverty situation is the reflection of the improper distribution of the public fund. As it is seen in the above table, HCR is higher in the western region, which receives relatively low public fund. **Therefore, allocation of 5.27% of the total development expenditure and 7.3% of total budget (out of which 21.65% is for development expenditure) in the social security and welfare sector raise questions whether the budget of FY 2010-11 envisions enhanced social security or not.**

Moreover, the current employment scenario depicts that the labour force has increased, with 8.48 % growth (WMS, 2009) in comparison to the Labor Force Survey of 2005-2006, whereas the rate of unemployment has increased to 5.1%, the highest among the last several years, implying that the employment generation is lagging behind the actual rate of inclusion of active labor force, placing the government on a huge challenge. **Furthermore, in FY2009-10 TK. 20 crore was allotted for the 'National Service' programme but no direction is provided in the budget speech 2010-11. Therefore, if all the circumstances are considered, the safety net programmes are not likely to bring any sustained enhancement of social security if effective measures are not undertaken to create employment opportunities, hold back the rising inflation rate, increasing public expenditure through demand based allocation, etc.**

The prevailing scenario of poverty, safety net programmes and the government spending carried out regionally would lead to a recommendation for proper planning to be carried out at regional level (e.g.- District level planning) and sufficient monitoring of the expenditure carried out locally. In this regard it would be crucial for the government to carry on with survey on poverty at regional level in frequent intervals and identify the groups who are in need of specified government services.

**The existing cash and food transfer programmes in safety nets may reduce starvation rate of limited number of people in some specific times but for improving social security situation (in its comprehensive sense) more specific measures addressing long term vulnerability must be taken.** Moreover, the problem of limited scale and population coverage of SSNPs may initiate problems of leakage and misallocation which may go undetected because of inadequate programme monitoring. Therefore, provisions must be formulated for programme evaluation and also for understanding of the impacts of programmes. **The government has claimed to take steps to develop a database on the beneficiaries of the Social Safety net programmes. However, specific measures are yet to be undertaken.**



## Annex: Budget at a Glance

<b>Budget of FY 2010-11 &amp; Revised Budget FY 2009-10 at a Glance (in Crore Tk.)</b>			
<b>Description</b>	<b>Budget 2010-11 (proposed)</b>	<b>Revised Budget 2009-10</b>	<b>Budget 2009-10 (proposed)</b>
<i>Revenue &amp; Foreign Grants</i>			
<b>Total Revenue</b>	92847	79484	79461
<b>NBR</b>	72590	61000	61000
<b>Except NBR</b>	3452	2956	2955
<b>Non Tax revenue</b>	16805	15528	15506
<i>Expenditure</i>			
<b>Non-development expenditure</b>	87285	78136	78643
<b>Development expenditure</b>	39693	29628	31639
<b>ADP</b>	38500	28500	30500
<b>Total Expenditure</b>	132170	110523	114958
<i>Overall Deficit (including grants)</i>			
<b>Overall Deficit(excluding grants)</b>	-39323	-31039	-34358
<i>Deficit Financing</i>			
<b>Net Foreign Borrowing</b>	10834	9972	8673
<b>Domestic Borrowing</b>	23680	17325	20555
<b>Borrowing from the Banking System</b>	15680	8661	16755
<b>Non-Bank Borrowing</b>	8000	8664	3800

Source: Ministry Of Finance