

# **Meeting the Challenges of Global Recession and Its Impact on Domestic Economy**

## **Recommendations for the National Budget 2009/2010**



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Studies(BIDS)  
Dhaka  
April 2009**

# Contents

<b>1. Introduction</b>	<b>1</b>
<b>2. Recent Developments and Implications</b>	<b>1</b>
<b>3. Critical Areas of FY10 Budget</b>	<b>3</b>
<b>4. Recommendations for the National Budget for FY10</b>	<b>4</b>
A. Enhance prospects of pro-poor growth	4
B. Support to agriculture	4
C. Support to rural economy	5
D. Size and quality of annual development program	7
E. Increasing revenue earnings	9
F. Domestic procurement program and public stock management	11
G. External sector management	12
H. Human resource development: quality and equity issues	14
I. Social protection issues	15
<b>5. Concluding Remarks</b>	<b>17</b>

## **1. Introduction**

The Bangladesh economy has shown reasonable stability till now despite the threats from depressed external developments in the back drop of the global financial turmoil. Bangladesh's exposure to the contagion effects of the global financial markets has been little and the country's financial sector remains largely immune to the global financial turmoil. With continuation of the present economic trends, the economy is likely to grow at around 6 percent in FY09. In addition, major macroeconomic indicators have remained reasonably stable in recent times which may continue in the near term provided no major shock afflicts the economy.

The financial year 2009-10 (FY10), however, faces multiple downside risks. In addition to the risks of natural calamities and other unexpected developments that the economy routinely faces, the major additional risk for FY10 emanates from the fallout effects of the global financial crisis. At present, the world economy especially the developed economies have entered into a major downturn. Along with substantial growth slowdown, the global economic situation is highly uncertain and subject to considerable downside risks.

Several factors, however, could pave the way toward recovery of the world economy starting from late 2009: (i) likely price stability in the world commodity market leading to the start of an unwinding process of adverse terms of trade effects especially in oil importing countries; (ii) end of the intense drag on US growth by the housing sector leading to the start of the recovery cycle of the financial sector creating positive effect on global financial system and the world economy; and (iii) resilience and less affected status of emerging economies providing the momentum to recovery for the global economy. But the recovery process is likely to be gradual when it comes.

In the backdrop of economic slowdown and unprecedented uncertainty that characterizes the global economy at present; this note provides some recommendations for the national budget for FY10.

## **2. Recent Developments and Implications**

Despite the positive near term outlook and good macroeconomic fundamentals, the economy has shown some signs of slowdown especially in terms of export earnings and remittance inflows. It appears that lower trade volume would be the main channel of transmission of global recession including volatility/decline in commodity prices of several export items.

In the case of exports, the current trends include the following: (i) overall export growth is still satisfactory (led by RMGs) although several sectors such as leather, shrimp, jute and jute

goods have been hit hard; (ii) the country's export of RMGs seems to face low income elasticities in the destination markets; (iii) the country's share in the US market is rising although export growth in the EU market has somewhat slowed down; and (iv) Bangladesh still has a clear cost advantage over its competitors in RMG exports. Thus, despite coping well with the shock in the export market, export growth could slow down in the coming months creating some pressure in the domestic economy.

Remittances provide an important safety net for the economy both in terms of bringing stability to the external sector and helping to stabilize consumption levels of a significant number of households in the country. Although growth in remittances is still satisfactory, the volume of inflow may face some strains especially in the medium term due to decline in outflow of new labor and return of migrant labor due to job loss.

In view of the recent developments, the FY10 budget should be flexible enough to face emerging realities during the year especially in terms of (i) providing support to overcome adverse impact on economic and social life from possible global recession; (ii) augmenting investments in key sectors (including energy and infrastructure) by combining prudent short-term and long term measures; and (iii) creating environment for rapid growth and better economic management. In Bangladesh, macroeconomic indicators, including foreign exchange reserves, have improved in FY09. As such, the country is better placed now to adopt somewhat expansionary fiscal and monetary policies in FY10. This would help in expanding infrastructure investments and greater social spending on nutrition, basic education, health care, and other priority sectors.

