

## CHAPTER 1

# Accelerating Development in Bangladesh in a World Coming out of Recession

### Introduction

1.1 After experiencing one of the worst financial crises and economic recessions since the 1930s, the global economy started gradually recovering from the second half of 2009. The collapse of a global housing bubble, which peaked in the U.S. in 2006, triggered a nose dive in the values of securities tied to housing prices, damaging financial institutions globally. Initially, the financial sectors of advanced economies were in the epicenter of the financial crisis. The contagion of the crisis, however, quickly spread, impacting emerging markets around the world. As the crisis spread, policymakers swiftly responded through a combination of monetary easing and fiscal stimulus. In September 2009 summit in Pittsburgh, G-20 leaders reaffirmed their commitments to harmonise programs to address global recovery from recession.

1.2 IMF forecasts that in 2010, world output is expected to increase by 4.2 percent, which was forecasted at 3.1 percent in October 2009. In most advanced economies, the recovery is expected to remain sluggish by past standards, whereas in many emerging and developing economies, activity is expected to be relatively vigorous, largely driven by buoyant internal demand. Policies need to foster a rebalancing of global demand, remaining supportive where recoveries are not yet well sustained. The developing economies of Asia fared better than their developed counterparts during the crisis, growing by 6.6 percent in 2009. The IMF projected the growth of the Asian economies at 8.7 percent in 2010 as the severity of the financial crisis diminishes.

### Global Recession

1.3 Bangladesh faced a substantial price hike of food grains, fertilizers and fuel in 2007, like many other countries of the world. Moreover, two consecutive cyclones hitting in November 2007 and 2009, badly affected the economy. The pressures of inflation were eased up in 2008 due to a set of timely measures taken by the government along with the fall in prices of crude oil, fertilizers and food stuffs in the international market. But this unexpected gain from declining commodity prices in the international market is already fading away in 2009 through rising inflationary pressures. The global economic downturn has negatively impacted most of the developing countries in terms of export, foreign investment, remittance flow and foreign assistance.

## Impact on Bangladesh

1.4 At the outset, Bangladesh was somewhat unaffected; later different sectors of the economy, especially exports gradually felt the negative impact of recession.

- The export growth rate in FY09 registered a double digit growth of 10.3 percent it was 15.9 percent of the previous year. In the July-April of FY10, export recorded on the 1.0 percent growth over the same period of previous year.
- In FY09 import expenditure recorded only a modest growth of 4.1 percent and it was 26.1 percent in the previous year. Import expenditure plummeted mainly due to the fall in global commodity prices. Import declined by 1.5 percent in the July-March of FY10.
- Due to its low integration with foreign investment (only 2.5%), stock markets in Bangladesh met with slight impact. The capital markets in Bangladesh, in fact, experienced a moderate boom during this period.
- Following the global downturn, labour export from Bangladesh declined as the construction sector in the Middle East collapsed and demand for labour declined in countries like Malaysia. At the same time, emerging new labour markets like Libya helped neutralize the negative impact on the overall flow of remittance. Consequently, remittance had a robust growth of 22.4 percent in 2008-09 and in the July-April time period, the remittance growth registered 16.7 percent, compared to the corresponding period of the last year.

## Policy Response

1.5 The present government immediately after assumption of office, set up a high level task force to adopt required precautionary measures to counter the negative impact of global recession. On their recommendation, a Taka 34.24 billion stimulus package was announced in April 2009. The package includes increase in cash subsidy to selected export industries by 2.5 percent, instant release of up to 70.0 percent of the total amount to be received as export support, enhancement of the Export Development Fund, raising of the export credit ceiling, lowering of bank interest rates on commercial lending etc.

1.6 The government has also declared a second Stimulus package for which Taka 5,046 crore has been allocated in the budget of FY10. The stimulus package has been prepared to encourage new areas like product diversification, ship building, frozen food industry but with prime focus on the garments sector. The government's swift decisions and strategic actions have curbed the effects of global recession. The success is also attributable to the resilience of the Bangladesh economy.

