Press Briefing
on

Initial Analysis of the National Budget for FY2004-05

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1. INITIAL OBSERVATIONS

- As the country enjoys a “planning holiday”, the National Budget for fiscal year 2004-2005 (FY05) has been placed as an extension of the three year *National Strategy for Economic Growth, Poverty Reduction and Social Development* (NSGPRSD), better known as I-PRSP.

- This NSGPRSD has been presented to as a “Three Year Rolling Plan”. Shall we produce such a plan every year for the following three years or after every three years we are going to have another three year plan? – till 2015?

- The Budget for FY05 has been anchored in the *Mid-Term Macro-economic Framework* (MTMF) of the I-PRSP. Clarity on the macro-parameters within which revenue generation and allocation are going to take place is helpful. However, at least on two occasions, the possibility of revising the MTMF has been alluded to. *First* in case resource (domestic + foreign) falls short of project. *Second*, if resources are not properly utilised as per target and reforms are not implemented.

- The 15 (fifteen) principles for developing pro-poor strategies have been well articulated. But there is no mention about reduction of malgovernance (including corruption) or strengthening of local government – which are well established pro-poor policies. Apart from the promised new programme for the “hard core poor”, all other principles are traditional ones with a clear bias towards micro-credit programmes.

- The thought of reforms being done “at such speed we deem appropriate and according to our own new and design” is well taken. But, on the one hand, this proposition does not stand up to “reality check” as the country remains under IMF programme and continues to enjoy various structural adjustment credits from the World Bank. On the other hand, “incremental reforms” may basically foretell no major reforms till the next general elections in areas such as public administration, local government, public expenditure, privatisation and energy sector.

- The expression of sensitivity about the extant negative influence of the non-economic factors is well appreciated. However, these overarching needs to improve law and order, corruption, and establishment of good governance have to be addressed adequately, going beyond partisan rhetorics.

- The fiscal stance of the budget is an expansionary one. In the backdrop of recent shabby delivery of the development programmes and faltering revenue collection, the high-reaching targets lack credibility. It is particularly so because, there is not well thought-out delivery strategy which takes note of the impediments to implementation of government programmes and policies.

- Overt attempt to please diverse constituency with symbolic allocation reminds that the national election is not far away.

2. GROWTH, SAVINGS AND INVESTMENT

2.1 Growth Rate – Plateauing ?

Bangladesh economy posted a growth of 5.5 percent in FY04 against 5.3 percent in FY03. The realised growth rate is in consonance with the I-PRSP target. However, the improved growth rate remains below the recent record figure of 5.9 percent achieved in FY00. The target for FY05 according to I-PRSP is 6.0 percent.

Acceleration of the growth momentum is tapering off and the growth rate since 2000 has plateaued at 5 percent plus level. It may be recalled that economic growth experienced an acceleration during 1990s (linear growth rate – 4.8 percent) in comparison to 1980s (linear growth rate – 3.6 percent). In 1990s, the growth momentum was higher during the second half of the decade in comparison to the first half: average growth rate – 4.4 percent (FY91-95) and 5.2 percent (FY96-00).

2.2 Sources of Growth – Service Sector Dominated

The contribution of the real economic sectors to incremental growth has declined in FY04 to 32.97 percent from 34.40 percent in FY03. The annual growth of the real economic sector stagnated at 4.6 percent during the last two years (FY03-04). This is largely because of decline in incremental growth of agriculture sector, which has declined in FY04 to 11 percent against 13.3 percent in FY03. The incremental growth of service sector has increased to 51.02 percent in FY04 from 49.87 percent in FY03.

The on-going structural transformation of the Bangladesh economy is characterised by falling share of the agriculture sector with marginal increase of the manufacturing in the backdrop of increasing contribution of the service sector. The share of service sector has increased to 61.27 percent in FY04 from 60.95 percent in FY03. The real economic sector accounted for 39 percent of the GDP in FY03, which has decreased to 38.7 percent in FY04. The said proportion was 42 percent a decade back. This suggests that in spite of improved growth, the evolution of the Bangladesh economy remains biased against modern, industrial transformation having concomitant implications for sustained growth and equitable income distribution.

2.3 Per Capita Income

The per capita GDP and GNI scenario are gradually improving after a decline in FY02. In FY03 the per capita GDP and GNI was recorded to be $389 and $411 respectively. In FY04 the corresponding figure are $415 and $438 respectively. The annual growth is of 6.71 percent for per capita GDP and 6.74 percent for per capita GNI in US Dollar term. Once we adjust this figures by the extent of devaluation of US Dollar, the per capita GDP growth comes down to 5.3 percent.

In this context aid also in connection with the completion of the initial year of the I-PRSP, we have not been provided with any assessment on the poverty situation. We suspect, inequality has increased.

It is well known that poverty trends are influenced by the changes in inequality. Income inequality at the national level has increased from 25.9 percent in 1991/92 to 30.6 percent in 2000. During the same period, urban inequality was rising much more (from 30.7 to 36.8 percent) than rural inequality (from 24.3 to 27.1 percent).

Between 1995-96 and 2000, national income attributable to the poorest 10 percent of the population declined further from a miniscule proportion of 2.24 percent to 1.84 percent. Conversely, the control on the national income by the richest 10 percent of the population increased from 34.68 percent to 40.72 percent. In other words, the income differential between the poorest and the richest increased from 35.7 times to 53.4 times during the second half of 1990s. The sources of rising inequality are linked with the uneven spread of economic and social opportunities, unequal distribution of assets especially in respect of human capital and financial capital, growing disparity between urban and rural areas as well as between developed and underdeveloped areas.

The bottom line is, incremental growth does not automatically benefit the poor. In this context and also in connection with the completion of the initial year of the I-PRSP, we have not been provided with any assessment on the poverty situation. There is no evidence which suggests that this trend has been reversed during the last couple of years. Absence of such an assessment also fails us to benchmark our programmes regarding MDGS.

2.4 Savings

Stagnating domestic savings may be accepted as proxy indicator of slow pace of poverty alleviation and rising inequality. Domestic savings increased marginally to 18.27 percent of the GDP in FY04 while it was 18.21 percent in FY03. The share of national savings to GDP is also showing remained stagnant in FY04 at 24.49 percent of GDP as against 24.45 percent in FY03. Though the national savings rate projected at the I-PRSP document for FY04 (23.8%) is achieved but the projected domestic savings rate for FY04 (19.0%) was not achieved.

