

The Policy-led Approach to Budget Planning in Bangladesh and the National Budget of 2009-10

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ABSTRACT

This paper highlights the approach to budget planning currently being followed in Bangladesh. Up to FY 2004-05, the national budget was prepared under traditional incremental approach for one fiscal year linking with the long-term Five Year Plans (FYP), the fifth of which was prepared last in 1998 for 1997-2002. In between these periods, PRSP (Poverty Reduction Strategy Paper) was and is the alternative policy instrument. The annual budget of FY 2005-06 is the first one prepared partially considering the MTBF (Medium Term Budgetary Framework), which acted as a linkage between the annual budget and the PRSP. As an integral part of the budget process, the MTBF process provides a policy-led approach to budget planning in which resource allocations are linked to strategic objectives and priorities of the ministry/division. Starting with 4 Ministries in FY 2005-06, currently (FY 2009-10), there are 20 out of total 53 Ministries/Divisions (June 2009) under the MTBF approach. From the coming FY 2010-11, the Government is going to introduce the Sixth FYP (2010-2015) considering a Perspective Plan (2010-2021). Due to this shifting, however, the present 3-year MTBF will be converted into 5-year MTBF. Then the paper examines the national budget of FY 2009-10, which is the ever highest budget so far with a total expenditures target of Taka 1,138 billion (20.9 percent increase from last year) and total tax and non-tax revenues of Taka 795 billion (14.9 percent increase from last year). The paper also enumerates the key fiscal incentives provided under the budgetary measures of 2009-10.

Keywords: PRSP (Poverty Reduction Strategy Paper), Medium Term Budgetary Framework (MTBF) and National Budget

INTRODUCTION

The intent of this paper is to delineate the Medium Term Budgetary Framework (MTBF), the budgetary approach followed by Bangladesh since FY (financial year) 2005-06. The paper also aims at examining the national budget of

FY 2009-10 along with an enumeration of the key fiscal incentives provided through the budgetary measures of 2009-10.

The National Budget 2009-10 is the third budget presented by the present Finance Minister Mr. Abul Maal Abdul Muhit. He placed his first budget for fiscal 1982-83 (11th national budget with a size of Taka 4,738 crore) on June 30, 1982 and second one for fiscal 1983-84 (12th national budget with a size of Taka 5,896 crore) also on the last date on June 1983. This year's budget (38th national budget with a size of Taka 113,819 crore) is the biggest one proposed ever. The budget placed in the Parliament on 11 June 2009, is 13.9 percent higher than the last year's original budget (with a size of Taka 99,962 crore) and about 145 times of the first budget in 1972-73, which had a size of Taka 786 crore, placed on 30 June 1972, by the first Finance Minister Mr. Taj Uddin Ahmad (Khan, 2008: 50; GOB, 2009c). Since March 2003, Bangladesh has started to follow PRSP (Poverty Reduction Strategy Paper), although as an interim basis, in place of the Five-Year Plan (FYP) according to the policy prescription of the World Bank and the International Monetary Fund (IMF). However, the budgetary approach has been changed to the MTBF (Medium Term Budgetary Framework) only since FY (financial year) 2005-06. As an innovative policy-led approach to the annual budget planning process considering a continuous multi-period rolling budgetary framework, the MTBF works as a link between the annual budget and the PRSP. The main objective of the paper is to delineate the MTBF, the budgetary approach followed by Bangladesh since FY (financial year) 2005-06. The paper also examines the national budget of FY 2009-10 along with an enumeration of the key fiscal incentives provided through the budgetary measures of 2009-10.

METHODOLOGY AND WORK ORGANIZATION

The study is an exploratory one based on archival survey of policy papers and budgetary documents including the budget speeches and the budget estimates. The statutory enactments reflecting the amendments of various fiscal laws contained in the Finance Act 2009 and all the relevant SROs (Statutory Rules and Orders) prescribed under the specific provisions of the tax laws and published in the Gazette have also been duly covered for the purpose of the study.

The paper comprises six sections including the introductory one. The present section is on methodology and work organization. Section-III deals with an approach to budgetary planning in Bangladesh. The Section-IV examines different aspects of the national budget of FY 2009-10. The fifth section enumerates the major fiscal incentives under the budgetary measures in FY 2009-10, followed by concluding remarks in the sixth section.