**Box 1.1****Key Features of Second Stimulus Package**

In order to mitigate the adverse effects of the global recession, a taskforce, and for overall improvement of export, a committee was formed. On the basis of the recommendations made by the taskforce and the committee the second incentive package was announced on 25<sup>th</sup> November 2009. Some of the salient features are:

- ⇒ Providing further incentives on export earnings (FOB) from non-traditional export products and markets (excluding the USA, Canada and EU)
- ⇒ Increase export incentive by an additional 5 percent in FY10 for exporters of Small and Medium Enterprises (those who exported more than USD 3.5 million).
- ⇒ Provide grants at the rate of 10 percent on paid electricity bill of those Small and Medium Enterprises who does not have their own captive generators. This to be continued up to 30<sup>th</sup> June 2010.
- ⇒ Increase the loan amount from USD 1.5 million to USD10 million for a single borrower through a consortium of three banks. This funds will be provided from the Export Development Fund.
- ⇒ Provide cash incentives at the rate of 5 percent to potential Ship-building and Crust leather industries in order to diversify exports.

**Resilience of Bangladesh Economy**

1.7 Resilience of the Bangladesh has been stemmed from the following areas:

- Bangladesh maintained a steady growth, macroeconomic balance and policy stability. GDP growth rate remained around 6 percent through the previous five years without any macro imbalance or problematic inflationary trends. Performance of agriculture sector helped maintaining a steady growth performance.
- Presence of a large informal sector that comprises of domestic trade and commerce also created some inbuilt resilience in the economy and helped the economy a healthy domestic demand situation.
- Ready-made garment products of Bangladesh are mainly lower-end products. Therefore, the demand during the recession did not go down remarkably.
- Bangladeshi workers staying abroad are mainly low-paid labour. For this, they did not face abrupt retrenchment during the global recession.
- Bangladesh is seriously striving for market diversification and product diversification. The second stimulus package is aimed in this direction.

Expansion of the ship-building industry and RMG export to Japan and some other new importing countries are instances of diversification.

- Bangladesh has become more cautious about the ethical standard of export items. Along with the government some business organizations like the Frozen Food Owners Association has been undertaking numerous activities in this regard.

### **Bangladesh's Progress towards achieving its Development Goals and the Millennium Development Goals (MDGs)**

#### **Development Goals**

1.8 The present government has incorporated a set of development goals under the rubric of 'Vision 2021' which reflects the long-term objectives of the country. 'Vision 2021', covering both the economic and socioeconomic indicators, comprehensively portrays the concrete desires of the nation.

**Table 1.1  
Development Goals of Bangladesh**

<b>Serial No.</b>	<b>Goal</b>	<b>Target of 2021</b>
1	GDP Growth	10% (For 2017)
2	Poverty Rate	15%
3	Unemployment Rate	15%
4	Share of Agriculture in GDP	15%
5	Share of Industry in GDP	40%
6	Share of Service Sector	45%
7	Life Expectancy	70 Years
8	Infant Mortality Rate	15 (per 1000)
9	Maternal Mortality Rate	1.5%
10	Use of birth control method	80%
11	Population Size	165 million

Source: Vision 2021

1.9 In accordance with Article 15 of the Constitution, the government has set its goals to provide food, clothing, shelter, education and health care to the citizens. Hence, gross domestic product will be raised to 8 percent by 2013 and 10 percent by 2021 which will be sustained thereafter. Population in 2021 is forecast at 165 million, and the labour force at 105 million. The government will undertake programmes to provide employment to 85 percent of the work force. Government is aiming not only to reduce poverty, but to eliminate it, so that Millennium Development Goals declared

by the UN can be achieved by 2015 or 2017 at the latest. Poverty will be reduced to 15 percent by 2021. A sustainable safety net will be established for the extreme poor until poverty is removed.

1.10 Food deficit will be removed and self-reliance in food production achieved by 2012, so that the nutrition needs of 85 percent of the population will be met. By 2021, a minimum daily intake of 2122 kilo calories of food, elimination of contagious disease, a primary health care and sanitation for all will be ensured. The government will make efforts to increase average life expectancy to seventy years, and reduce child and maternal mortality rates. Enrolment at the primary level will be increased to 100 percent net by 2010. Elimination of illiteracy by 2014, improvement in the quality of education, creation of a generation educated in science and technology and higher salaries for teachers are the other educational goals of the government.