2.5 Investment

During the last five years (FY00-FY04), the Gross Investment Ratio has not increased by only 0.50 percent of the GDP. For example, the ratio was 23.02 percent in FY00; whilst it crawled only upto 23.58 percent in FY04. Increasing investment continues to remain one of core challenges Bangladesh's macro-economy. In FY04, the country recorded one of the lowest public investment ratio of the last decade, 6.12 percent. The left behind by the public investment was not adequately picked up by private investment. Private investment as a share of GDP invested marginally from 17.21 percent in FY03 to 17.47 percent in FY04. Paradoxically, Bangladesh continue to remain an under-invested country, while its national savings rate (24.49 percent) supposes its gross investment rate (23.58 percent). We are failing to convert all our savings into investment as we continue to borrow from foreign sources. Private savings rate is marginally lower than projected in I-PRSP for FY04 (17.5%) but public investment is much below than the projected figure for FY04 (7.2%) in I-PRSP.

3. PUBLIC FINANCE

3.1 Changes in Reporting System

One has to be careful about some of the changes which have been brought about in the government documents reporting the budget figures. There have been done to make the information more consistent and transparency. This is a constructive approach. Foreign grants have been grouped together with total revenue.

- Capital expenditures from the revenue budget has been taken out and put under "Non-Development Capital Expenditure".
- There are also some separate items under Non-Development Expenditures
  - Net Outlay from Account Operation
  - Loans and Advances
  - Structural Adjustment
  - Programmes Financed from Non-Development Budget
- "Non-ADP FFW & Transfers" to be included under Development Expenditures

Attempts have been made to put up both Non-Development and Development Expenditures under one Demand for Grant. This is a welcome step towards unification of the budget.

3.2 Overview

In FY05, total revenue earning is to grow by about 16.7 percent as against total public expenditure growth of about 16 percent. Both are very far-reaching targets. The matching realised figures for FY04 are 13.8 percent and 12.4 percent respectively Bangladesh suffers from both low domestic revenue yield and low public investment. Thus such “high income – high spending” budget is commensurate with the potential need of the country. But the government’s track record in this respect, particularly in case of implementation of development programmes make these targets suspect.

Because of the lacklustre revenue mobilisation and ADP implementation in FY04, the economy has failed to achieve the projected figures of the MTMF. For example, in FY04, the Revenue GDP ratio was to be 10.80 percent, the achieved rate (based on revised figure) was 10.64 percent. in case of public expenditure – GDP ratio, the realised figure is 14.84 percent against a target of 15.5 percent. Incidentally shortfall occurs in case of both Development and Non-Development expenditures. Full realisation of the budget figures of FY05 will not allow us to achieve the I-PRSP targets for Revenue and Public Expenditure. No wonder the Budget speech refers to revision of the MTMF.

The fact that the overall expenditure growth has been kept below the revenue growth is well taken. The gross budget deficit in FY05 is, by and large, to remain steady at (-)4.3 percent; at the same level of. Understandably, the low fiscal deficit happens by default.

3.3 Revenue Earnings

Total tax revenue is to grow in FY05 at 16.67 percent of which Tax Revenue at 18.87 percent and Non-Tax – 7.89 percent. NBR has the most “challenging” target of increasing its in-take by 19.0 percent. All these projected growth rates of revenue collection remain much above the trend rates.

	Sectoral Share			Growth			
	FY03	FY04 (revised)	FY05	FY04 (original) over FY03	FY04 (revised) over FY03	FY04 (revised over original)	FY05 over FY04 (revised)
Revenue	100.00	100.00	100.00	16.23	13.75	-2.13	16.67
Tax Revenue	80.14	79.94	81.45	16.56	13.47	-2.65	18.87
NBR	76.32	76.41	77.94	16.84	13.89	-2.52	19.00
Non-NBR	3.86	3.53	3.51	10.08	4.17	-5.37	16.00
Non-tax Revenue	19.83	20.06	18.55	15.07	15.07	0.00	7.89

3.4 Structure of NBR Component

NBR accounts 77-78 percent of total revenue intake. As a consequence of trade liberalisation, the role of custom duty has been falling overtime. It is expected that growth of direct taxes (viz income tax) and VAT (Local) is to fill up the void and gentle incremental resources.

However, figures show that, in FY04, within total NBR collection the share of Custom Duty has gone up (from 18.9 percent to 20.6 percent), as against the decline in shares of income tax (15.4 percent to 14.9 percent) and VAT (from 25.9 percent to 24.2 percent). Concurrently, the contribution of Supplementary Duty has increased as well (from 14.1 percent to 15.3 percent). These trends are precisely contrasting to what is intended.

More importantly, the effective expansion of VAT (Local) at a rate faster than income tax collection is making the tax incidence disportionately biased against the income poor people.

3.5 Income Tax

The targets from FY05 will marginally improve these perverse trends.

Implication of Revised Income Tax Rate for Individual Assessee for the Year 2004-2005

(Amount in Taka)

Income	Per month salary	Tax			Difference	
		2002-03	2003-04	2004-05	Amount	Percent
100,001	8,333	2,500	1,200	1,500	300.00	25
200,000	16,667	12,500	11,000	10,000	-1,000.00	-9
300,000	25,000	26,250	24,000	20,000	-4,000.00	-17
400,000	33,333	42,500	39,500	35,000	-4,500.00	-11
500,000	41,667	62,500	59,500	50,000	-9,500.00	-16
600,000	50,000	82,500	79,500	67,500	-12,000.00	-15
700,000	58,333	106,250	102,500	87,500	-15,000.00	-15
800,000	66,667	131,250	127,500	107,500	-20,000.00	-16
900,000	75,000	156,250	152,500	127,500	-25,000.00	-16

Minimum Taxable Monthly Income:	6,250	7,500	8,333
Minimum Tax:	1,200	1,200	1,500
Exemption:	75,000	90,000	100,000

Revise the minimum taxable income rate. Current slabs benefit the richer section more.

Major changes

Individual Assessee: To make it compulsory for all individual assessees to submit expenditure statement reflecting their style of living.

Corporate Assessee: To allow the company assessees to avail themselves of the self-assessment facility, the requirement to show increase of income by 10 percent every year be reduced to 5 percent.

Both Corporate & Individual: To make submission of income tax returns compulsory for all individuals, firms, companies or institutions holding Tax Identification Number (TIN).

Till May 2004 registered tax payer no. was 15,50,000.

In 2004-2005 there is a target of identifying 300,000 new tax payers.

Also to empower the Board to choose any return for audit out of the self-assessment returns submitted by the individual and company assesses. Will create more problem and frustrate the tax collection initiative.

VAT

The government is systematically enhancing the VAT net aiming switching from customs duty to VAT. During the last budget the government added new entities for VAT which included money exchange business, credit card, cigarette Band Roll & stamp, locally produced soft drinks, soap, detergent powder and mineral water, revenue from sale of all items in auction by the government, semi-government and autonomous body, Bank, Insurance and other limited companies (at the rate of net *1.5 percent* of the auction value), Decorators, Caterers and Sweetmeat shop within the metropolitan and the district town areas. This year the new entities are:

Manufacturing

- Pressure Cooker at manufacturing stage – Will local industry still remain competitive?
- Food supplied in Community Centres - Okay!
- 4 HR (Hot Rolled) Coil at import stage – Will increase price of CI sheet
- L P Gas Cylinder at import stage – Protection to local industry
- Copra (of coconut) at import stage – Protection to local industry
- Raw Silk at import stage – Protection to local industry

Services – All time!

