POLICY RESEARCH CENTER bd.

Budgetary Proposals for 2012-2013

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Introduction: The impact of the economic downturn in Europe and USA has impacted the Bangladesh Economy. Bank borrowings by the Bangladesh government have increased substantially. The growth in revenue collection was less than the growth in public expenditure. The deficit financing in respect to the budget was met largely through bank borrowings. Bangladesh Bank continued with its credit squeeze for the unproductive sector. There has been a pressure on the balance of payments. Taka depreciated against the US dollar that has made imports of goods and services more expensive in the local market. Low and middle income group people have been hard it by the increase in price of essentials. Substantial rise in the subsidy management by the government has caused a financial mismatch in the economy. Foreign direct investment (FDI) has shrunk for the current fiscal that is caused a setback for rapid economic growth.

Financial Pressure: The massive import of fuel oil to run the rental power station has caused the fuel import bill to rise from US$ 3 billion to US$ 7 billion. Import subsidies for the agriculture sector and price support schemes have put pressure on the government revenues. The overall increase in the cost of construction materials and the implementation of the annual development plans has faced financial constraints. Foreign aid utilization has been very slow and inadequate because of bureaucratic issues. Fund availability to implement social safety net is putting additional financial pressure.
Employment generation program for the poorest that will add additional financial pressure. Government enterprises have generated dividend and profit much below expectations. Budget deficit may remain at present 5% of GDP, though the financing of this deficit has become major issue. Original borrowing estimate was Tk. 18,957 crore for the financial year ending 2012. The borrowing has, however, surpassed this amount by TK. 9000 crore to TK. 27,900 crore.

Fiscal Issues: (1) Income Tax: The tax exemption limit currently stands at Tk. 1,80,000. This slab may be enhanced to Tk. 2,50,000 for all male assesses. This slab may, however, be increased to Tk. 300,000 for women and disabled persons. The logic behind this proposed slab is the enhanced cost of living and to give recognition to the female and disabled persons. Minimum tax payable may be enhanced to Tk. 3,000 from the current Tk. 2,000.

Loss of Government Revenues: The creation of a position in the Ministry of Finance for monitoring Transfer Pricing and Money Laundering issues that accounts for loss of government revenues of around US$ 2 billion annually has been a step in the right direction. This will help monitor such issues that can undermine government policies to restrict unethical practices. Capacity building by allocating manpower and resources will be required for successful implementation of this program. Persons untaxed or those submitting inaccurate tax returns should be encouraged to follow appropriate methods that will ensure non-harassment by the tax officials.

Black Money to be Whitened/Legalized: It sounds unethical to implement this proposal for whitening of black money and undisclosed income. In the current context where FDI and general investment has slowed down, it is worthwhile to allow undisclosed wealth to be legalized through a payment of 10% to 15% tax. Such persons should give an unconditional undertaking to insist the whitened money in production sectors of the economy including the share markets.

Farming Sector: This includes agriculture, horticulture, fish firming, poultry and allied activities which as a whole should be treated as a major thrust sector. Apart from two agricultural banks, the commercial banks including the foreign banks must enhance agricultural financing operations under a framework to be determined by the Bangladesh Bank. This will ensure sufficient availability of funds at the hands of the farming community. The financing arrangements will ensure enhanced agricultural productivity that will generate wealth for the farmers and collectively for the nation that will ensure sustained availability of food crops for the general masses. Government subsidies for the agricultural sector should continue for the next 5 years till such time as the agricultural sector becomes resilient. The input subsidies should be distributed in a manner that is transparent and effective and comes in the form of direct assistance for the farming community.

High yielding food grains and flood and drought tolerant varieties of rice is required with advanced technological initiatives to make the country self-reliant in the agricultural sector. Adequate budgetary allocation for research in this sector need not be overemphasized. Cold storages are required for storage of potatoes and seeds in appropriate areas that has yielded bumper production. Budgetary allocation for these purposes are required on priority basis.

Women farmers' efforts to boost agricultural product including fish, fruits and vegetables are important aspects for self employment and income generation. This will help in export diversification with targeted markets that have a large number of Bangladeshi immigrant workers in areas concentrated in the Middle East, Europe and USA. Financing should be made available through agricultural credit schemes at a substantially low interest rate. Income from the agricultural sector should be completely tax free and should include feed manufacturing units, poultry, fisheries, horticulture, agro-based industries and all allied activities. Investment made in research in the agricultural sector should be made tax free. This will encourage entrepreneurs to invest in technology-based agricultural units. Tax holiday for at least 10 years may be considered for all agro-based units.