AN APPROACH TO BUDGETARY PLANNING IN BANGLADESH

The term 'budget' is mentioned once in the Constitution in Article 60 regarding conferring power, by law, on the local government bodies to prepare their budgets and to maintain funds (GOB, 2008c). In Article 87 of the Constitution, the provision of "Annual financial statement" has been provided, which is popularly known as 'annual budget'. According to Article 87,

- (1) There shall be laid before Parliament, in respect of each financial year, a statement of the estimated receipts and expenditure of the Government for that year, in this Part referred to as the annual financial statement.
- (2) The annual financial statement shall show separately –
 - (a) the sums required to meet expenditure charged by or under this Constitution upon the Consolidated Fund; and
 - (b) the sums required to meet other expenditure proposed to be made from the Consolidated Fund; and shall distinguish expenditure on revenue account from other expenditure.

Up to FY 2004-05, the national budget was prepared for one fiscal year following the traditional approach of incremental budgeting. This annual budget was attempted to be linked with the long-term plans, which were referred to as Five Year Plans (FYP). Table I shows below the long-term plans adopted and going to be adopted by Bangladesh since the independence.

As shown in Table I, Bangladesh prepared the Fifth FYP for the last time in 1998 covering the period of 1997-2002. From the coming FY 2010-11, the Government is going to introduce the Sixth FYP (2010-2015). In between these periods, the Fund-Bank (the International Monetary Fund and the World Bank) imposed PRSP (Poverty Reduction Strategy Paper) was and is in place as an alternative policy instrument.

PRSP instead of FYP

Poverty Reduction Strategy Papers (PRSP) are expected to be prepared by a government through a participatory process involving civil society and development partners. As a first step before preparation of a PRSP, a country may develop an Interim PRSP (I-PRSP), which is meant to outline a country's existing poverty reduction strategy and to provide a road-map for the development of the full PRSP (a timeline for poverty diagnostics, recognition of policy areas that need evaluation and reform, envisaged participatory process, etc.). It is expected that a full PRSP should be completed within about 12 months of an I-PRSP, though

Table I. Long-Term Policies followed in Bangladesh

Long-Term Plan	FYs	MTBF Coverage
First Five Year Plan	1973-78	not applicable
Two-Year Plan	1978-80	not applicable
Second Five Year Plan	1980-	not applicable
Third Five Year Plan	1985-90	not applicable
Fourth Five Year Plan	1990-95	not applicable
Two-Year Plan Holiday	1995-97	not applicable
Fifth Five Year Plan	1997-2002	not applicable
One-Year Plan Holiday	2002-03	not applicable
I-PRSP	2003-06	not applicable
First PRSP	2004-07	not applicable for 2004-05 MTBF 2005-06 to 2007-08 (04 Ministries/Divisions) MTBF 2006-07 to 2008-09 (10 Ministries/Divisions)
PRSP Updates	2007-09	MTBF 2007-08 to 2009-10 (14 Ministries/Divisions) MTBF 2008-09 to 2010-11 (16 Ministries/Divisions)
Second PRSP	2009-11	MTBF 2009-10 to 2008-09 (20 Ministries/Divisions)
Sixth Five Year Plan ¹	2010-2015	MTBF 2010-11 to 2014-15 (32 Ministries/Divisions)

Sources: Compiled from GOB (1998); GOB (2002b); GOB (2005a); GOB (2005b); GOB (2007a); GOB (2008a); GOB (2008b); GOB (2009e).

more time can be taken if needed. There are *five core principles* underlying the development and implementation of poverty reduction strategies: (i) **country-driven** (involving broad-based participation by civil society and the private sector in all operational steps); (ii) **results-oriented** (focusing on outcomes that would benefit the poor); (iii) **comprehensive** in recognizing the multidimensional nature of poverty; (iv) **partnership-oriented**—involving coordinated participation of development partners (bilateral, multilateral, and non-governmental); and (v) **based on a long-term perspective** for poverty reduction (www.lcgbangladesh.org).

In September 1999, the World Bank Group and the IMF (International Monetary Fund) determined that nationally-owned participatory ‘poverty reduction

¹The *Sixth FYP (2003-2008)* was under preparation in 2002, but it was abandoned. A new *5-Year Plan for 2010-2015* along with a *Perspective Plan (2010-2021)* is being prepared by the present Government, without assigning any ordinal number (BDF, 2002; Muhit, 2009). But it would be the Sixth FYP.