- Shooting spots, amusement and theme parks, historical places, picnic spots, tourist spots.
- House cleaning and maintenance organizations.
- Lease or investment and credit financing institutions.
- Express Mail Service.
- Film distributors.
- Lottery ticket sellers,
- Upper grade tailoring shops at Dhaka and Chittagong.
- Commercial and residential apartment builders.

It is interesting that during the last year doctors and lawyers have been proposed for inclusion into the VAT net, however at the face of the protest from these two groups of professionals the idea was suspended. The policymakers did not take the risk to try again this time.

The government is also planning to impose VAT on goods and services rendered against local and international tenders in foreign consensus which might be a major source of revenue for the government. The government has proposed to introduce rewards for the highest VAT paying businesses and establishments of each district, although it is not clear which types of reward are planned. Definitely, some fiscal rewards would be worthy in this regard.

Some restructuring has also been proposed in the budget which concerns spinning and weaving industries airlines. For the earlier, excise duty has been replaced by VAT. For the later, application of fresh excise duty has been proposed.

VAT Exemption - The government is proposing exemption of VAT from two specific areas: one, indenting commission remitted from abroad, and second, locally manufactured wheat crusher. While objective of the first one is to bring the money from indenting business into the country, the later one is targeted for providing further support to the agro-based industry and small and medium enterprises.

Tariff Reform - The customs duty contributes 28 percent of total national tax revenue. However, application of para-tariff significantly distorts domestic markets. In some cases, customs duty and para-tariffs act as domestic protection measures, in others, it acts simply as revenue generation measures. Moreover, they are applied as tax on tax. As a result, total collection at import stage rises up to 50 percent of total tax revenue.

The budget proposed substantive reform a further liberalization in tariff system going beyond what was piped earlier. One may question the rationale and timeliness of the more.

During the last budget it was announced that the tariff system will be reduced from a four tier system to a three tier system. The tariff slabs had been proposed to be 30 percent, 20 percent and 10 percent. The budget of FY2004-05 has proposed to reform the system with three tiers; however, the highest slab has been proposed to be 25 percent which raises controversy from several angles.

Firstly, many import substituting industries will be adversely affected due to increased competition with imported products, which will be imported with lower duties. Local manufacturing and backward linkage industries, particularly textile, ceramic, footwear, electronics, toiletries, agro-based and food-processing industries will suffer from this decision. It is to be mentioned that importers of some 2,400 finished products now pay 30 percent duty. Major finished products that fall under the highest duty slab include girls and women's suits, readymade dresses, boys and men's shirts — cotton or synthetic, women's petticoats, nightdress, babies' garments, sports outfit, undergarments, handkerchiefs, footwear, sports footwear, umbrella, tiles, flooring blocks and tableware. The highest duty is also applicable for kitchenware, ceramic articles, iron and steel products, metal industry, electro-mechanical domestic appliances like vacuum cleaner, food grinders and mixers, electric cables, different electric parts, bicycle, electric lamps, wooden furniture, toys, ballpoint pens, woven fabrics of cotton (dyed and unbleached), soap, shampoo, cosmetics, cigarettes, tobacco substitute, fruit juices, tea and fish.

Secondly, the autonomous liberalisation through budgetary measures will reduce bargaining opportunity in the bilateral, plurilateral and multilateral negotiations of tariff reductions in which Bangladesh is involved. The average tariff in Bangladesh is 21.9 percent (2002) which is lower than India by 9.1 percent.

Thirdly, in the WTO the issues of coherence of policies of the IFIs with the negotiations dynamics is still under discussion. Thus, pressure for reducing tariffs by the IFIS is completely unacceptable and is creating disadvantageous situation for LDCs like Bangladesh. The government should reconsider the proposal of fixing the highest slab at 25 percent and keep it to the promised level of 30 percent.

Fourthly, reduction of duty slabs from four to three may also result in revenue loss. While Bangladesh is fighting for compensation for revenue loss in SAFTA and BIMSTEC, it is not clear why the government is creating such situation through autonomous initiative.

It is to be mentioned that the highest tariff slab in India is 30 percent. A four-tier system is in practice still now, which is under active consideration for revision.

	Earlier System	Promised System	Proposed System
I	7.5%	10%	7.5%
II	15%	20%	15%
III	22.5%	30%	25%
IV	30%	-	-

After revision the list of importable articles now contains a variety of items numbering 6,799. The distribution of Tariff lines are presented in the followinf table after the restructuring:

Tiers	**Previous**	**Present**
0%	**541**	**519**
7.5%	1,431	1510
15%	1,305	1,879
22.5%	1117	0
25%	2974	2,891
30%	2405	0
		6,799

The government estimated possible revenue loss out of this restructuring would be Tk. 775 crore, however expects to collect Tk. 3328 crore from normal growth of import and administrative improvements.

Supplementary Duties. The government proposed three slabs of supplementary duties (15 percent, 25 percent, and 30 percent) instead of seven slabs (15 percent, 25 percent, 30 percent, 40 percent, 50 percent, 60 percent and 75 percent). This streamlining of supplementary duty will allow the government to use this para-tariff tools effectively in domestic protection and revenue generation purposes.

This time the government did not propose any rise in infrastructure development surcharge which was increased to 4.0 percent during last budget. The legitimate question is how the collection form IDSC is being distributed in the infrastructure development programmes of the government. No change also in AIT – 2.5 percent and VAT (input) – 15 percent.

Export Promotion. As a backward linkage industry the government has taken bold tariff measures for promoting country's textile sector. In addition to the facilities already provided, the government proposed reduction of the existing rates of duty on most of the raw materials and essential machinery and spares needed by this industry. The number of HS 8-digit level items for textile sector which will enjoy duty-free and VAT-free import is 34.

Domestic Protection

Tiles Industry: For promoting domestic tiles industry, which is complement to booming construction sector, the government decided to reduce supplementary duty on locally manufactured tiles from 20 percent to 5 percent.

Processed Agricultural Products: The government is proposing to impose VAT on processed primarily processed agricultural products like; fruit pulp &paste, packed spices in powder form, flavored milk and yogurt, etc. For this purpose the government will fix the tariff value of these products.

Import Substitution

Dairy and Poultry: In order to put further boost to the dairy and poultry industry of the country government proposed to withdraw customs duty and value added tax on 87 capital machinery needed for this sector.

Coil: In place of tariff value the government is planning to apply VAT on the normal value of domestically produced cold rolled coil. This initiative will increase revenue generation scope for the government, however diminish consumer welfare, because the main product from these coils is corrugated tin which is main raw material for house building in rural areas.