### **Bangladesh's Progress towards Achieving the Millennium Development Goals (MDGs)**

1.11 Bangladesh has made remarkable progress towards achieving poverty reduction and realising MDGs (Table 1.2). Per capita GDP increased from USD 277.0 in 1992 to USD 621.0 in 2009. The national head count rate of poverty measured by the upper poverty line declined from 58.8 percent in 1991 to 40 percent in 2005. However, large variations continue to exist in the incidence of poverty in rural and urban areas, with levels of poverty falling faster in the rural areas. It should be noted that the impact of growth on poverty reduction has been neutralised to some extent by increasing inequality of income – the Gini coefficient increased from 0.39 in 1991 to 0.47 in 2005, implying an average annual increase of 1.47 percent during the period. The poverty situation did not improve much after 2005 because of the setback caused by devastating natural catastrophes like Sidr and Aila in the recent years.

#### **Box 2**

##### **Recent Poverty trends in Bangladesh**

There is a mixed view among the development partners of Bangladesh on the recent tendency in poverty incidence in the country. A World Bank study on poverty in Bangladesh reports that the poverty situation in Bangladesh has recently worsened because of the price hike in 2007 and the two major natural cyclones Sidr and Aila. A recent study of BIDS has reported that the standard of living in case of 80 percent of the people has improved in the centrally located areas, especially Dhaka and its outskirts while this is only 20 percent in case of the southern area of Bangladesh. This is because the major two cyclones- Sidr and Aila, badly affected the south-eastern part of Bangladesh.

**Table 1.2**  
**Progress towards Achieving Millennium Development Goals**  
 (Selected Indicators)

	<b>Base Year</b>	<b>Current Status</b>	<b>Target 2015</b>
<b>MDG1: Eradicate Extreme Poverty and Hunger</b>			
▪ Proportion of population below extreme poverty line (2,122 kcal)	58.8% (1991)	40.0% (2005)	29.0%
▪ Poverty gap ratio	17.2% (1990)	9.0% (2005)	8.0%
▪ Prevalence of underweight children under 5 years of age.	67.0% (1990)	47.8% (2005)	33.0%
<b>MDG2: Achieve Universal Primary Education</b>			
▪ Net enrolment rate in primary education	60.5% (1990)	91.1% (2007)	100%
▪ Primary cycle completion rate	40.0% (1990)	79.8% (2009)	100%
▪ Adult Literacy Rate (15+)	35.3 (1991)	59.1% (2008)	100%
<b>MDG3: Promote Gender Equality and Empower Women</b>			
▪ Girl's net enrolment rate in primary education	50.8% (1990)	94.7% (2007)	100%
▪ Ratio of boys to girls in primary	100:83 (1990)	100:103 (2009)	100:100
Secondary	100:52 (1990)	100:117 (2009)	
tertiary education	100:37 (1990)	100:61 (2007)	
▪ Share of women in wage employment in the non-agricultural sector	19.1% (1990)	14.6% (2005)	50%
<b>MDG4: Reduce Child Mortality</b>			
▪ Under 5 mortality rate (per 1,000 live births)	146 (1990)	67 (2009)	48
▪ Infant (0-1 year) mortality rate (per 1,000 live births)	92 (1990)	45 (2009)	31
<b>MDG5: Improve Maternal Health</b>			
▪ Maternal mortality rate (per 10,000 live births)	574 (1990)	348 (2008)	144
▪ Proportion of births attended by skilled health personnel	5.0% (1990)	24.4% (2009)	50.0%
<b>MDG6: Combat HIV/AIDS, Malaria and Other Diseases</b>			
▪ Tuberculosis detection rate under directly observed treatment systems (DOTS).	21% (1990)	73% (2007)	100%

	<b>Base Year</b>	<b>Current Status</b>	<b>Target 2015</b>
<b>MDG7: Ensure Environmental Sustainability</b>			
▪ Proportion of land area covered by forest	9.0% (1990)	10.0% (2007)	20.0%
▪ Proportion of population with sustainable access to an improved water source	89.0%	97.8 (2009)	100
▪ Carbon dioxide emissions (metric tonnes of CO <sub>2</sub> per capita)	0.14 (1990)	0.3 (2007)	n/a

Source: Bangladesh Bureau of Statistics, Dhaka.