strategies' (PRSPs) should provide the basis for all their concessional lending and eligibility for debt relief under the enhanced *Heavily Indebted Poor Countries* (HIPC²) Initiative. This approach, building on the principles of the *Comprehensive Development Framework* (CDF³), has led to the development of *Poverty Reduction Strategy Papers* (PRSPs) by country authorities for submission to the World Bank and the IMF Boards (CPD, 2002). In December 1999, the Executive Boards of the IMF and the World Bank approved the new policy instrument, the PRSP, to serve as a common context for the Bank and the Fund interventions in low-income countries receiving concessional assistance (Rahman, 2003). In April 2000, Bangladesh decided to prepare the PRSP because of making the PRSP conditionality mandatory since July 2002 and formally started the preparation in mid-November of 2000. Till March 2002, the FYP was not abandoned since the Government was then preparing the Sixth FYP (2003-2008). Later on the Interim PRSP (I-PRSP) was prepared in March 2003 and in the advent of PRSP, the FYP was abandoned. The I-PRSP was titled as *National Strategy for Economic Growth, Poverty Reduction and Social Development*, thus it was not literally a PRSP, although "Strategy for Poverty Reduction" was present in the nomenclature. The finalized First PRSP titled *Unlocking the Potential: National Strategy for Accelerated Poverty Reduction* was completed on October 16, 2005 with an operational period from FY 2004-05 to FY 2006-07. Here also, the PRSP was not present directly. In October 2008, the Second PRSP titled *Moving Ahead: National Strategy for Accelerated Poverty Reduction II (FY 2009-11)* was completed. Thus, the common term "National Strategy for Accelerated Poverty Reduction" (NSAPR) is the reference document now, with "Unlocking the Potential" for first NSAPR and "Moving Ahead" for the second NSAPR. The present Government will follow the second NSAPR till 2011 and thereafter they will follow the newly devised *Sixth FYP 2010-2015* along with an eleven-year *Perspective Plan (2010-2021)* to materialize their *Vision 2021*⁴. However, in December 2009, the Second PRSP was revised and re-titled as *Steps Towards Change: National Strategy for Accelerated Poverty Reduction: FY 2009-11 (Prepared in the light of Election Manifesto of the Bangladesh Awami League 2008)* (GOB, 2009f). Table II shows a chronological listing of the policy initiatives in Bangladesh since 1998.

² *Heavily Indebted Poor Countries (HIPC) Initiative* is an agreement among official creditors to help the most heavily indebted countries to obtain debt relief.

³ *Comprehensive Development Framework (CDF)* represents a new way of doing business for the World Bank and its members. It is an approach to development whereby countries become the leaders and owners of their own development policies.

⁴ As stated in the Budget Speech 2009-10, "The Vision envisages that by 2021, Bangladesh will reach a trajectory of high-performing growth supported by advanced and innovative technology with prices of commodities stabilized, income and human poverty brought to a minimum level, health and education for all secured and capacity building combined with creativity enhanced, social justice established, social disparity reduced, participatory democracy firmly rooted and capacity to tackle the adverse effects of climate change achieved. Information and communication technology will, by that time, take us to new heights of excellence giving the country a new identity to be branded as Digital Bangladesh" (Muhit, 2009: 3).

Table II. A Chronology of Policy Initiatives in Bangladesh since 1998

Date	Policy Initiatives
March 26, 1998	<i>The Fifth FYP 1997-2002</i> was published by the Planning Commission, Ministry of Planning, Government of the People's Republic of Bangladesh (GOB, 1998).
September, 1999	In September 1999, the World Bank Group and the IMF determined that nationally-owned participatory PRSP should provide the basis for all their concessional lending and eligibility for debt relief under the enhanced HIPC Initiative (where Bangladesh is one of the HIPC). In order to prevent delays for countries seeking debt relief under the HIPC Initiative or assistance from the IMF, an Interim PRSP (I-PRSP) can be formulated (CPD, 2002).
December, 1999	In December 1999, the Executive Boards of the IMF and the World Bank approved that the PRSP will serve as a common context for receiving concessional assistance. Starting with the 41 HIPC, the PRSP will be applied to an additional 30 countries receiving financing from IDA (International Development Association, the World Bank's concessional loan window) or the IMF's Poverty Reduction and Growth Facility (PRGF ⁵) (Rahman, 2003).
April 13-14, 2000	Bangladesh took its decision to prepare the PRSP in the Bangladesh Development Forum (BDF) 2000. That time, the time frame for completion of the PRSP was July 2002 (Rahman, 2003).
April, 2000	The Government of Bangladesh and ADB have earlier signed a Partnership Agreement on Poverty Reduction (PAPR) in April 2000 (BDF, 2002).
September, 2000	The Millennium Declaration was adopted by 189 nations during the UN (United Nations) Millennium Summit in September 2000 (www.undp.org.bd).

⁵ Poverty Reduction Growth Facility (PRGF) is an IMF program for the poorest countries. It replaces Extended Structural Adjustment Facility (ESAF) and would be based on a country's PRSP (CPD, 2002).