The need is also to monitor the performance of the export sector especially RMGs and other vulnerable items and take appropriate measures as needed. For FY10 budget, support measures to the export sector may include the following:

- (i) Install measures to increase the efficiency of customs, ports, and infrastructure in order to enable the RMG producers/exporters to reduce costs in order to stay competitive.
- (ii) Support establishment of backward linkage industries to enhance competitiveness and add strength to the RMG sector.
- (iii) Rationalize policies to help invest in inventories, equipment and raw materials, upgrade technology, and expand the production base.
- (iv) There is also an opportunity to expand nontraditional exports through a mix of exchange rate policies and sectoral incentives.

### 3. Critical Areas of FY10 Budget

The present developments bring out nine areas that need priority attention within the existing framework of the national budget of FY10. These are:

- **Setting investment priorities:** The portfolio of public investment needs to target productivity gains in key sectors including agriculture; electricity and energy development; removing major bottlenecks in infrastructure; improvement in investment climate.
- **Management of likely economic and social impact of global recession:** The adverse impact of the recession is likely to affect the country's economic and social life during the fiscal year, the extent of which is difficult to predict. The budget needs to accommodate counter measures especially covering the external sector and related domestic activities.
- **Resource mobilization:** Measures to broaden the tax base and increase the efficiency of tax administration; tax rationalization; increase non-tax revenues, capital market development.
- **ODA inflows:** Increase inflows along with urging the international financial institutions to come up with lending without the overly burdensome conditionality of the past along with quick disbursing facilities since Bangladesh has sound economic policies but is likely to face greater resource shortfalls during the year due to global crisis.
- **Size and quality of public expenditure:** Align the public expenditure program to strike the right balance between sectoral priorities and long and short term exigencies; ensure project quality.
- **Sustaining export growth and remittances inflow:** Export diversification and attraction of higher remittance inflows through formal channels .
- **Support to agriculture and the rural economy:** Areas of support; adequate and timely supply of credit and inputs at reasonable prices; ensuring fair prices and supply management; rural non-farm enterprises and SME development.
- **Human resource development-quality and equity issues:** Adequate, affordable, and equitable access to quality education and healthcare services.
- **Social protection issues:** Need to adopt cohesive and strategic vision and integrated strategy for safety net programs; strengthening of existing programs and wider coverage for hardcore and vulnerable poor and displaced persons due to adverse impact of global recession.

## **4. Recommendations for the National Budget for FY10**

### **A. Enhance prospects of labor intensive growth**

Higher and sustainable GDP growth requires policies to bring more complementarities between agriculture and industry. Similarly, pro-poor growth can be achieved through more labor intensive investments. This is needed especially since recent Labor Force Survey (LFS) data show an increase in the underemployment rate. In this context, growth of agriculture and small and medium industries (SMEs) can have a positive impact. In fact many of the export sectors have higher capital intensity compared with those producing for the domestic market. Therefore, if world economic recession slows down the export sector, policies for encouraging labor intensive sectors geared to domestic demand can help achieve both ends: acceleration of GDP growth and pro-poor growth through higher employment generation.

### **B. Support to agriculture**

- Support capacity expansion of technology-related R&D, rationalize the agricultural research and extension system, provide marketing support (actively involving the private sector) in various forms to vegetable and horticultural product exporters like providing special warehouse facilities;
- Although subsidy to agriculture is a vexing issue in view of the budgetary constraints and its proper management, subsidy to fertilizer and fuel for irrigation is necessary to ensure profitability of crop production and food security. If diesel subsidy has to continue in cash form, the principle should be that it may be given as fixed amount per acre of land. For balancing costs of irrigation with diesel-run and electricity-driven equipment, the average subsidy per acre for diesel should be around Tk. 1,500 per acre. If instead the government intends to lower the price of diesel, it will have to be determined in a manner that the subsidy equivalent is similar to the above amount. Lowering prices of diesel has two disadvantages. First, as most farmers buy water this does not guarantee that the pump owners will fully pass on the lower costs to the farmers. Secondly, this may induce smuggling across the porous border if prices on the Indian side are higher.
- If cash subsidy is given to fertilizer and diesel together (or fertilizer and electricity together), the two may be integrated into a general farm subsidy. However, problems of high or other costs may arise when supply or availability becomes limited. In view of this, the current practice of providing fertilizer subsidy may be continued along with bringing more efficiency in domestic fertilizer production. (ii) Provide special allowable facilities under WTO rules to firms adopting integrated contract farming, processing, and marketing;