1.12 In terms of human development, net enrolment in primary education increased from 60.5 percent in 1990 to 91.1 percent in 2007. Gender parity in primary and secondary education has been achieved. It has been possible since in the Primary education sector, the government has been implementing a major program named 'Primary Education Development Program-II' with the aim of ensuring the access of all children to primary education. National Education Policy, 2010 formulated with the end of 24 goals as measure to introduce a modern and employment-oriented education system. The government has recently been approved this policy.

1.13 Infant mortality has been halved from 94 per 1,000 live births in 1990 to 40 per 1,000 live births in 2007. The human development index in 1995 was 452, and increased to 543 in 2007. The average life expectancy at birth has increased to 65.4 years in 2006 (64.4 for males and 66.0 for females). It is estimated that over 97.8 percent of the population have access to safe drinking water and about 40 percent of the population have access to an improved sanitation system. Infrastructural development of the rural roads has diminished the curse of remoteness for the majority of villages. Bangladesh has earned the distinction of achieving a major decline in population growth rate and of graduating to the medium human development group of countries in the UNDP's ranking.

### **Medium-Term Development Priorities**

#### **Accelerating economic development in a world recovering from a deep recession**

1.14 Even in the aftermath of the global economic recession, the economy is accelerating its growth through achieving 6.0 percent growth rate in FY10. This rate is projected to increase to 6.7 percent and 7.2 percent in FY11 and FY12 respectively. The economy is heading towards achieving 8.0 percent growth rate in FY14, which is embedded as an objective in 'Vision 2021'.

### **Ensuring adequate power and energy supplies**

1.15 The government is undertaking manifold activities to attain 8,500 MW power supply by 2013. With the aim of achieving this target, an 830 MW Peaking power plant and 1,015-1,215 MW rental power arrangement are on the way to becoming a reality. Power production through an Independent Power Producer, one form of Public Private Partnership is being currently encouraged to enhance the power supply. The government is also taking initiatives to replace the traditional bulbs with energy saving bulbs.

### **Creating infrastructure for building a digital Bangladesh**

1.16 A good number of initiatives have already been undertaken to build a digital Bangladesh. All the Deputy Commissioners' Offices at district level and the UNO offices at Upazila level are on the way to be connected through the internet. A project named Access to Information Technology is currently being implemented by the Prime Minister's Office to promote e-governance. The government has planned to introduce an e-filing system in the secretariat by June 2010. A project named 'Field Administration Coordination Program through Video Conferencing' is currently being implemented by the Cabinet Division; it will allow video conferencing of the Cabinet with the field-level offices. In case of government procurement, the tender process is gradually being digitalized.

### **Undertaking effective action against corruption**

1.17 The government has emphasized its commitment on anti-corruption. In the short run, the government is focusing on enforcement and sanctions against corruption to directly address the culture of impunity and to build public trust in the ability of government institutions to reduce corruption. In the medium-term, the aim is to strengthen the core institutions of government. Anti-corruption institutions will be empowered with more investigative authority to detect and act on corrupt practices within the system as whole. The Anti-Corruption Commission (ACC) has been made operational, independent and effective. The 9th parliament has constituted all the parliamentary standing committees and they also made some breakthroughs in detecting irregularities in discharging public duties by some authorities.

### **Establishing good governance**

1.18 Ensuring good governance is a continuous and arduous process. A number of important steps have been taken during the current fiscal year, such as the introduction of on-line tax return submission, access to on-line tender dropping by some agencies, machine readable passports, issuing of magnetic ink character cheque for clearing in one day, consultation on the draft competition Act 2010. But

much more are on the cards to ensure good governance, such as (i) making the parliamentary process effective; (ii) reforming and strengthening the public service system; (iii) reforming the legal and judicial system to ensure judicial support to the poor, especially to women; (iv) changing roles of law enforcing agencies; (v) strengthening of local government; (vi) promoting e-governance; (vii) combating corruption; (viii) ensuring human rights; (ix) accessing information; (x) improving project implementation capacity; and (xi) improving sectoral governance.