Social Concern

Cigarettes: The government proposed slight change in supplementary duty structure for cigarettes at different slabs by 2 percent, implications for which are not clear. The duty, both customs and supplementary, could be increased substantially for revenue generation and discouraging the harmful trade which affecting negatively the productive power of the population.

Sector Specific Tariff Measures

Energy: In the second Interim IRBD FY04 of the CPD it was mentioned, "given the political costs involved in pushing up prices, the government will be well advised to reduce its taxes on petroleum products" (Bhattacharya, 2004). It was observed that the government restructured the taxes of fuel. The government proposed withdrawal of the existing Advance Income Tax (AIT) from all types of petroleum as well as reduction of e the existing supplementary duty on Kerosene from 25 percent to 15 percent. As a result, tax burden on crude oil, Kerosene and all other fuel oil will be reduced by 9 percent, 25 percent and 10 percent, respectively.

Health Sector: For encouraging establishment of high quality referral hospital of international standard for the treatment of life-threatening diseases the government proposes to withdraw customs duty on medical and hospital equipment and accessories, withdraw all types of taxes and duties on certain life-support systems used in such hospitals.

Food and Beverage Industry: The supplementary duty on sugar has been proposed to reduce from 30 percent to 15 percent for promoting domestic biscuits, chocolates, soft drinks, condensed milk industry. CPD criticized last year increase in tax. Consumers are expected to be benefited from the measure.

Mobile Telephony: customs duty on mobile phone set has been proposed to be reduced to Tk. 1500 from Tk. 3000-4000 which will boost the market growth and increase access to telephony.

Vehicle: Although the highest rate of customs duty is under consideration for reduction and the supplementary duty rates undergoing re-structuring, the government restructured supplementary duty vehicles. The SD on motor cars and jeeps has been proposed to be re-fixed at 30 percent in place of the existing 15 percent on those having cylinder capacity up to 1649. For those having cylinder capacity above 1649 but not exceeding 3,000, it is proposed to be enhanced to 60 percent from the existing 40 percent, and for those having a cylinder capacity over 3000 it is proposed to be raised to 90 percent from the existing 75 percent.

It is not clear whether these rates are applicable for both the re-conditioned and new cars or not. On the one hand, these measures will facilitate revenue generation, on the other, the middle class will be deprived from access to cheap personal vehicles.

<u>Harmonization</u>

Export-Oriented Industries: The government has proposed to withdraw VAT at source on Insurance, shipping bill of 100 percent export-oriented industries and commission of C&F agents relating to such industries. The export oriented industries will receive also refund of 80 percent of the tax paid on inputs relating to gas, electricity and insurance.

Paper: About 80 percent of the papers imported in the country is now subjected to duty at the rate of 30 percent and the rest at a slightly lower rate. Both these rates are proposed in the budget to be unified and re-fixed at 25 percent across the board. It is to be examined whether this duty benefits domestic printing industry and general consumers.

Billets: The government proposed to fix tariff value of Ferro Manganese, Ferro Silicon and Silicon Manganese used for the production of billets. These tariff values will be used for application of VAT on the finished products. It is to be mentioned that the re-roling mills are producing billets locally and it is also imported from abroad. During the last fiscal the price of MS rod and billets increased astronomically. It is expected that this particular measure will rationalise price on these materials.

Non-NBR. Share of Non-NBR component falling over time (3.53 percent of total revenue in FY04 – down from about 5.5 percent during the last decade. The most important item is non-judicial stamp which recorded a negative growth in FY04. Indicates again corrupt practices in the system,   percent from at 16 percent in FY05 (as against 4.2 percent in FY04).

Non-Tax. Share of Non-Tax Revenue is also falling. Below 20 percent of total revenue in-take in FY04. Most important items are T&F (4.6 percent), Dividend & Profit (2.6 percent), Administrative fees (2.6 percent) and Interest Income (1.9 percent). To grow at 7.9 percent in FY05 (as against 15.1 percent in FY04). Tariff rates of these services need to be reviewed to make realistic adjustant keeping in view social concerns.

Public Expenditure

Revenue Expenditure:

The target for revenue expenditure in FY05 is Tk. 30518 crores which is 13.84 percent higher than FY04 (revised). Three heads account for more than 70 percent of the total. These three include: "Pay and allowances" (24 percent), "Subsidies and transfers" (27 percent), and "Interest payments" (19 percent). In FY05, the allocation for defence services amounts to 12.78 percent of the total revenue expenditure.

Economic analysis indicates a shortfall of revised revenue expenditure in FY04 over its original. The revised figure of FY04 shows only 5.93 percent growth over FY03 (revised), when in the original estimate it had shown 9.56 percent growth over FY03.

An additional amount of Tk. 431 crore has been provided for “Repair and Maintenance” which is a positive aspects of the revenue expenditure. Another additional amount of Tk. 365 crore has been allocated for ongoing micro-credit programs with the view to reducing poverty. And Tk. 200 crore has been allocated for Micro Entrepreneur

Development Fund, a special fund for employment generation for hard-core poor and special fund for re-training the voluntarily retiring and retrenched employees.

A 'Pay Commission' will be constituted at the beginning of the next financial year for refixation of pay scales of the officers and employees of the government and autonomous bodies keeping in view the increased cost of living. The new pay scale will be opened from January 2005. CPD has strongly argued to set up a Permanent Pay Commission for government employees. The CPD has emphasized along with pay enhancement, on the issue of Public Administration Reform in its IRBD-Second Interim Report, such as workforce rationalisation, skill development, predictability of career path. CPD also thinks that it is high time to think about establishment of a wage commission for ensuring minimum pay for low-paid working class.

- In the budget, it has proposed to raise the medical allowances of all government employees from Tk. 300 to Tk. 400 per month from July 2004.
- The government will also grant one Festival Allowance equivalent to net monthly pension from the next fiscal year to all retired government servants.
- The government has also emphasize on this issue by taking some important decisions like promotion of civil servants on the basis of merits and efficiency. The Ministries/Divisions have been already grouped into four clusters in order to promote specialization in civil service and a provision of Tk. 200 crore has been kept in next year's budget to fill up essential vacant posts.

The government needs to carry out these measures within the broader context of Public Administration Reform. One also wonders why a wage commission should not be set up as well.

Annual Development Programme

The ADP target for FY04 was originally fixed at Tk. 20,300 crores, which was slashed down to Tk. 19,000 crores. During FY03 the total implementation of ADP was only 80 percent of the original target; this year the situation seems to be even more precarious. Information on ADP implementation until March of FY04 suggests that a total amount of Tk. 9189 crores, i.e. about 45 percent of the total allocation was spent during the first three quarters (July–March) of FY04. Out of this, Tk 5852 crores is local resources and

Tk 3337 crores is project aid expenditure which indicates that 50 percent and 39 percent of their respective allocations have been implemented.