(iii) Rationalize the agricultural extension services for technology dissemination and for producing quality and new products for exports; (iv) Review the current distribution system of fertilizer and frame transparent and well-defined criteria for allocating dealership of fertilizer at the farmers' level to ensure timely availability; (v) Support the development of vertically integrated marketing systems (for example, involving the NGOs, private firms, supermarkets) for agricultural products; (vi) Encourage increased output of the fishing, poultry, and livestock sub-sectors especially through providing improved veterinary services and remaining alert against the outbreaks of diseases like Avian flu.

- One of the victims of the recession is the farm sector which is now reeling under low prices of food grains. The problem is being compounded by supply-driven policies related to OMS and safety nets for which the demand seems low. In part this is due to the urgent need to create storage space for procurement of the *boro* rice. In view of recent developments, it is important to develop a strategy for the next *aman* rice so that fair prices to the growers are ensured. While higher price of rice affects the poor consumers along with adverse implications for food security and poverty, a major challenge in FY10 could be to ensure fair prices to farmers in the backdrop of low market prices of food grains especially rice. An expansionary monetary and fiscal policy is suggested as under the circumstances, a certain amount of inflation would be manageable.

### **C. Support to rural economy**

- Set and ensure transparent and consistent rules for developing the rural non-farm sector especially for the agro-farm system and agro-enterprise development including guidelines for food-safety and negotiate favorable terms of access to international markets for rural products; (ii) Facilitate the development of marketing facilities, knowledge-building to accelerate agribusiness development and create environment for better participation of the private sector; (iii) Invest in rural infrastructure especially energy and transport; (iv) Address market failures through sharing regular information and adopting transparent rules and regulations.

### **Rural energy**

- Adopt policies with adequate attention to rural and renewable energy issues and incorporating clearer guidelines for private sector investment in the power sector; (ii) Give priority to allocation of resources and facilitating policies for private investment in forestry, diffusion of improved stoves, and renewable energy technology such as solar and biogas and techniques such as biogas bricquetting for increasing energy efficiency; (iii) Use

energy subsidy efficiently with appropriate targeting to the intended users given both on a fuel basis (such as diesel for irrigation) and on the energy system basis (such as solar and biogas plants); (iv) Adopt an integrated and holistic approach for institutional re-structuring of the sector and examine the feasibility of establishing an Energy Planning, Research and Training Institute in the country.

### **R&D in agriculture, climate change and resource mobilization**

- The government has created the Krishi Gobeshona Foundation (agricultural research foundation) with nearly Tk. 80 crore from a project (NATP-1). Later it is expected to have the proceeds of the investment from another trust fund of Tk. 350 crore. The funds are expected to be utilized for research under competitive grants. However, the grants are likely to be small and used for adaptive research, not suitable for fundamental cutting edge research. This will necessitate much larger funding than at present. The government can make a beginning by substantially increasing the resources at the disposal of the National Agricultural Research System (NARS) with a plan to at least double it within the next three years. This could be used as a catalyst for generating more funds from abroad.
- With finalization of general principles in climate change negotiations in Copenhagen in December 2009, it is expected that required adaptations in the area would be financed by flow of resources from developed countries. While the modalities are still being worked out, there is a scope for substantial augmentation of external resources. Bangladesh needs to tap resources from the pool. Such adaptation is applicable in several areas such as establishment of desalinization plants along the coastal areas where salinity may have increased due to creeping sea level rise.
- Under the Bali Action Plan, several mechanisms exist for generating funds. Bangladesh has hardly accessed such funds including Clean Development Mechanism (CDM), carbon credits and trade, etc. It is high time that these avenues be explored. There is a scope for generating funds for afforesting degraded forests under the Reducing Emission from Deforestation and Forest Degradation (REDD) principle for which forestry officials need training in designing appropriate projects. Several developed countries such as Norway and Japan are willing to provide assistance to Bangladesh and similar other affected countries.