Information and Communication Technology:

i) Entrepreneurs should be given the incentive for zero tax for all ICT companies involved in software developments, research, marketing, development and exports.
ii) 15% VAT charge for use of internet services may be reduced to 5% to ensure wider coverage. Import duty on computers, spare parts and accessories may be reduced to zero to encourage wider use of ICT services for enhancing efficiency and productivity.

iii) Hitech-park at Kaliakoir initiated by the government is required to be completed. Adequate fund allocation for this project should be made in the next budget.

Small and Medium Enterprises (SME):

i) Substantially increased allocation is needed for the Equity Entrepreneurship Fund (EEF) to cover all labor intensive sectors.
ii) Import duty structure on machinery and equipment should be brought down to zero for both export oriented and industries targeted for the local market.
iii) The government may allocate from the budget at least Tk.500 crore for SME purposes to be disbursed through nominated commercial banks under the supervision of Bangladesh Bank at an interest rate below 7%. This will adequately boost this sector.

Energy and Power Sector:

i) Inadequate power generation has become a major obstacle for rapid development. Government should prioritize on medium (100-200MW) and large (500 MW) base load power plants instead smaller oil based rental and quick rental power plants to shed off subsidy burden and to resolve the power crisis.
ii) To make power generation cost effective, coal based power plants need to be set up. So coal policy to be enacted without delay.
iii) Rural electrification can be met with bio gas.
iv) BAPEX should be given adequate allocation for exploration of on-shore gas.
v) Cross-border electricity import would be the correct strategy to ensure long term energy security.
vi) Power tariff structure at the consumer level may need some adjustment for the overall benefit of the economy.
vii) The existing tax exemption on renewable energy, equipment and services should continue.
viii) Infrastructure development for imported gas and its distribution network shall need budgetary allocation.
ix) BPC fuel storage capacity to support oil based power plants needs to be enhanced for which budgetary allocation is required.
x) Hydro power generating capacity in Bangladesh is minimal compared to Nepal and Bhutan. Emphasis may be given for cross border trade from these two countries and the possibility to import gas from Myanmar through direct pipeline should be considered. Budgetary allocation for these areas may be considered.

Road Communication:

i) Cost of construction and maintenance of roads and highways is relatively higher in Bangladesh on account of heavy rainfall. Major highways are required to be developed into four lanes and the quality of roads be enhanced to bear additional load of larger vehicles of up to 15 tons.
ii) Higher budgetary allocation for affective road maintenance and management is required to ensure efficient communication system.
iii) Traffic congestion presently faced by the general population is getting out oaf control. Concerted efforts are required to allocate resources for traffic planning, management and coordination. The present loss of time by commuters if computed and quantified in monetary terms can be an eye opener for the government.

Poverty Alleviation:

i) Despite of annual growth rate of 6 to 7% a section of population still remains ultra poor and living below the poverty line. The government needs to identify the poorer segment of the society in different geographical locations and allocate funds for the safety net programs that should be in excess of TK. 20,000 crore for the budget year 2013.

Railway:

i) In order to partially solve traffic congestion in major cities of Bangladesh, the facility available with Bangladesh Railway (BR) needs to be enhanced. A review of the railway train fare structure fixed in 1992 needs to be reviewed. This sector needs major budgetary allocation for improvement of the BR system.
ii) Railway connectivity with the bordering states of India will boost trade and commerce. This will require substantial funds allocation for infrastructural development of the BR system.

Sea/River System:

i) Transportation by steamers can be a cost effective solution for the general masses and goods movement. Budgetary allocation for the dredging of the heavily silted river system is essential to ensure efficient riverine communication.
ii) The Chittagong and Mongla ports require further development to handle larger volumes import-export business. With the present growth rate these two sea ports will require larger budgetary allocation.
iii) Chittagong port facilities may be further upgraded to allow it to operate as an Entrepot to

become an important hub for the south Asia region to boost import/export and transshipment business.

Civil Aviation Authority of Bangladesh (CAAB):

i) Bangladesh airlines cannot operate flights to the USA on account of CAAB being downgraded to category 2 from category 1 by US Federal Authority. The capacity building of CAAB shall require additional budgetary allocation.
ii) The present international airports in Dhaka-Chittagong and the proposed Cox's Bazar international airport will require substantial funding to promote regional and international tourism and economic hub.

Industry:

i) On account of the global recession, high inflation rate, depreciation of the US dollar, high interest rate on borrowings and general credit squeeze, the industry sector in Bangladesh is likely to face challenges for 2012-13 .The national budget should initiate steps to stimulate the industrial sector.
ii) The import-export policy that expires in 2012 is likely to be replaced by a more dynamic 3 years trade policy which should take into consideration the projected GDP growth.
iii) Initiatives for export diversification both in terms of product and market.
iv) Additionally, the trade policy may be in general to focus on the future of the Chittagong port as a regional hub for trade and commerce and to facilitate its activities as an Entrepot like Singapore and Dubai.
v) Bangladesh embassies around the world particularly in the major economic growth areas need to be sensitized to act as a catalyst to obtain Foreign Direct Investment (FDI) and export orders for our products and services. In this respect, the role of Bangladesh embassies is essential for image building also for the inbound tourism sector.