The share of internal resources into ADP has crossed the 55 percent mark in the proposed ADP for FY05. In FY04, the target for foreign resources was Tk 10301 crores accounting a 50.74 percent share in the total ADP financing. However, the revised figure shows that both the foreign and internal resources failed to reach the target in FY04. However, comparatively the rate of foreign aid flow was lower than the internal resource mobilization rate; that turnaround the external-internal share from 51:49 to almost 50:50. The government is targeting a 55.49 percent (Tk 12207 crores) internal resource into the FY05 ADP. Rest 44.51 percent (Tk 9793.00 crores) would come from the foreign financing, of which project aid accounts about 33.75 percent (Tk 7425 crores) of total ADP financing.

However the trend in declining both external and internal resource mobilization in recent past puts a question on the achievement of the proposed ADP. Keeping in mind the poor implementation of ADP; CPD suggests that proper guide lines for expenditure and performance auditing of ministries for future allocation should be taken as the major criterion for their future funding.

During FY04 some of the ministries have failed to implement their allocated budget for development marginally, but some has failed tremendously. Among those, Planning Ministry’s allocation was revised dramatically to about 7 percent of its original. The original allocation was Tk. 521 crores which was reduced to Tk. 33 crores (a 93 percent reduction). In FY05 the allocation for the said ministry is Tk. 586 crores. The Ministry of Establishment‘s budget was also reduced by 31.5 percent to Tk. 39 crores from 57 crores, For FY05 the allocation is Tk. 99 crores. Ministry for disaster management’s allocation was condensed by 74 percent to 50 crores from an original allocation of 193 crores during FY04. Ministry of liberation affairs also performed poorly with a revised ADP with 77 percent allocation reduction. The original reduction was 26 crores which were reduced to 6 crores; the allocation for FY05 for the said ministry is 46 crores. A similar situation is observed in case of ministry of information. The revised budget was reduced by almost 49 percent, an original allocation of Tk. 82 crores were reduced to

Tk.42 crores in FY04, the allocation for FY05 is set to Tk. 76 crores. The whole cluster of Entertainment, Culture and Religion Ministries allocation was revised and reduced by 20 percent to 257 crores from 325 crores during FY04, still their allocation was increased by almost 40 percent from their revised allocation to 359 crores.

It is observed that some of the ministries are provided with increased allocation in FY05 even after failing to realise the original target and then revised target were set at substantially reduced level during FY04. In CPD's IRBD 2004 paper we have mentioned the poor condition of ADP implementation before the budget and has suggested that the size of the ADP will be around 17,000 crores. This suggestion, very unfortunately, might become a fact because of poor implementation of ADP by various ministries.

The CPD IRBD Second Interim Report observes that the aggregate ratio of ADP implementation compares almost equally with the same for the last year (with respect to actual ADP size). During the July-March period, the rate of ADP implementation for FY01, FY02 and FY03 was 54 percent, 42 percent and 45 percent respectively. However, it needs to be pointed out that such a business–as–usual approach will not be helpful in realising the full annual target of the ADP in the current fiscal year. It is now becoming increasingly obvious that one of the prime reasons for underachievement of the ADP relates to low utilisation of foreign project aid available in the pipeline.

During the period July 2003 – March 2004, Tk. 7128.57 crores, i.e. 60 percent of the total government allocation was released for government expenditure. Among the line ministries, the Ministry of Religious Affairs has utilised most of its allocation (70 percent) followed by the Ministry of Home Affairs (69 percent), Local Government Division (65 percent) and the Ministry of Health & Family Welfare (57 percent). On the other hand, the Ministry of Liberation War Affairs, the Ministry of Information and the Planning Division are among the low weaker ADP implementing ministries/divisions utilising 5 percent, 10 percent and 13 percent of their corresponding ADP allocation during the first three quarters of FY04. However, the Road and Road Transport Division, Power Division and Ministry of Education have implemented around 55 percent, 48 percent and 45 percent of their total allocation respectively during the first nine months of the FY04.

Religious Affairs Ministry - Budget allocation and expenditure, FY2004 - FY2005

	Allocation 2003-04 Budget	Revised 2003-04 Allocation	Allocation 2004-05 Budget	Growth between 2003-04 allocated and 2003-04 revised allocation	Growth between 2003-04 allocation and 2004-05 allocation
Non-Development	28	66	33	135.71%	-50.00%
Development	51	44	64	-13.73%	45.45%
Total	**79**	**110**	**97**	**39.24%**	**-11.82%**

Top 10 Sectors by 2004-05 allocation	**Budget 2004-05** Total allocation (crore Taka)		**Revised 2003-04** Total funding (crore Taka)		**% growth between 2003-04 revised and 2004-05 budgeted**
	amount	share in %	amount	share in %	
General Public Service (GPS)	8166	14%	4995	10%	63.5
Education	7680	14%	6757	14%	13.7
Transport and Communication (TC)	6148	11%	5709	12%	7.7
Rural Dev. & Cooperation (RDC)	4638	8%	4497	9%	3.1
Fuel and Energy (FE)	4361	8%	3977	8%	9.7
Agriculture, Fisheries & Livestock (AFL)	4063	7%	2859	6%	42.1
Defence	3901	7%	3811	8%	2.4
Health	3732	7%	3345	7%	11.6
Social Security & Welfare (SSW)	2588	5%	2015	4%	28.4
Public Order & Safety (POS)	2581	5%	2387	5%	8.1

General Public Service (GPS)

- Large increase due to abnormally low allocation in FY04, Development Support Credit was absent in FY04 but has been budgeted for in FY05. This is reflected in the allocation of the Finance Division, whose allocation has increased by 73% (from 3362cr Tk to 5807 cr Tk)
- Planning Division allocation grew by 640% between FY04 and FY05 (87cr Tk to 644cr Tk)
- Establishment Division allocation grew by 24% (342cr Tk to 424cr Tk)
- Prime Minister's Office's allocation grew by 33% (137cr Tk to 235cr Tk)

Education

- Primary and Mass Education funding grows by 21.8% (from 2702cr Tk to 3292cr Tk). Majority of the increase (574cr Tk growth) is from Development allocation

Agriculture, Fisheries & Livestock

- Agriculture allocation grew by 95% (from 910cr Tk to 1777cr Tk)
- Water resources allocation increased by 24.2% (from 911cr Tk to 1132cr Tk)

Social Security & Welfare

- Liberation affairs grew by 55.6% (from 81cr Tk to 126cr Tk)
- Social Welfare funding grew by 31.9% (from 389cr Tk to 513cr Tk)

One can identify at least four factors which have contributed to the poor implementation of the ADP. First, introduction of the new public procurement policy limited the scope for indulging in corruption while implementing foreign aided projects created some disincentive to spend. Second, inability to undertake "prior actions" as agreed with the development partners under the project documents seriously constrained the country's access to foreign aid in the pipeline. Third, over-centralisation of the project planning and approval process coupled with the confusion relating to the state of the sector-wide programme approach made the utilisation of resources more time consuming. Finally, the state of uncertainty pervading the public administration in the backdrop of growing political confrontation encouraged many of the key persons in various government agencies to be indecisive or free sitters. It is also getting abundantly clear that without effective devolution of power and decentralisation of development administration through setting up of a strong upzilla system, Bangladesh will not be able to effectively handle a larger ADP.