#### **D. Size and Quality of Annual Development Program**

- The size of the ADP in FY10 should be limited to about Tk. 26,000 crore. Alternatively, given the low implementation rate, the target ADP could be set at a higher level, say at around Tk. 30,000 crore, so that about 85 percent implementation level would mean a realized ADP of about Tk. 26,000 crore. However, the problems of setting ADP significantly above realizable level are two fold. First, it causes resources to remain tied down to slowly implemented projects resulting in unnecessary borrowing on the part of the government. Second, the downward revision of the ADP that would be necessary toward the end of the fiscal year might result in considerable wastage of resources in the form of incomplete project works. The policy priority for the government would be to set the ADP size at a manageable level and seriously address the capacity constraint and interagency and aid coordination problems to push ADP implementation to its maximum attainable limit.
- One of the major weaknesses of successive ADPs has been the pre-dominance of road projects resulting in thin distribution of resources over many road projects and consequent slow rate of project implementation. In view of the large portfolio of incomplete road projects, a moratorium could be imposed on inclusion of new road projects until a substantial part of the backlogged projects get cleared. The budget for FY10 should prioritize existing road projects and allocate resources in a way so that priority projects that are nearing completion can be wrapped up swiftly. Instead of thinly distributing resources on all existing road projects, allocations should be held off from all low priority and slowly implemented projects.
- The power sector is in the midst of a long-term crisis. Development of the sector should receive a high priority with adequate allocations in FY10 budget along with measures to attract foreign and/or private investment. (i) Explore the possibility of temporarily diverting gas from other uses (e.g. fertilizer production) to electricity generation; (ii) Undertake measures to urgently make available 'captive power' existing in different establishments to the national grid; (iii) Form expert group to identify problems inhibiting electricity generation at full capacity in existing power generating units and implement appropriate measures; (iv) Rehabilitate the currently closed small but viable power generating units on an urgent basis to augment short-term power supply; (v) Use load management in a judicious manner to minimize the losses to the production sectors of the economy; (vi) Undertake a scrutiny of all proposals of new power generation projects and provide quick approval to viable projects (both short and long-term ones) following rules and regulations

in a transparent manner; (vii) Initiate actions to import electricity from neighboring countries (e.g. Bhutan and Nepal) through negotiating transparent terms; (viii) Remove bottlenecks for expanding coal based electricity generation and explore private sector participation and public-private partnership options; (ix) Energy pricing is a vastly complicated issue which has been widely politicized. The government needs to come forward to institutionalize a formula approach to determining domestic fuel prices linked with world market prices and other considerations; (x) Address critical governance issues in the power sector, particularly those relating to the power purchase agreements which need to be reviewed. The present 'cost plus' system needs to be changed to a 'price cap' or 'yard-stick' pricing to prevent fraudulent activities.

- For the manufacturing sector, (i) Install effective strategies/policies for SME development; (ii) Vigorously promote Bangladesh's ability to attract FDI in manufacturing;; (iii) Initiate measures to improving access to quality tertiary (especially technical) education to address human capital deficiencies; (iv) Ensure adequate flow of credit to manufacturing activities and induce the banks to lower the rate of interest for commercial borrowing.
- **Quality of public expenditure:** (i) Undertake a serious exercise of review of all projects included in FY09 ADP and drop all projects of dubious quality using transparent criteria; (ii) Limit the total number of projects to be included in FY10 ADP at a manageable level and include only approved projects in line with the budget and PRSP priority objectives and for which resources are available; (iii) Further streamline the procedure of selection of new projects; (iv) Give priority to selection of projects for which external assistance is available through the pipeline and which fit with budget priorities; (v) Direct more resources to on-going projects which have made the most progress so that the benefits can be realized within a short period; (vi) Give priority to projects in critical sectors like agriculture, power, and social sectors.
- **New areas of public expenditure:** (i) Public expenditure along with support to community initiatives is necessary to provide people with safe drinking water and access to improved sanitation and protect them from the adverse health impacts of heavily polluted physical environment. The fund may be used for developing necessary skills, increasing community resilience, and providing technical interventions. Collaboration across the board among the government, NGOs, communities and the private sector would bring success in these endeavors. .

## E. Increasing Revenue Earnings

### • Personal income tax

**Expanding the tax base:** (i) Strengthen administrative drives (especially in areas where potential taxpayers are likely to be high and current coverage is low) to expand the tax base, improve administrative efficiency and conduct surveys to identify potential taxpayers; (ii) Further enhance the scope and coverage of the Large Taxpayers' Unit.