November 16, 2000	The first meeting on the PRSP, drawing upon a paper on the CDF and the Sector Wide Approach Program (SWAP), was held on November 16, 2000 and was chaired by the then Finance Minister S.A.M.S. Kibria. An eleven-member Task Force, headed by the Secretary, Economic Relations Division (ERD) and drawing on representatives from key Ministries, was set up in late November 2000 to oversee preparation of the Bangladesh PRSP. The Task Force included the Principal Secretary to the Prime Minister and 10 other Government Secretaries but not including any representative from the civil society or private sector or development NGOs (CPD, 2002).
December, 2000	The MDGs (Millennium Development Goals) are set in line with United Nations (UN) Millennium Declaration and adopted in the 55th session of the UN General Assembly in December 2000. There are eight specific goals in the MDGs ⁶ to be achieved by 2015 (GOB, 2007b).
2002	A PRSP, I-PRSP, or annual progress report, supported by the Boards of the World Bank and the IMF within the preceding 12 months, is a condition for: (i) HIPC countries to reach a decision or completion point; (ii) Approval of the IMF's PRGF arrangements or reviews; (iii) IDA concessional lending. The Country Assistance Strategies (CAS) ⁷ and CAS updates should be timed to follow PRSPs and I-PRSPs along with their accompanying Joint Staff Assessments (JSAs) ⁸ . From July 2002, all CASs in IDA countries will be based on a PRSP (CPD, 2002).

⁶ The goals are: Goal 1: Eradicate Extreme Poverty and Hunger; Goal 2: Achieve Universal Primary Education; Goal 3: Promote Gender Equality and Empower Women; Goal 4: Reduce Child Mortality; Goal 5: Improve Maternal Health; Goal 6: Combat HIV/AIDS, Malaria and other diseases; Goal 7: Ensure Environmental Sustainability; and Goal 8: Develop a Global partnership for Development. To achieve these eight goals, there are specific 18 targets with measurable "Indicators for Monitoring Progress" (see GOB, 2007b: 44-46).

⁷ A CAS is a World Bank business plan for development in each member country.

⁸ Joint Staff Assessments (JAS) evaluate the soundness of PRSPs and I-PRSPs and thereby assist the Boards of the World Bank and the IMF in judging whether an I-PRSP or PRSP provides a sound basis on which to proceed with assistance and debt relief.

March 13-15, 2002	The BDF was held at Paris on March 13-15, 2002 where it was informed by the GOB that the interim PRS will be finalized by June 2002, and the final version by the end of the year. The Sixth FYP is also under preparation covering the period FY2002/2003-FY2006/07. The PRS will be fully integrated into the Sixth FYP (2003-2008) (BDF, 2002). ⁹ But the Sixth FYP was not ultimately prepared.
April, 2002	Draft I-PRSP titled A National Strategy for Economic Growth and Poverty Reduction was prepared for discussion (GOB, 2002a).
December, 2002	I-PRSP titled A National Strategy for Economic Growth, Poverty Reduction and Social Development was completed (GOB, 2002b).
March, 2003	In March 2003, Bangladesh produced the National Strategy for Economic Growth, Poverty Reduction and Social Development, equivalent to the I-PRSP to the donor agencies. This document outlines Bangladesh's strategy to reduce poverty reduction and to achieve the MDGs. The strategy was shared with development partners during 2003, and formed the basis for discussions between Government and donors at the BDF in May 2003 (www.lcgbangladesh.org).
May, 2003	The I-PRSP was presented to the BDF meeting held in Dhaka during May 16 to 18, 2003 (Rahman, 2003).
June, 2003	The WB-IMF board meetings formally endorsed Bangladesh's I-PRSP with approval of \$490 million concessionary loan and an "interest-free" loan of \$536 million (Rahman, 2003).
Late 2003	In late 2003, 12 Thematic Groups were established by the Government under the leadership of relevant Ministries to ensure full participation of concerned Ministries/Divisions and national consultation workshops on the Draft PRSP (www.lcgbangladesh.org).

⁹ The period of abandoned Sixth FYP was mentioned differently in two places in the Report of BDF 2002 (see page 4 for period covering FY2002/2003-FY2006/07 and page for 2 for 2003-2008). It would possible be the second one (2003-2008).