Fiscal Deficit:

Overall budget deficit for the FY04 was programmed at 4.8 percent of GDP (-Tk 15809 crores), as the government targeted an 18.38 percent increase in the total public expenditure from Tk 43908 crores in FY03 to Tk 51980 crores in FY04. However the underachievement of the public expenditure target (by -5.03 percent) has slashed down the GDP-budget deficit ratio to (-) 4.2 percent in the revised budget of FY04. In this context, the government's target to achieve a 15.96 percent higher public expenditure during the FY05 has contributed to a marginal increase in the GDP-budget deficit ratio to (-) 4.3 percent in FY05 from (-) 4.2 percent in FY04.

In FY04, the government targeted an amount of Tk 6713 crores of foreign financing to fill up the 50.8 percent of the total budget deficit. However, only 47.14 percent of the total budget deficit was financed by the foreign financing and rest 52.86 percent was financed by domestic resources (according to the revised budget FY02. For the FY05, the government has set a balanced target to finance its budget deficit with domestic (50.5 percent) and foreign financing (49.5 percent).

Analysis of the sources of budget deficit financing shows that about 47.0 percent of it (3.4% of GDP) will be underwritten by net foreign borrowing. That is, in FY04 53 percent by domestic sources. Between the two major source of domestic borrowing, borrowing for the banking sector would provide 13.3 percent and another 39.7 percent will come from non-bank source. Bank source is to provide Tk. 2599 crores. However, the projected figure for FY05 shows that about 49.5 percent of overall budget deficit (3.8% of GDP) will be financed by foreign borrowing while 50.5 percent will be underwritten by domestic sources.

Fiscal deficit is a synthetic indicator. It may grow when the economy is absorbing more investment, it may also go down because of inability spread.

4. SELECTED SECTORAL MEASURES

4.1 Agricultural Development

It has been proposed that a total allocation (revenue and development) of Taka 1,777 crore for FY05 for Ministry of Agriculture (Taka 867 crore more than the revised allocation in FY04). It is promised that in FY05, agricultural extension research, training, production of improved seeds, conservation and distribution of seed and irrigation activities will be strengthened. In addition to the projects undertaken under ADP, 16 development programmes financed from revenue budget will be implemented.

- Increased allocation on agricultural subsidy and agricultural incentives from Taka 300 crore in FY04 to Taka 600 crore in FY05. *Increased budgetary allocation is the necessary precondition to bring out the desired changes. However, the sufficient condition for desired impact relies on the quality and effectiveness of implementation. Up to January '04, only 31.4 percent of the budgeted subsidies in FY04 were utilized. Therefore, it is not clear how the targets of the FY05 budget would be achieved through the existing institutes and implementation procedures.*

- Cash incentive for export of agricultural products, fruits and vegetables will be raised to 30 percent from 25 percent. *Earlier experience with disbursement of cash incentive indicates that due to the absence of a clearly spelt out and realistic procedures allocated amount could not be spent. Hopefully, proper mechanism would be in place* *and steps for awareness building among potential exporters would be taken to promote export of agro-products.*

- Necessary incentives will be provided for production of Robi crop.
- Bangladesh Bank will provide financing as required at 5 percent rate of interest to Bangladesh Krishi Bank, Rajshahi Krishi Unnayan Bank and other nationalised banks so that they can provide adequate agricultural loan to the farmers at 8 percent rate of interest. *This is a clearly spelt out mechanism which can be monitored to evaluate the progress and impact.*

4.2 Fisheries and Livestock sector

Proposed a total allocation (development and revenue budget) of Taka 546 crore in FY05 (increase by Taka 110 crore from the revised budget allocation of FY04). The budget mentioned that increased allocation would enable the ministry to increase expenditure for purchase of equipment and medicine for treatment of livestock, feed for livestock and poultry, production of vaccine, research, etc. The government has also announced import of capital items for poultry farms without customs duty and supplementary duty. *These will surely reduce the cost of importing such items and would be beneficial to the poultry industry by reducing cost of production and enhancing competitiveness.* The Ministry of Fisheries and Livestock will implement 30 projects under the development budget for extension of pisciculture, recovering fish habitat in open water bodies, extension of pisciculture technology at the Union level, extension of artificial insemination and also livestock services at the Union level. *These are welcome measures but delivering the outcome would surely require concrete planning and monitoring. In the absence of such mechanism, it would not be possible to achieve the targets. It may be noted that in FY04 (up to January'04), the ministry of Fisheries and Livestock spent 53.9 percent of revenue budget and only 15.4 percent of the development expenditure.*

4.3 Water Resources

Proposed an allocation of Taka 1,132 crore in the revenue and development budget for Ministry of Water Resources in the budget for fiscal year 2004-05.

Major Challenges:

Up to January ’04, only 24.6 percent of the development expenditure budgeted amount for agriculture (allocated for Agriculture, Fisheries and Livestock, Environment, Land, Water, Ministry of Food) were utilized. In case of revenue expenditure, utilization was 60.9 percent. In case of low implementation progress during the first half of the year may result misutilisation at the end of fiscal year. To overcome such problems in the proposed budget one would naturally expect clear direction. But unfortunately, that is missing in the budget.

4.4 Rural Development

For local government and rural development sector, it has been proposed that total allocation (revenue and development) of Taka 4,902 crore in FY05 (Taka 217 crore more than the revised budget of FY04). The Local Government Engineering Department will construct 3000 km of metal roads, 5,500 km of earthen road and 220 Union Parishad complexes. A 'Char Livelihood Project' in 5 districts with an outlay of Taka 475 crore is being implemented to raise the living standards of extreme poor people, belonging to some disaster prone districts. The 'Abashan Project' is being implemented by the Office of the Prime Minister to provide land, houses, credit facility, education, health, family planning services and employment opportunities to 65 thousand landless and extreme poor people. The Youth Development Directorate is also implementing projects for employment generation of unemployed rural youth, both men and women, through provision of training and micro-credit.

In case of rural development and local government, only 40.5 percent of the revue expenditure and 40.1 percent of the development budget was utilised. Thus, it is to be seen how far the planned projects would be completed.

4.5 Industry

According to the provisional estimates provided by the BBS, the manufacturing sector grew at the rate of 7.41 percent in FY 04 which is higher than that of FY03 (6.6 percent). The share of manufacturing sector in the GDP increased from 15.97 percent to 16.25 percent, which is below the target of 25 percent. It is to be mentioned that the growth rate of small industries was higher than large and medium industries.