### **Strengthening efforts towards eliminating poverty and inequality**

1.19 Expenditure on Social Safety Net: The government has significantly increased the amount and the number of beneficiaries of the Old-Age Allowance Programme, the Allowance Programme for Widowed, Deserted and Destitute Women and the Honorarium Programme for Insolvent Freedom Fighters. While continuing with the on-going safety-net programmes, the government has also adopted new programmes like the Allowance for the Physically Handicapped and the Seasonal Unemployment Reduction Allowance. Side by side, the government has also revitalised the micro-credit programmes. Key Social Safety-Net Programmes in Bangladesh are:

- A. Cash transfer programmes
- B. Food transfer programmes
- C. Special poverty alleviation programmes
- D. Micro-credit programmes for self-employment and
- E. Other special poverty alleviation activities.

1.20 Expenditure on Poverty Reduction and Expenditure on Women's Advancement: The incidence of poverty registered a declining trend in 2005 as compared to 1991-92, based on the CBN method. The incidence of poverty at the national level declined from 58.8 percent in 1991-92 to 48.9 percent in 2000, based on the upper poverty line. During this period, the compound poverty reduction rate per year is recorded at 1.8 percent. But the rate of reduction of poverty is higher in urban areas (yearly compound rate 2.2 percent). On the other hand, during 2000 to 2005, income poverty also reduced from 48.9 percent to 40.0 percent and the compound reduction rate is 3.9 percent. The reduction rate during this period is faster for the urban areas (yearly 4.2 percent). It is notable that during 1991-92 to 2000, the reduction rate of poverty was faster in the rural areas than that of the urban areas.

1.21 In the current FY2009-10, allocation for expansion of social security sector is remarkable and it accounts for about 60 percent of total budget and 9.95 percent of GDP.

1.22 In order to attain the vision of poverty reduction, following are the selected Programmes for Poverty Alleviation and Inclusive Development

- Both the government and non-government organizations have been implementing a number of programmes for employment and income generation for the poor.
- On an average about 60 percent of the development and revenue budget has been allocated for direct and indirect poverty reduction activities in FY09. These programmes continue to enhance the entitlement of the poor and at the same time ensure their empowerment and awareness building.
- Besides, the food for works programme, VGD programme, construction and maintenance of rural infrastructure etc. are also generating employment for the poor.
- On the other hand, education expansion programmes like food-for-education, special stipends and financial assistance, free primary education are directly reducing the burden of educational expenses as well as playing an important role in human resource development.

1.23 During the current FY10 substantial allocation has been made to maintain the extended coverage of social safety net programs. It represents 60 percent of the current year's total budget allocation. The allocation also has record significance as it stands at 9.95 percent of GDP.

1.24 The Bangladesh government is committed to achieving the objective of eliminating all forms of discrimination against women. Women's development is a cross-cutting issue that covers all spectrums of economic, social, political, environmental and religious affairs. Bangladesh has made significant and measurable progress in women's advancement in a number of areas including gender parity in primary and secondary education, participation in the labour force, health and nutrition, and involvement in public services. Despite the noticeable progress much remains to be done to narrow the gap between man and woman at home and work.

1.25 At present 33 ministries spending 60.8 percent of the total national budget are under the medium-term budgetary framework (MTBF) which requires them to answer questions on how their spending would affect women and poverty in the budget call circular (BC1) of the Finance Division under the Ministry of Finance. During the current fiscal year 30 percent of total budget allocation is earmarked for women's advancement, i.e. 4.93 percent of GDP. This trend of enhanced allocation brings up the issues of the women's empowerment program and project formulation in a tangible and measurable form.

**Table 1.3****Share of different expenditure categories (in percent)**

Expenditure categories	Total Programme Expenditure		
	FY09 Revised	FY10 Revised	FY11 Budget
Social safety net programmes	14.7	15.0	15.0
Poverty reduction	58.3	59.6	60.1
Women's advancement and rights	25.6	29.7	29.7

Source: Finance Division

**Enhancing domestic demand and world demand for our goods (Exports)**

1.26 In the phase-out period of global recession all the economies are making efforts to keep the production increasing. In order to maintain the pace of growth, boosting domestic demand is the key to evade the pressure of global downturn. The vigilance of the government through the implementation of the stimulus package in two phases has provided the required strength to withstand the effect of the global downturn. The country has witnessed a record level of development allocation to sustain growth and to create critical infrastructure to enhance growth. This record investment of the government translated into new employment and income which in turn bolstered the domestic demand. This huge development expenditure from the government side will continue in the coming fiscal years as the construction of some flagship infrastructures such as the Padma bridge, four-lane Dhaka-Chittagong high way, elevated expressway and Gulistan-Jatrabari flyover under PPP initiative will be rolled out. The employment guarantee scheme to provide at least one employment opportunity for each household also contributes to uphold local demand. Domestic demand could remain buoyant with the steady flow of remittances which largely go to maintain household expenditure.