**Tax assessment:** (i) Implement a built-in system of strong deterrence and punishment against willful tax evaders and non-compliers; (iii) Review the existing personal income tax rate and restructure to make it more progressive.

### • Corporate income tax

**Exemptions and allowances:** (i) Abolish all exemptions and allowances and/or minimize in special cases; (ii) Undertake studies to examine the impact of tax holiday and other incentive measures and explore relative advantages of alternative options (including ADA or a uniform reduced tax rate) and introduce appropriate changes; (iii) Abolish the exemptions of tax in respect of capital gains and, in deserving cases, these may be taxed at preferential rates; (iv) Extend the purview of the highest corporate tax slab (45%) applicable in the cases of banks and insurance companies to include other profit making service industries; (v) Implement a time-bound plan to ensure that all units of the corporate sector implement harmonized and international accounting standards as adopted by the ICAB to ensure proper tapping of the corporate profit tax;

### • Customs duty

**Rationalization:** (i) Abolish zero rate of duty except in cases where international treaty or obligations exist or strong humanitarian reasons prevail; (ii) Eliminate all concessionary rates and, if any duty concession is given under special circumstances, it should be approved by the Parliament before or within three months; (iii).Eliminate all dispersions of duty rates within 4-digit tariff heads; (iv) Discontinue the practice of making mid-term changes of duty through SRO except in special cases like natural disasters and other emergencies; (iv) Enhance supplementary duty on vehicles for personal use and other items generally used by the richer segment in society; (v)Overhaul the PSI services to remove existing loopholes.

**Procedural reforms:** (i) Reform the customs clearance process to make it more efficient and less time-consuming; (ii) Discontinue the diplomatic bonded warehouses; (iii) Conduct a review

of duty drawback, rates and coefficients and revise accordingly; (iv). Regularly review and frame adequate safeguard duty rules to combat unfair international trade.

- **Value added tax (VAT)**

**Expansion of VAT net:** (i) Progressively expand the VAT net to cover all potential products and services including secondary agricultural products.

**Registration and collection:** (i) Streamline the registration system at division office level; (ii) Streamline existing VAT rules and orders and simplify the forms and procedures; (iii) Undertake measures to introduce VAT inclusive MRP for all products; (iv) Use VAT stamps of different denominations for 'hard-to-tax' areas; (v) Collect turnover tax from larger SMEs.

- **Other taxes**

**Local level taxes:** (i) Local level taxes are yet to be a major source of revenue while subventions to local governments are a major drain on the national exchequer. Remedying these would necessitate several institutional and policy changes. While the government may look up the Report of the Local Finance Commission set up in the mid-1990s, there is a scope for rationalizing the Immovable property tax as well as the urban land development tax. The latter, particularly should be imposed at a high rate so that land does not remain unutilized and unproductive for long. (iii) Impose location-specific higher and differential tax rates for land used for residential and commercial purposes in large cities (e.g. Dhaka, Chittagong and other city corporations) and apply the same principle in other cities and upazila headquarters.

**Land development tax:** (i) Make upward revision in the tax rate; (ii) Bring large agricultural landowners under the tax net; (iii) Impose location-specific higher and differential tax rates for land used for residential and commercial purposes in large cities (e.g. Dhaka, Chittagong and other city corporations) and apply the same principle in other cities and upazila headquarters.

- **Non-tax revenue**

**Land registration:** (i) Abolish all discretionary power of Sub-Registrars and simplify registration procedure; (ii) Rationalize land valuation by increasing existing rates to reflect market prices in different locations; (iii) Rationalize the minimum value of flats and buildings for tax purposes reflecting current market prices and locational variations.

**Motor vehicles:** Review the current structure of registration fee for motor vehicles and work out a schedule that introduces high fees for high-capacity and expensive cars for personal use.

**Tapping special funds:** (i) Access special funds for mitigating the adverse impact of global financial crisis or specific development interventions (e.g. in the energy sector) under international protocols. Under the Kyoto protocol of the UNFCCC, the government may access funds under the instrument of Clean Development Mechanism applicable for developing countries (including the LDCs) for setting up power plants using natural gas, rehabilitation of industrial boilers serving as a source of substantial energy loss and deforestation.