2004	The Thematic Groups carried out consultations during 2004 with civil society, donors, and others to facilitate the process of moving towards the PRSP (www.lcgbangladesh.org).
December, 2004	The Draft PRSP titled Unlocking the Potential: National Strategy for Accelerated Poverty Reduction was completed (GOB, 2005b).
January 12, 2005	The Draft PRSP was released on 12 January 2005 (www.lcgbangladesh.org).
October 16, 2005	The First PRSP titled Unlocking the Potential: National Strategy for Accelerated Poverty Reduction was completed. The Three-year Rolling Investment Program (TYRIP) attempted to make the PRS and the MDGs operational for the period FY 2004-05 to FY 2006-07. The MTMF included in the PRSP has set out a coherent macro framework which brings consistency among savings, investment, external and monetary balances (GOB, 2005b). The MDGs are included in the country's first PRSP and were addressed by the reports of the 12 thematic groups that helped prepare the strategy paper. Both the MTBF and the Annual Development Program (ADP) have also been tuned to the MDGs (GOB, 2007b).
October 18, 2005	The PRSP was submitted to the Executive Committee on the National Economic Council (ECNEC) on 18 October 2005 (www.lcgbangladesh.org).
October, 2008	The Second PRSP titled Moving Ahead: National Strategy for Accelerated Poverty Reduction II (FY 2009-11) was completed (GOB, 2008b).
June 11, 2009 (Budget Speech 2009-10)	A review of the already prepared 3-year term PRSP (Moving Ahead 2009-11) is ongoing in the light of the Government's development philosophy and socio-economic goals and is planned to be completed in the next two months (by August 2009). The PRSP will be followed till 2011. The work on an 11-year Perspective Plan (2010-2021) is in progress and expected to be

	completed by June 2010. The work on 5-Year Plan for 2010-2015 has been started. The annual budget will specify the programmes needed to operationalize the broad directives of the 5-Year Plan. The 3-Year Medium Term Budget Framework (MTBF), currently being followed by 20 different line ministries in developing their annual budgets, will be converted into a 5-Year MTBF (Muhit, 2009).
September 15, 2009	The government yesterday placed in parliament a draft of the amended second PRSP with an estimated expenditure of Tk 3,108 billion to achieve the goals and targets set out in the modified document (The Daily Star; 16.09.2009).
December, 2009	The Second PRSP was revised under the title Steps Towards Change: National Strategy for Accelerated Poverty Reduction: FY 2009-11 (Prepared in the light of Election Manifesto of the Bangladesh Awami League 2008) was completed (GOB, 2009f).
February 14, 2010	The revised PRSP-II was formally launched with an expenditure of Tk 2,814 billion for two fiscal years 2009-11 (The Daily Star; 15.02.2010).
February 15, 2010	The revised PRSP-II was presented in the Bangladesh Development Forum (BDF) meeting held in Dhaka on February 15-16, 2010 (The Daily Star; 15.02.2010).

The Linkage between the Budget and the PRSP

As mentioned in the first PRSP, the framework for PRS indicates that the main goal of the PRSP obviously is poverty reduction. But it also outlines Bangladesh's strategy to achieve the MDGs and SDGs (SAARC Development Goals), which were used as a core reference frame for developing the benchmarks for poverty reduction (GOB, 2005b). This PRSP goal is based on a vision for poverty reduction formed on the basis of the understanding of key issues of the present state of the economy. To fulfill the vision of poverty reduction, *four strategic blocks* (enhancing pro-poor growth, boosting critical sectors for pro-poor economic

growth, devising effective safety nets and targeted programs, and finally ensuring social development) are identified. The framework also identifies *four supporting strategies* or crosscutting issues. These are (i) ensuring participation, social inclusion and empowerment of all sections, groups and classes of people, (ii) promoting good governance by ensuring transparency, accountability and rule of law, (iii) providing service delivery efficiently and effectively, particularly to the poor and (iv) caring for the environment and sustainable development on a long-term basis. Identification of problems and recommendations of actions to be taken in *four strategic blocks* and *four supporting strategies* are based on nationwide consultations with stakeholders at various levels as well as the Thematic Group reports (GOB, 2005b).

The *Policy matrix* in the PRSP brings to focus the strategic goals, key targets, policy-agenda and future priorities of different sectors. In order to achieve the targets of the PRSP, the MTBF is the effective linkage between the annual budget and the PRSP, since one of the important features of the MTBF is the allocation of resources according to the strategic objectives, policies and priorities. The annual budget of fiscal year 2005-06 (FY06) is the first one prepared partially considering the MTBF, which acted as "a linkage between the annual budget and the PRSP" (GOB, 2005a: i). The MTBF is a new budgeting approach under which, the budget is prepared for three to five years, instead of just one year, and it includes the estimates and projections of the revenue receipts and expenditures. In the first stage of the MTBF, a Medium Term Macroeconomic Framework (MTMF) is developed/updated. The PRSP contains the MTMF, which includes projections of the GDP (gross domestic product), inflation, government receipts, expenditure, budget deficit, balance of payment position, money supply and other macroeconomic indicators for the following three to five consecutive years. The Finance Division of the Ministry of Finance (MOF), in association with the Planning Commission, Economic Relations Division (ERD), Bureau of Statistics, National Board of Revenue (NBR), Bangladesh Bank and other relevant offices/agencies, will update the MTMF. The MTBF is prepared following the projections made in the MTMF on total revenue, budget deficit and financing the budget deficit. Along with the developing/updating MTMF, the Ministry Budgetary Framework is developed/updated by the line ministries. The subsequent steps in the MTBF are: (i) Reviewing the budgetary framework of the line ministries/divisions by the Finance Division and the Planning Commission; (ii) Finalizing and approving the ministry-wise/division-wise indicative expenditure ceiling and revenue target according to the guidelines given by the Budget Monitoring and Resource Committee (BMRC) and National Economic Council (NEC); (iii) Preparing and issuing the Budget Circular by the Finance