**Enhancing growth impetus for the private sector**

1.27 The private sector will be the vehicle for achieving a growth rate of 8% by FY14. In this regard the government has prepared a Draft Industrial Policy (DIP) 2010 with the target of private sector led industrialization. Some of the main strategies outlined in the DIP 2010 are as following;

- Private sector will be the vanguard in industrialization with priority given to the improvement of productivity of the agriculture and labor intensive sector
- Limited and selective public investment for industrialization (facilitate private sector investment, ensure social balance in the public interest or maintain national security)

- Provide One-stop service to the investor with modern IT facilities to simplify the process and reduce the cost of doing business
- Provide adequate support to acquire land for establishing new industries
- Build critical infrastructures like power, energy, port facility, rail and road transportation and telecommunications
- Undertake reform initiatives in the banking and government financial institutions to meet the requirement for long-term industrial financing
- Reconstruct existing financing facilities i.e, the Equity and Entrepreneur fund (EEF) aiming to provide operating capital to the industrial borrowers
- Undertake initiatives to consolidate and strengthen the activities of SEC
- Support small, medium, micro and cottage industries and ICT-based industries
- Develop woman entrepreneurs

1.28 In the DIP 2010 some of the salient incentives are as following

- Duty-tax facility will be provided on imported capital goods on the basis of a list of developed and underdeveloped areas for attaining balanced development of the whole country
- Special Economic Zones will be established in the under developed northern regions (districts of greater Rangpur, Dinajpur and Rajshahi)
- Industries established in Dhaka and in Chittagong, except in the three hill districts, will enjoy 100 percent tax holiday on income for the 1st two years and for the next two years it will be 50 percent and 25 percent for the 5th and final year
- Industries establish in Rajshahi, Khulna, Sylhet, Barisal, Rangpur and in the three hill districts will enjoy in total a 7-year-long tax holiday: 100 percent during the 1st three years, 50 percent for the next three years and 25 percent for the 7th (final) year
- Tax holiday facility will be considered approved in 45 days upon receipt of the application from the investors in case NBR fail to communicate its decision
- No application of tax holiday shall be rejected without hearing the applicant
- Rate of customs duty and taxes will be higher for imported goods than for the import of raw materials of goods which are locally produced

- Investment by Non-Resident Bangladeshis (NRB) will be considered as foreign direct investment (FDI). NRBs will enjoy the same facilities as foreigners.
- Full repatriation of invested capital will be allowed
- Special arrangement of an industrial quota for the woman entrepreneurs in the existing EPZ.

1.29 In a very recent development Bangladesh rated satisfactorily in the sovereign rating benchmark assigned by two noted international credit-rating agencies, namely, the USA-based Moody's Investor Service and the Singapore-based Standard & Poor's. Moody's rating put Bangladesh on a par with the Philippines, Vietnam and Turkey. In the South Asian context, Bangladesh's position is higher than Pakistan's and Sri-Lanka's. The rating reflected Bangladesh's reasonable level of robustness in finance and balance of payment which reduced the likelihood of severe stress on the country's creditworthiness. The rating will create confidence and provide access to capital for development. This is regarded as a crucial benchmark for creating a favourable impact on FDI and portfolio investment.