- **Increase ODA inflows**

Take initiatives to release, as much as possible, the project aid stuck in the ever-growing pipeline; (ii) Give priority to address the problems of management and implementation capacity of the aid-financed projects, resolve procurement issues, and ensure timely approval of projects and regular provision of matching domestic resources; (iii) Improve the quality of government-donor relationship and its effectiveness to address the issue of poorly-designed projects and provide support to the priorities in the PRSP agenda.

- **Legalizing 'black money'**

The issue is contentious and needs careful consideration keeping both equity and productivity implications. Decision in this regard may be taken based on a study to assess the issues of 'black money', impact of past policies of legalizing 'black money', and identify future course of action. If such studies support, the government may consider giving an opportunity to legalize 'black money' in future under certain conditions. For instance, the legalization process might (i) involve payment of appropriate taxes (and penalties) such that those who pay taxes regularly are not penalized and people in possession of 'black money' are discouraged to carry on with such money in future; (ii) impose strict conditions such as the legalized money can only be used for investment in productive sectors such as manufacturing, SMEs, and other priority sectors specified by the government and would not be directed to real estate, land purchase, or similar activities.

## **F. Domestic Procurement Program and Public Stock Management**

- In view of the high cost of associated operations, it is important that the government does not hold more stock than it needs for an 'adequate' national food reserve. Although a low food stock of 0.5-0.6 million tons was adequate in the past, this is no longer true in view of the increased volatility of the world grain market. This, along with the increased need to expand safety net programs and provide emergency relief in times of natural disasters, implies that 'adequate' national food reserve should now range between 1.0-1.5 million tons.

- With effective storage capacity of around 1.2 million tons, the government needs to invest in expanding storage capacity. In the interim period, the government can explore the possibility of using the private storage facilities on a rental basis.
- For the procurement program, the government's challenge is to set a procurement price that sends adequate production signals to the farmers while minimizing costs to the government exchequer. In fixing the procurement price, in addition to costs of production, the expected market price should be taken into consideration.
- It is important to recognize that output price support and input subsidies are complementary policies, not substitutes. Fertilizer subsidies may be superior to output price support for stimulating agricultural production but an input subsidy cannot stabilize prices or prevent the collapse of post-harvest prices. Both policies are needed and overall costs of these complementary policies should be taken into consideration in planning government interventions.
- The policy dilemma in the food grain market is that of keeping prices low for consumers especially for the low income people while ensuring that prices are high enough to provide farmers the incentive to produce more. In the short run, the government can resolve this dilemma by providing input subsidies which will reduce farmers' cost of production that can be passed on to the consumers in the form of lower prices. In the medium to long term, the problem can be addressed by raising the productivity of agriculture so that food can be produced more cheaply. For this, adequate funds for agricultural research are needed to foster technological innovation through generation of technologies with tolerance against biotic stresses such as pests and diseases and abiotic stresses such as drought, salinity and submergence.

### **G. External Sector Management**

- An important component of external sector management is to determine how bad the impact of the recession is on RMG exports, how many firms are likely to be affected seriously (e.g. forced to lay off workers) and how many have to tighten their belts. If orders are not forthcoming, handing out cash will not bring those orders back. The only reasonable objective would be to attempt to expand market share through greater competitiveness. This means costs will have to be cut wherever possible. Reduction of import duties on raw materials and machinery announced by the government and interest rate reduction are steps in the right direction. In addition, export incentives could be considered for firms passing a stringent eligibility test, including size and previous

performance (i.e. before the recession). A free-for-all rescue package would be costly and is unlikely to serve the purpose. Firm-level objective should be to stake out new opportunities with an eye to the future while staying afloat in the short-run. Those firms who are able to obtain orders in new destinations may be singled out for special assistance.