On a point to point basis, industrial production has declined between February 2003 and 2004 by about (-) 2.75 percent. Conversely, the first eight months' average QIP for FY04 is only 1.53 percent higher than the same in FY03. It is interesting that the QIP during July-February FY03 grew by 5.15 percent over the matching period of the previous year. It is contrary to the common wisdom that QIP is less in current year when overall growth in manufacturing sector is better than previous years.

Major Observation: While reducing the peaks in import tariffs, the government did not impose new tariff in general as well as new taxes.

Textile: Considering the importance of textile industry as a backward linkage industry of RMG sector, which is under tremendous pressure at the advent of the MFA phase out, the government proposed to reduce the income tax for the sector from 20 percent to 15 percent.

Jute: The government reduced the income tax for jute industry which might attract the private sector to invest in the jute sector. However, the disincentive of production of jute by the farmers was not addressed. As a result, the rebate will not bring the desired result.

RMG: The government decided to withdraw collection of VAT from insurance, shipping bill and C&F agent's commission relating to 100 percent export-oriented industries including ready-made garments industries at source. Although the measures came as a rationalisation of tax system, the measure will benefit to a certain degree the exporters to achieve more competitiveness, particularly exporters of the RMG sector.

Agricultural commodities: Cash subsidy for export of agricultural commodities introduced by the alliance government has been increased to 25 percent which is a welcome measure. The government increased allocation for the promotion of agro-based industries to Tk. 100 crore from Tk. 50 crore for of agro-based industries in FY05.

Equity Entrepreneurship Fund : The government is continuing the allocation in EEF and in FY05 the volume of allocation is Taka 200 crore, which is Tk. 100 crore less than that of previous fiscal year. This fund is reserved for providing equity support to computer software, food processing and agro-based industries. It is to be mentioned that the system and framework of EEF was restructured following a CPD policy brief in FY

2002 which started to give fruit and during last fiscal the application for fund exceeded the allocation. However, the disbursement was slow for slow selection procedure.

4.6 Investment Promotion

Industrial Park: For creating employment opportunities for about 9 lakh people, the budget proposed an industrial park (to be set up by BSCIC) in the Adamjee Jute Mills complex and setting up of 150 industrial units by the Export Processing Zone Authority in the 74-acre land of the closed Chittagong Steel Mill.

Refinancing for SMEs: The Bangladesh Bank will expand refinancing facilities amounting to Taka 250 crore at 5 percent rate of interest to financial institutions for extending credit to entrepreneurs of small and medium industries.

Restructuring Banks: The government allocated Tk. 200 crore capital for expanding the loan operation in rural areas through the Karma Sangsthan Bank, Bangladesh Krishi Bank and Rajshahi Krishi Unnayan Bank.

4.7 Foreign Direct Investment

According to the BOI registration figures, the FDI increased from USD 111.76 million for July-April FY2003 to USD 242.33 million for the corresponding period of FY04. The actual flow of FDI including EPZ was USD 119.93 for July-January FY04 which was 54.32 percent higher than that of the previous period. Despite this increase the investment could not reach the peak of 1997.

Measures related to attraction of FDI are a few in this budget which reflects the reality that non-economic factors dominates the investment climate, where fiscal incentives matter in a insignificant way.

To encourage foreign direct and joint investment, the existing tax rate of 15 percent on income from capital gains arising out of transfer of stocks and shares of private limited companies has been proposed for reduction to a level of 10 percent.

5. SOCIAL SECTOR

5.1 Education

Education has received the highest allocation of Tk. 7,680 crore in the combined revenue and development budget which is 13.4 percent of the total budget of 2004-05. Out of this Tk 3,071 crore will be spent from the development budget for implementing 51 projects in the education sector. Measures which will be undertaken in order to ensure human development include appointment of new teachers, construction of new classrooms, training of teachers, introduction of stipends at the primary levels and financial assistance to students. In addition to the current programme on "Primary Education Development Porgramme-2" a new project named "Reaching Out of School Children" for an amount of Tk 400 crore will be undertaken to create opportunities for primary education for the deprived children. The budget proposed to double the number of scholarships at different primary and secondary levels from 35,000 to 77,000 from July 2004-05. This will purely have positive impact on human development.

In terms of its share in total GDP the allocation in the education sector is almost stable during the last few years which remains around 2 percent of the GDP. Allocation in the education sector is 13.7 percent higher than that of the previous budget (2003-04).

It is mentioned in the budget that in order to improve higher education, infrastructure facilities are being constructed, stipend for women has been introduced and 4 science and technology universities have been established. *These are, however, not new proposals and the budget does not indicate whether these activities will be expanded or not. The budget also does not say anything about the job opportunities for these educated people.*

5.2 Health

An amount of Tk 3,732 crore has been allocated for the health sector in the combined revenue and development budget which is an increase by 11.6 percent from last year (Tk 3345 crore). The share of health expenditure in the total budget it is 6.5 percent. Various measures for improving the health services both in the urban and rural areas including setting up of medical universities at the national level and medical colleges and health institutes in the private sector are being taken for the development of the health sector.

However, how health services will be ensured among the urban poor is not mentioned. How many people will be benefited from the doorstep health services and how it will be ensured for the poor and deprived are not mentioned in the budget.

A new programme in 21 upazilas aimed at reducing maternal mortality by 75 percent in line with the Millennium Development Goal which will be launched from July 2004 is a commendable step.

Allocation for Social Sectors and Defence Services

Sectors	*2004-05*	*2003-04 (Revised)*	*Increase (%)*	*Percentage share in total budget*
Education	7,680	6,757	13.66	13.41
Health	3,732	3,345	11.56	6.51
Defence	3,901	3,811	2.36	6.81

6. SAFETY NET

6.1 MFA Phase Out

In FY 04 the reduction of corporate tax_from 30 percent to 10 percent up to June, 2006 facilitated positive export growth by the RMG sector. This measure provides some breathing space to the sector, however, the sustainability of the growth in the sector will depend on improvement of productivity and diversification of the market and products within the sector.

The government has admitted that phase-out of MFA might have some short-term impact on employment in this sector and its exports. To mitigate the potential negative impact, the government allocated a special fund with an allocation of Taka 20 crore "for retraining and creating employment opportunities for employees/labourers of garment industries". Considering even 0.1 million possible unemployment in the sector, this allocation will be Tk. 2000 per capita which is very insignificant, given that a major portion will be spent for management of such programme. This cosmetic measure will fail to address the concern of the workers and mitigate the creping panic among the workers of the sector.

6.2 Privatisation and Golden Handshake

The government also allocated Tk. 30 crore "for retraining and creation of employment opportunities for voluntarily retired, retrenched employees/labourers". This fund has been provided by the World Bank. It is not clear how many workers and employees will be retrenched under the programme and how much compensation they will receive from the "voluntary retirement".