### **Boosting public-private partnership**

1.30 The present government has mandated to ease the lives of the masses through better communication, reliable power and energy, safer and available water supply and an efficient sewerage system by 2013. The government very correctly recognizes that all these will require huge investments and cannot be accomplished by 2013 with the government's sole initiatives by 2013. As a result the government opted for the public-private partnership initiatives in a big way from 2009. In order to reflect the government's strong commitment to PPP an allocation of Tk. 25.00 billion has been set aside for PPP initiatives. Although no substantial expenditure has been incurred from the PPP allocation, it has created immense enthusiasm among the private sector investors at home and abroad. It has been mentioned that essential background work of PPP initiatives has been completed with the establishment of an appropriate and forward-looking strategy and framework. The good news is that a PPP strategy and policy has been on board for approval with separate guidelines for appraisal and approval of PPP projects. Under the new initiatives a dedicated PPP cell is in the process of being created, and this will act as the nodal entity of PPP initiatives. During FY10 government has made some real progress in the appraisal procedure of two flagship projects under PPP initiatives, namely construction of elevated expressway in Dhaka and resuming the construction of the Gulishthan - Jatrabari flyover. It is expected that in the coming years PPP initiatives will be fully underway for narrowing the infrastructure deficits of the country.

### **Mitigating the adverse effects of climate change**

1.31 The anticipated climate change impact in Bangladesh will be manifested in two ways in contrasting regions, such as, (i) in the Southern part towards the sea there will be drainage congestion due to higher water and river-bed levels, salinization of the soil and water resources due to lower river flows, sea-level rise and more intense disasters including cyclones and storm surges with higher risks because of the higher water level; and (ii) the North-Western region will be subject to scarcity of water leading to drought conditions and aridity, with less rainfall and higher temperatures.

1.32 Bangladesh has adopted the Bangladesh Climate Change Strategy and Action Plan (BCCSAP) 2009 which will be the basis for combatting climate change impacts. Following the Bali Action Plan the foundation of the BCCSAP 2009 rests on the four building blocks-adaptation to climate change, mitigation, technology transfer, and adequate and timely flow of funds for investment within and an inviolate framework of food, energy, water, livelihoods and health security. The strategy is to integrate climate change constraints and opportunities into the overall plan and programmes involving all sectors and progresses for economic and social development. Currently, the Government of Bangladesh has established a National Climate Change Fund of Tk. 7.00 billion from its own resources.

### **Harnessing gains from regional cooperation initiatives**

1.33 It is also very timely, given the global downturn and the slowdown in the global trade. Increased regional trade could more than compensate for the potential loss in global trade. It is estimated that increased intra-regional trade could add two percentage points to South Asia's GDP. Increased market integration and regional trade could add to GDP growth, without increasing public debt. It is the most efficient and cost effective instrument for South Asia to cope with the global downturn.

1.34 Increased market integration and intra-regional trade not only contributes to increase growth but also promotes inclusive growth. It enables the backward regions and the poor to have access to the market and to benefit from growth. South Asia has become an emerging global power because of rapid growth and is the second largest growing region in the world after East Asia. However, concerns have been raised that growth has not been inclusive. South Asian countries suffer from deep divides across countries, regions, sectors and people. The poor regions that are often along the border and are landlocked, and stand to gain the most from market integration. It is backward regions and the landlocked countries like Nepal and Bhutan and the far flung isolated seven North - Eastern states (the so-called 7 sisters) of India, near its border with Bangladesh, that suggests that market integration requires trade and transit arrangements with neighbours to benefit all regions.

1.35 Issues of trade and connectivity with India and other neighboring countries have attracted renewed attention in recent times following the visit of the Hon'ble Prime Minister of Bangladesh to India during January 10-13, 2010. Both the countries have agreed to promote a sub-regional cooperation to make progress in the following areas of the economic agenda:

- Removal of tariff and Non-tariff barriers
- Reduction of items in the Sensitive lists
- Duty-free access to the Indian market
- India's support to strengthen the BSTI
- Strengthen Land customs stations and related infrastructure
- Removal of port restrictions and facilitation of movement by rail and water
- Allow use of Mongla and Chittagong sea ports by India
- Building a broad gauge railway link for transit to Nepal and Bhutan
- Supply of 250 MW electricity to Bangladesh from the Indian national grid
- Indian credit line of USD 1.0 billion for a range of projects (at a 1.75% annual interest rate for 20 years with a grace period of 5 years)

Regional cooperation initiatives could unlock the growth benefits of South Asia's geography and people, consistent with improved management of regional public goods. Better regional cooperation can also pave the way for reducing regional conflicts and mistrust and ultimately remove a long-standing constraint to growth.

### **Public Finance Reform**

1.36 The government has undertaken a number of initiatives for reforming Public Finance management and process. Both the regulatory and the institutional measures have been presented here.