- For frozen fish, strict adherence to phyto-sanitary standards would seem to be more important than direct incentives. Here, the government needs to strengthen monitoring mechanisms.
- For the labor market, a big part of the problem of returnee-migrants is the corrupt nexus that seems to operate between local and foreign manpower businesses, and the connivance of officials in both countries. The budget should allocate resources to strengthen the relevant departments to develop a strategy to weed out such corruption.
- The role of the public sector should be guided by the principle that, while the government needs to retain some control over critical markets (especially food) it should not spread out too thinly into too many areas. Given scarce capacity and resources, the government should try to enhance its efficiency in basic areas of governance and in meeting the demand for crucial public goods. The thrust should be not to replace the private sector but to complement it. The notion of 'unscrupulous traders' causing crisis needs to be re-examined.
- A 'Crisis Coping Fund' may be created (e.g. covering three years) catering to three types of demand– (i) low cost loan for export enterprises facing difficulties with working capital (e.g. payment of salaries/wages, settling of raw material costs, etc.) upon submission of proof that the problem is a recent phenomenon that emerged due to fall in export demand; (ii) low cost employment loan especially for retrenched workers for survival upon producing papers of losing job due to lay off or closing down of factories; and (iii) low cost fund for returnee migrant workers, from where returnee migrants may take loan to start small businesses or settling their loans taken during migration. A small part of the fund may be allocated for creating a database on returnee workers.
- The FY09 budget earmarked Tk. 10,500 million as export subsidy for 13 export-oriented industrial products. This cash subsidy program may be continued with present rates but disbursement efficiency needs improvement. The current fiscal's arrear is about Tk. 2,430 million which is 23 percent of the allocated cash subsidy. Moreover, the government may consider increasing cash subsidy rate to 10 percent (from the current rate of 5 percent) for

cotton yarn manufacturing enterprises as they face crisis due to competition from Indian yarn.

- The budget may allocate specific funds for upgrading skills of workers and entrepreneurs of export industries. A part of this fund may be utilized for the workers of export industries, especially for RMG workers while another part may be utilized for entrepreneurs in sectors like leather, light engineering, agro-processing etc.
- The tax rate on imported capital machinery (textile, leather, jute, garment, pharmaceutical, and others industries) and spare parts was 3 percent in FY09. Given the negative growth of LC opening of capital machinery during July-February FY09 (reduced by USD 330.4 million over the same period of the previous fiscal) and relatively depressed investment scenario, import duty on capital machinery and spare parts may be set at 1.5 percent. Besides, 1 percent supplementary duty (SD) on capital machinery may be withdrawn.
- Customs duty on agricultural equipment like irrigation pumps, diesel engine, and tractors is 3.0 per cent at present. In order to reduce the cost of production of agricultural products, this may be reduced to 1.5 percent.
- In order to reduce health hazards and environment pollution and augment revenue earnings, customs duty or SD could be increased from 60 percent on raw materials for manufacturing of cigarettes/bidi and other tobacco products and 20 percent on papers used in producing packaging materials of cigarettes.
- The duty on computers and peripheral devices could be reduced from 3 percent at present to zero.
- The duties and taxes on luxury goods could be increased in a progressive manner. For instance, the tax rate on cars/vehicles could be made more progressive with the rate increasing with the value of the vehicles.

## H. Human Resource Development-Quality and Equity Issues

- **Education:** (i) Introduce changes to strengthen the monitoring mechanism; (ii) For primary and secondary education, put emphasis on provision of learning materials and facilities, take necessary steps to improve and modernize the curricula and teaching methods; (iii) Target the children of the poorest and disadvantaged groups such as ethnic minorities and populations in char lands, urban slums and squatters, displaced population by riverbank erosion; (iii) Promote special skill training courses and informal learning systems for secondary school dropouts and others to assist them in gaining useful skills and knowledge for both wage and self employment; (iv) Restructure the VET system to improve its quality and market relevance; (v) Take targeted measures to bring and retain

students from poor and hard-to-reach families in schools and put emphasis, especially at higher levels, on standardization and monitoring of performance; (vi) Adopt disaggregated educational goals by region, gender, income groups and other characteristics and work out corresponding disaggregated budgetary allocations and input provision strategies; (vii) Select some 'model schools' in district towns and rural areas and use these as examples of providing quality education along the lines provided by 'best' schools in urban metropolitan areas; (viii) Set targets for quality improvement for the medium term and provide necessary support for achieving targets, such as adequate budgetary allocations, incentive package for teachers, stipend and other support program for children of poorer families especially to complete SSC examination, focus on job creation for the youth (especially those below SSC level) by providing special skill training courses and informal learning systems.