Division; (iv) Preparing estimates or projections by the ministries/divisions for three years of the MTBF following the directions contained in the budget circular; (v) Reviewing the estimates/projections prepared by the line ministries by Finance Division and Planning Commission and finalizing those in a joint meeting between Finance Division, Planning Commission and the respective line ministry/division; (vi) Compilation of those finalized estimates by the Finance Division as a Medium Term Budgetary Policy Statement for the approval of the Cabinet. On approval of the Cabinet, the MTBF will then be placed before Parliament for approval of the First year's estimates. Indicative estimates for the two outer years will be submitted to the Parliament for information (GOB, 2005a; Hossain, 2007). As shown in Table III, the MTBF is a pragmatic and more realistic approach to budget planning than the traditional budgeting.

Table III. Distinctions between Traditional Budgeting and MTBF

Points	Old Budgetary System	Medium Term Budgetary Framework
Budget Period	Budget is prepared for one year.	Instead of one year, budget consists of the estimates for three to five years. However, only the first year's estimate is placed to Parliament for approval.
Non-development and development budgets	Non-development budget and development budget are prepared separately, which results in duplication and overlapping in public expenditure planning.	As the budget is prepared within a single ceiling, duplication and lack of coordination can be avoided, and the demarcation between the non-development budget and development budget is removed.
Receipts and expenditure estimates and resource allocation	Generally the receipts and expenditure estimates are determined considering the actual for the previous year and by adding margin on top of that. The linkage between strategic objectives or the policy priorities and resource allocation decisions is not explicit.	Instead of taking the previous year's actual receipts or expenditure as the basis, the resources are allocated considering the priorities of programs or projects necessary for achieving the strategic objectives of the government.

Evaluation on target achievement	Detailed information on the expected results from the allocated fund are not provided in the budget document nor is the output target fixed explicitly. Therefore, it is difficult to evaluate whether the targeted output is achieved or not.	It clearly indicates the expected output from the input for the relevant ministry and its subordinate departments/offices and provides an opportunity to know about the output achieved. Thus, it helps in developing performance indicators and institutionalizing performance measurement.
Involvement of the line ministries and divisions	Ministry of Finance (MOF) and Ministry of Planning play the dominant role in budget preparation. So, if fund is not allocated according to the need and priority of the ministries, the implementation of relevant project or program may be hampered.	The line ministries and divisions are given enhanced authority and responsibility for budget preparation or resource allocation. Consequently, the relevant ministries have the opportunity to allocate and utilize the fund according to their specific needs and priorities.

Source: Compiled from GOB (2005a): 1-2.

The MTBF system is expected to bring greater transparency and predictability to resource allocation and budget management and thus develop the basis for better accountability for resource use and results (GOB, 2005b). While the MTBF initiative draws strongly on international experience and good practice, it has been adapted to the particular conditions of Bangladesh and is being implemented progressively to include all ministries and agencies of the government. As an integral part of the budget process, the MTBF process provides a *policy-led approach to budget planning* in which resource allocations are linked to strategic objectives and priorities of the ministry/division. The process also stipulates that all MTBF ministries/divisions demonstrate how their spending plans will impact on poverty reduction and women's advancements, which are the primary objectives of government policy under the National Strategy for Accelerated Poverty Reduction (NSAPR). Additionally, a more detailed analysis of inter-sectoral spending priorities has been developed as a basis for determining resource allocations under the MTBF (GOB, 2007a). Box 1 has delineated the key features of the MTBF approach.

Box 1: Key Features of the MTBF Approach

Objectives: In introducing the MTBF in Bangladesh, the Government has sought to address the following main objectives:

- *ensure formulation of budget linked to policy* – that budget formulation at the macro level and also at the ministry levels are based on overall macro, sectoral and ministry level policies;
- *improve budget discipline and predictability* – that budgets are planned and implemented against a realistic and sustainable multi-year resource envelope;
- *ensure greater budget effectiveness* – that resources are progressively reallocated away from lower priority towards higher priority public spending programs.
- *increase efficiency in budgetary spending* – that available resources are utilized more efficiently so that the quality of public services can be improved.