### **Regulatory Reforms**

1.37 The fiscal policy of Bangladesh is broadly guided mainly by the new law "**Public Money and Budget Management Act - 2009**", which encompasses a wide range of fiscal issues including maintenance of a sustainable budget deficit and public debt, ensuring inter-generational equity, improvement of macroeconomic stability, establishment of accountability and transparency in budget preparation and for other related issues.

- Borrowings from domestic sources shall be reduced gradually and annual borrowings from these sources shall be within reasonable limit;
- Contingent liability due to sovereign guarantee of the government shall remain within sustainable limit;

- Public debt obtained from domestic and external sources shall be reduced gradually every year as a percentage of GDP.

This law has also aimed at ensuring transparency and equity in resource distribution to address the following key areas:

- Ensure regional equity;
- Ensure equality between men and women;
- Allocate additional resources gradually for the activities related to poverty reduction.

For enhancing competency in fiscal management and transparency and accountability in budget Implementation, this has embodied the following features:

- Setting up of a specialized wing/branch/section within each ministry/division for better implementation and monitoring of budget
- Reviewing quarterly the trends of revenue receipts and expenditures against targets set out in the budget and submitting a statement at the ensuing session of the Parliament on results of the aforesaid review and report on possible measures by Finance Minister.

In pursuance of the above provision, a report containing budget implementation status of the first (July-September) and second quarter (October-December) of FY 10 was placed in the Parliament in March 2010. Budget implementation status for the third quarter (January-Mach) has also been placed before the Parliament on 6 June 2010.

### **Institutional Measures**

1.38 **Medium-Term Budget Framework:** To enhance the efficiency and effectiveness of public expenditure and to achieve the targets set out in the NSAPR, Government has introduced the Medium-Term Budget Framework (MTBF) replacing the existing budgetary procedure. MTBF will be rolled out to all the line ministries. One of the major objectives of MTBF is to improve budget management capacity of the line ministry or division and to empower it with extended authority and responsibility so that it can prepare budget estimates based on the government's policy and objectives, implement the budget efficiently and monitor the performance against targets. A Budget Management Committee (BMC) and a Budget Working Group (BWG) are formed in all the MTBF ministries. This committee is going to work as a budget and planning cell.

1.39 Under the ongoing financial reforms in FY10, 4 ministries/divisions were brought under the MTBF process. In the FY11, 12 more ministries/divisions will be included under the MTBF process. Towards that objective 12 more ministries have been introduced to MTBF in a partial manner in the FY10. On principle it has been

decided that all ministries/divisions will be brought within this process within the next two years. In the meantime the government has introduced an Integrated Budgeting and Accounting System with the aim of improving budgeting and accounting.

### **Resource Mobilization**

1.40 In the revenue administration and policy, some reform process is in progress from FY10 onward. The government has also formed a taskforce comprising experts from the private sector to formulate a reform plan. The taskforce has already submitted their interim report with some recommendations.

- Full automation of customs and tax department
- Introducing online submission of tax return
- Payment of tax through e-payment
- Expansion of revenue administration

Some other initiatives for enhancing tax revenue have already taken place and are presented below.

- Shorten VAT exemption list on domestic products and imports
- Expand VAT and the income tax net
- Introduce a unified Taxpayer Identification Number (TIN) for income tax and VAT
- Further modernise and rationalise the taxation system
- Decentralise tax collection operations
- Implement a zero tolerance policy for tax evaders
- Modernise and rationalise the tax system
- Simplify tax calculation procedures and the system of tax payment

### **ADP Implementation**

1.41 The government has undertaken numerous measures to expedite ADP implementation from FY10 onward. To accelerate and simplify the project approval process, the planning division has revised the current government rule. The minister of the concerned ministry or division has been empowered to approve technical assistance projects of up to Tk. 7 crore. In the new order, there is a provision for appointing a fulltime project Director for projects with more than Tk.50 crore projected cost. Besides this, for strengthening the monitoring of ADP implementation, the planning Ministry has started organizing weekly meeting presided over by the Planning Minister. Moreover, for monitoring the implementation of the 10 large ministries' projects, IMED has formed a Taskforce with its secretary as convener; its activities are in progress.