Tourism Sector:

i) The tourism sector could be the next RMG sector with massive growth prospects. Budgetary allocation for infrastructural development cost to boost the tourism sector in Bangladesh for both local and foreign tourists is an important proposal.
ii) Cox's Bazar and Kuakata sea beaches need to be upgraded to attract larger number of tourists both from home and abroad.
iii) Tour operator companies should be given tax-free import of vehicles, equipment required for the tourism industry that includes motels, resorts, hotels etc.

iv) In-bound tourism from various affluent countries around the world can provide substantial revenue generation provided world class facilities are set up in indentified tourist destinations within Bangladesh.
v) A separate fund may be allocated to be managed by the Bangladesh Bank and distributed through the banking channel to provide low interest bearing loan to the companies operating in the tourism sector.

RMG, Textiles and Leather:

i) Budgetary allocation is needed to expedite the completion of garment palli that will help relocate factories from the Dhaka city. Government may fund for constructing dormitories for industrial workers. Food-rationing facilities also may be taken into consideration for industrial workers.
ii) The backward linkage textile industries shall require support so that they can be competitive in this sector.
iii) VAT should be reduced for some utility items.
iv) Adequate allocation for realizing "Leather Industry City" is needed to expedite the project.
v) In respect of industrial pollution government needs to allocate funds for the ministry of Environment for their capacity building. For monitoring and legal enforcement work environmental laws may be enacted.

Jute: Jute mills should be brought under the purview of agro-based industries as recommended by the Jute Commission. For R & D activities for the jute sector budgetary allocation should be made for conducting research for high quality jute seeds and jute fibers. Government may consider to set up a special Fund for skill development of jute workers. Budgetary allocation may be increased for jute research. Jute mills need to be rejuvenated by giving loans at low interest rate.

Ship Building:

i) Bangladesh Bank may take initiative to introduce alternate way for endorsement of Payment Guarantee with a view to reducing cost imposed on the manufacturers by the ship buyers that provide payment guarantee duly reconfirmed by international banks.
ii) Government may consider a special zone for ship building industry with infrastructural and logistics support. A comprehensive policy for ship building is necessary to provide policy guidelines for the entrepreneurs.

Light Engineering:

i) Under the public private partnership (PPP), a separate park to be established for the Light Engineering Industrial units.
ii) A special fund may be created to provide loans at a reduced interest rate for the entrepreneurs operating under the Light Engineering Category.

Pharmaceuticals:

i) The pharmaceutical industries have gained a good reputation with a number units producing world class medicines for the home and export markets. Fund allocation is required to complete the balance 50% work of the Active Pharmaceutical Ingredient (API) Park.
ii) Funds should also be allocated for arranging world class storage facilities for life saving drugs and vaccines at the international airports.

Stock Exchange:

i) To support large infrastructural activities the government may introduce “Special Bond” to attract foreign and non-resident Bangladeshis.
ii) To streamline the stock exchange operations a capacity building of DSE, CSE and SEC is required for professional skills development of various levels of operational staff and executives.
iii) Necessary laws may be passed for the demutualization of the two stock exchanges to enhance transparency and to prevent insider trading.

Income Tax Net:

i) In order to increase the number of tax payers in the country, the deputy commissioners of all the districts in collaboration with the NBR officials must act as a catalyst to encourage businessmen and professionals including medium and large traders to enroll themselves and obtain TIN certificates. This will enhance the revenue generating capacity of the NBR.
ii) The tax authority must provide a user friendly interface with the prospective tax payers throughout the country. The new tax payers including the old tax payers should be offered certain government privileges to attract them to pay their income tax voluntarily through a hassle free system. In this connection, IT services should be obtained to expedite tax collection efficiently and increase the number of tax payers to generate higher volume of income tax revenue for the government.

Use of Solar Power: Solar Panels for Irrigation Purposes and Villages do not cover b y the national greed should be encouraged. Import duties and VAT may be reduced to zero to encourage use of solar/renewable energy.

Real Estate: To cater to the need of low and middle income groups VAT, income tax and registration fee for apartments constructed outside the Dhaka city limits may be reduced by 50%. This will encourage people to commute from greater distances to attend offices and business within the Dhaka city limits. This will enable the poorer section of the society to live in houses that are affordable in cleaner and healthier environment.

Transportation: Duty structure for the transportation sector particularly on buses for mass transit may be reduced by 50% to allow people of low and middle income group safe and comfortable journey. Duty on cars up to 1600 cc should be reduced by 50% to assess middle income group affordable vehicles.