Time Horizon and Roll-Forward: The MTBF in Bangladesh covers a three year period - the budget year and the following two years. The budget figures for the two outer years of the MTBF are indicative figures since under Article 87 of the Constitution the Budget submitted to cover only a single year. The MTBF is updated and rolled forward annually in order to maintain this three year forward planning horizon.

Building Blocks of the MTBF: The MTBF is organized around five main elements or building blocks:

- *a macroeconomic and fiscal framework* that provides realistic estimates of the resources that will be available to the budget over the next three years.
- *an analysis of key strategies and choices* that should inform the allocation of budgetary resources. examples include the implications of poverty reduction policies on budget priorities; and the identification of priority sectors for increased public spending.
- *ministry/division level budget strategy frameworks* that link the strategic objectives of a ministry to the identification of budget priorities, and the allocation of available resources. These frameworks also identify key program output indicators and performance targets.
- *resource ceilings and expenditure plans* that require ministries/divisions to allocate their budgets between priority programs against realistic medium-term spending limits.

- *strengthened budget implementation procedures* that ensure the timely and efficient implementation of ministry/division budgets.

The Medium-Term Budget Strategy (MTBS): The MTBS plays a key role within the MTBF initiative. It sets out the medium-term macroeconomic and fiscal framework within which the annual budget has been prepared and brings a stronger policy focus and justification to the budget, thereby emphasizing the linkage between the strategies identified in the NSAPR and budgetary resource allocations.

Source: GOB (2007a)

Since FY 2006-07, in the MTBF, poverty and gender concerns relevant to the NSAPR have also been successfully integrated into the strategic phase of the budget cycle through Budget Circular 1 (BC1). In FY 2007-08, for the first time, all the 14 MTBF Line ministries under the MTBF were required to give explicit consideration to the impacts of their budgeting decisions on women and the poor (GOB, 2007a). After the introduction of FYP in the next year (FY 2010-11), the annual budget will specify the programs needed to operationalize the broad directives of the 5-Year Plan. Then the present 3-Year MTBF will be converted into a 5-Year MTBF (Muhit, 2009).

As evidenced by the budget documents, there are now (June 2009) 53 ministries/divisions. These include 32 specific Ministries, 13 Divisions under various Ministries and 8 offices/commissions which are not referred to as Ministry/Division (Office of the President, Parliament, Prime Minister's Office, Election Commission Secretariat, Public Service Commission, Supreme Court, Anti-Corruption Commission, and Bangladesh Judicial Service Commission) (GOB, 2009c). But currently (FY 2009-10), there are 20 out of these 53 Ministries/Division are under the MTBF approach. Starting with 4 Ministries in FY 2005-06, the converge is being increased slowly over the years. Table IV has enumerated the Ministries/Divisions brought under the MTBF approach over the years. It is interesting to note that, the Ministry of Finance or the Ministry of Planning or their Divisions are yet to be taken under this framework, although they are in charge of overall supervision and monitoring of the approach.

Table IV. Ministry/Division under the MTBF over the Years

FY	Ministry/Division under MTBF			% of Total Program Spending
	Name of the Ministry/Division	New	Total	
2005-06	Ministry of Education, Ministry of Social Welfare, Ministry of Women and Children Affairs, and Ministry of Agriculture	4	4	11
2006-07	Ministry of Primary and Mass Education, Ministry of Health and Family Welfare, Local Government Division, Ministry of Fisheries and Livestock, Ministry of Water Resources, and Ministry of Communication	6	10	38
2007-08	Ministry of Science and Information & Communication Technology, Rural Development and Cooperative Division, Ministry of Environment and Forest, and Ministry of Food and Disaster Management	4	14	60
2008-09	Ministry of Land, and Ministry of Shipping	2	16	58
2009-10	Ministry of Housing and Public Works, Energy and Mineral Resources Division, Power Division, and Bridges Division	4	20	63

Sources: Compiled from GOB (2005a); GOB (2006); GOB (2007a); GOB (2008a); GOB (2009e).