- **Health:** (i) Although the epidemiologic transition from communicable diseases of poverty to non-communicable "life-style" diseases is still at an early stage, take steps to reduce risky behavior (e.g. smoking) especially among the poor population; (ii) Address the factors resulting in low utilization of public health care facilities such as government underfunding, high out-of-pocket expenses at the point of service, poor quality of care, low public perception of availability of quality publicly-provided health services, formal and informal charges, and lack of medicines in public health facilities; (iii) Make the delivery of public health services more effective that requires not just establishing and equipping health centers and hospitals but much more, such as improved health service performance, adoption, if necessary, of alternative delivery mechanisms (such as contracting NGOs to manage and/or take over the provision of public health care providers), institutionalizing motivation as a part of institutional culture, and strengthening selected programs such as immunization, nutrition, and developing improved knowledge, attitudes and behavior with regard to behavioral health risk factors; (iv) Implement laws and regulations to strengthen institutions to provide adequate oversight and ensure standards of private providers and develop public-private partnerships in appropriate areas; (v) Facilitate community participation in local health services delivery.

## **I. Social Protection Issues**

### **Safety nets programs**

- There are too many safety net programs. The efficient ones need to be retained and expanded rapidly to cover say 50 percent of the target group within a stipulated time. (i) Improve targeting outcomes by using geographic targeting more efficiently to direct resources to areas with a greater concentration of the poorest and the target population; (ii) Use more precise, restrictive and easily applicable targeting criteria to clearly identify

intended beneficiaries; (iii) Closely involve the local government representatives/functionaries in all stages of program implementation; (iv) Reduce leakages by adopting new and innovative features (e.g. use smart cards), strengthening monitoring systems, and increasing public access to information.

### **Safety Net employment: EGS**

The time gained in implementing the second round of the 100 day employment generation scheme (EGS) through postponing it till the next fiscal year creates scope for ensuring its proper planning and implementation especially relating to two major aspects: targeting and leakage. The choice of employment creating activities needs review in order to identify innovative activities suitable to local conditions (in consultation with LGED and local NGOs). The rising concern about youth unemployment may be addressed through incorporating activities like repair of school buildings, afforestation programs, nursery building (growing seedlings), and horticultural activities (e.g. in public places). The timing of activities should also be appropriately planned. Recent BIDS research shows that low employment periods usually cover the months of mid-September to November and February to mid-April. The EGS scheme can become more effective if it is adopted at the right time and covers right activities.

### **Social welfare programs**

- (i) Undertake measures to improve the design, targeting and effectiveness of existing programs;
- (ii) Undertake a comprehensive review of all programs and, if necessary, re-orient the focus of government ministries from micro credit programs to other innovative programs targeting specific disadvantaged population groups and locations;
- (iii) Encourage and develop partnerships, if necessary, to introduce health insurance schemes for the poor and vulnerable groups within the purview of developing community health insurance;
- (v) Move toward an integrated social security policy (following the example of the comprehensive social security scheme for agricultural workers in West Bengal) in a phase-wise manner. This may start with a low-cost health and safety insurance scheme for the RMG workers for which a fund may be created with contributions from the RMG factory owners/workers/government and relevant international organizations;
- (vi) Ensure effective management and operation of emigrant workers' resource and welfare centers to enhance their skills and ensure their health needs and well-being. Give priority to emigrant women and men under the SME development program.

## 5. Concluding Remarks

The budget for FY10 needs proper adjustment within the medium-term macroeconomic framework (MTMF) so that the present realities and recent macroeconomic and sectoral developments are reflected. Also the budgetary framework should reflect a move toward an integrated framework to do away with the unrealistic distinction between the revenue and the development budgets within a stipulated time. Another priority is to evaluate the experience of implementing the medium-term budgetary framework (MTBF) in selected ministries to work out the mechanisms of efficient working of MTBF.

In the FY10 budget, two issues should also be given special attention in order to ensure its proper implementation. *First*, revitalization of the institutional framework to ensure that (i) ministries and agencies work together effectively and efficiently; (ii) various agencies and ministries adopt effective ways of communicating and coordinating on strategic issues relating to budget implementation; and (iii) effective donor coordination is forthcoming to support the budget priorities. *Second*, effective and regular monitoring of budget implementation, at both ministry/agency and national levels, needs to be carried out using both input and output indicators.