6.3 Social Safety Net

<u>Continuation of existing programmes</u>

- Increase of amount of old-age Allowance and Widowed and Deserted Women Allowance to Taka 165 per month (from the existing Taka 150) and the number of beneficiaries would be increased from 15 lakhs to 18 lakhs. This is a welcome continuation of the programme started during previous regime.
- Increase of allocation for the "Fund for Acid-burnt Women and Rehabilitation of Physically Handicapped" to Taka 65 crore deserves appreciation. However, the underlying causes of such social evil must be addressed.
- Allocation of Tk. 150 crore as "Fund for Mitigating risk due to natural disaster" and Taka 148 crore as "Fund for the housing of the homeless" deserves appreciation.

- Increase the number of beneficiaries from "Honorarium programme for insolvent freedom fighters" by 10 thousand reaching 60 thousand.
- The budget proposed to increase distribution of foodgrain under VGD, VGF, FFW, TR, GR and other non-monetized channel from 6.50 lakh metric tons in FY04 to 7.44 lakh metric tons in FY05. In addition, increase amount for food for works programme (cash) from Taka 140 crore in FY04 to Taka 168 crore. It may be mentioned here that total amount of foodgrain distributed under these programmes were 8.39 lakh metric tons in FY02.
- To meet sudden natural disasters Taka 100 crore to be provided as block allocation in the next year's budget to the Ministry of Food and Disaster Management.

New programmes introduced

Introduced two new programmes to enable employees/labourers and to face sudden economic shocks the budget allocated Taka 50 crore for these programmes.

- Special fund with an allocation of Taka 30 crore to be created for retraining and creation of employment opportunities for voluntarily retired, retrenched employees/labourers.
- Special fund with an allocation of Taka 20 crore for retraining and creating employment opportunities for employees/labourers of garment industries.

Major Challenges

The major problem lies in implementation of social security and welfare measures. Until January '04, only 21.5 percent of Budgeted amount in FY04 has been spent. Therefore, it is not clear whether the targets of distribution would be achieved at all. One may even question the proper targeting for delivering the desired benefit to the actually deserving people. The budget failed to outline the delivery mechanism for allocated amount of support to the deserving individual. In case of social security measures, geo-targeting is needed. Special and targeted employment programs for the vulnerable poor should have received priority in the upazilas with high incidence of poverty. According to a recent study, the areas with highest incidence of poverty (greater than 47 percent) are the depressed basins in Sunamganj, Habiganj and Netrokona districts; the northwestern districts of Kurigram, Nilphamari and Nawabganj; and Cox's Bazar and coastal islands of Bhola, Hatia and Sandeep. The areas with low levels of poverty are the greater Dhaka and Barisal regions, and Bogra, Pabna, and Jessore regions.

6.4 Mitigating Economic Shocks

In addition to these poverty-targeted programmes, the budget also proposed two new programmes to enable employees/labourers to face sudden economic shocks and to allocate Taka 50 crore for these programmes.

- Special fund with an allocation of Taka 30 crore to be created for retraining and creation of employment opportunities for voluntarily retired, retrenched employees/labourers.
- Special fund with an allocation of Taka 20 crore for retraining and creating employment opportunities for employees/labourers of garment industries.

6.5 Micro-Credit for self employment

- The budget proposed a combined allocation (development and non-development) of Taka 5850 crore for various kinds of programmes related to expansion of microcredit programme by NGOs and six ministries. Through its *Abashon Programme* the government plans to rehabilitate 65,000 landless and homeless families for self- employment.

- Increased allocation for PKSF for micro-credit programme, fund for NGO Foundation, Special Fund for employment generation of the hard-core poor and fund to create micro enterprise in the rural areas through the PKSF is proposed. In addition, the budget also proposed an allocation of Taka 100 crore for promotion of agro-based industries.

7. LAW AND ORDER

Recognising the gravity of the law and order situation the government decided to allocate Taka 2,367 crore for the Ministry of Home Affairs, which is 32.16 percent higher than that of the previous year. Of the amount Taka 306 crore would be pumped into the Police

Administration to make it more modernised through improved logistics support and making the Rapid Action Battalion (RAB) fully operational. However, there is no clear indication given in the proposed budget how this fund will be allocated within the department. It is well understood that the present state of the law and order situation is largely resulted from the inadequate size of the police force, existing state of the high level corruption within the department, and lack of professional ethics amongst the members of the force. The budget did not address these important issues, and did not provide a clear guideline how these problems will be solved. If no measures are taken to increase the size of the entire force, develop professional ethics of the Police personnel, and curb corruption within the department, spending money for obtaining more logistics and initiating a new battalion would have little impact on the deteriorating law and order condition.

The government also made a separate allocation of Tk. 5 crore for forming the independent Anti-Corruption Commission.

Defence Services

The allocation for the defence sector has increased by 2.36 percent from Tk. 3811 in 2003-04 (Revised) budget to Tk. 3,901 crore in the combined revenue and development budget which is 1.17 percent of total GDP. In the total budget the share of allocation for defence has decreased from 7.71 percent in 2003-04 (Revised) to 6.81 percent in the proposed budget.

8. CONCLUDING OBSERVATIONS

Bangladesh remains a country of paradox where on the one hand the economy suffers from underinvestment; on the other, investible surplus remain unutilised. Thus, in the final analysis, it is the question of delivery, rather effective and quality delivery of public resources to the disadvantaged groups. Under the circumstances, magnitude of allocation acquires secondary importance.

Bangladesh is living between twin crises. On the one hand, she needs bigger budget for achieving higher GDP growth and meeting the MDG. On the other, she fails to implement even a much smaller budget from that perspective, encouraging snides from the sceptics. The country needs to be pulled out from these gravitational paradoxes.

In this context, the implementation outlook appears to be disconfrontation because of absence of a cogent strategy. There no introspection about the causes which have led to significant shortfall in ADP implementation in here successive years. There is nothing on public administration reform, local government strengthening, means to improve utilisation of foreign aid, improving the quality services of public health and education facilities, etc.

Thus, in the final analysis, full delivery of the resource package as well as faithful delivery of the development outlay will be the yardstick for judging the success of this year's budget. In the absence of successful delivery of the development package envisaged by the government, it will be difficult to anticipate gearing up of the private investment. Incidentally, the early signals of pick up in private investment in FY04 are already got blurred during the third quarter. If the government fails to ensure supply of quality electricity in adequate quantity, to protect life and property of its citizen, much more than implementation of budgetary measures will be at stake.

However, review of various revealed variables of the MTMF shows that a number of key indicators are performing below target. These include such key variables as domestic savings, both public and private investments, revenue-GDP and public expenditure-GDP ratio. Inflation rate has gone beyond the target rate. On the other hand, GDP growth rate along with export-import growth rate remains as per target. Accordingly, in the coming months, protecting the integrity of the macro framework may emerge as an issue.

With impending external shocks such as MFA phase-out and possible escalation of internal conflict such as political confrontation, the delicate balance between development and stagnation may be broken. However, safeguards against such situations remain beyond the scope of a national budget.