The Overview of a Ministry under the MTBF

Ministry-wise MTBF is a very comprehensive document (e.g., a 28-page printed document for the Ministry of Education) containing huge past, present and future information, that can be used for the accountability of the Ministers or bureaucratic administration of the Government. Beginning information includes: (1) Grant No. (e.g., 18 for Ministry of Education in 2009-10); (2) Code and name of the Ministry (e.g., 25 - Ministry of Education); (3) 3-year Medium Term Expenditure for Non-Development, Development and Total (Budget for 2009-10

and Projections for 2010-11 and 2011-12). Then five types of specific budgetary information have been provided covering 5 years (actual of year before preceding year, target for preceding year, revised target for preceding year, budget for current year, projection for succeeding year, and projection for year after succeeding year) as follows:

1. Mission Statement and Major Functions;
2. Medium Term Strategic Objectives and Key Activities [3-column information: Col. 1: Medium Term Strategic Objectives; Col. 2: Key Activities; Col. 3: Implementing Departments/Agencies];
3. Poverty and Gender Reporting;
4. Priority Spending Area/Programmes [2-column information: Col. 1: Priority Spending Areas/Programmes; Col. 2: Related Strategic Objectives; and Key Performance Indicators (KPIs) in 8-column statement: (1) Indicators, (2) Unit, (3) Actual for 2007-08, (4) Target for 2008-09, (5) Revised Target for 2008-09, (6) 3-column 3-year Medium Term Targets for 2009-10, 2010-11 and 2011-12]; and
5. Recent Achievements, Future Plans, Key Activities and Outputs of the Departments and Agencies.

NATIONAL BUDGET OF FY 2009-10

As routinely followed, the National Budget of 2009-2010 has been placed in the Parliament on second Thursday of June (i.e., 11 June 2009). This is the fifth time the national budget has prepared with a greater share under the **MTBF**, which has covered 20 Ministries/Divisions having 63 percent of total program spending (GOB, 2009e). As the first budget by the newly elected government, the distinguishing features of the budgets include: (i) the budget is inspired by and the reflection of election manifesto of Awami League (AL); (ii) commitment has been expressed towards continuation of the 3-year PRSP (2009-2011); (iii) expressed the revival of mid-term planning with a long-term vision (Vision 2021): Five Year Plan (2010-2015); Perspective Plan (2010-2021); introduction of spatial planning through integrating land survey, land records and land management and bringing the whole land administration under digital management.; and District level budget from FY 2010-11; (iv) mainstreaming the private-public partnership (PPP), which commenced in 1996; (v) recognition of the importance of reform agenda (e.g., anti-corruption measures, local government strengthening, right to information); (vi) sensitivity to global economic crisis; (vii) second stimulus

package worth Tk.5000 crore;¹⁰ (viii) absence of detailed information on subsidy and social safety net; (ix) inadequate interpretation of data; (x) exchange rate position has been deemed stable, but it is mentioned that the Taka was devalued by 0.6% in March 2009; (xi) recognition of need to revisit budgetary framework (e.g., initiative for formulating unified budget, deepening MTBF, ADP implementation); and (xii) the budget speech went beyond economic issues undermining its focus (CPD, 2009; Muhit, 2009).

Budget of 2009-10 at Glance and Expenditure Targets

The Budget is based on a reasonable consideration of the global economic recession and the consequent rational revenue and growth assumptions. As evident from the table below (Table V), the revenue is expected to increase by 14.9% over the revised budget of FY 2008-09 (FY09R) fiscal:

Table V. Budget at a Glance (Amount in Billion Taka)

Revenues/Expenditures Items	FY2008-09R	FY2009-10	% Growth Rate
Revenues	692	795	14.9
Tax Revenues	555	640	15.2
Non-Tax Revenues	137	155	13.6
Expenditures	941	1,138	20.9
ADP (Annual Development Program)	230	305	32.6
Non-ADP: Total	711	833	17.1
Non-Development Expenditure	671	772	15.1
Net Outlay for Food Account	0	3	8050.0
Operation			
Loans and Advances	6	16	191.8
Structural Adjustment Expenditures	8	3	-55.7
Development Expenditures: Non-ADP	27	38	40.2
Overall Deficit (excluding Grants)	-250	-344	37.7
Overall Deficit (excluding Grants) as % of GDP	-4.0	5.0	-
Foreign Grants	-200	51	4.1
Overall Deficit (including Grants)	-3.2	-292	45.9
Overall Deficit (including Grants) as % of GDP	-4.2	-	-

Source: GOB (2009b).

¹⁰ The first stimulus package (Taka 34.24 billion package) was announced on April 19, 2009, comprising fiscal stimulus and other measures was declared (GOB, 2009e: 4).

Expenditure: In the budget of FY10, the expenditure (table VI) is projected to rise by 20.9% over the revised budget of fiscal year 2008-09 (FY09R) with development spending rising by 32.6% and non-development spending by 17.1%. However, the proposed **ADP (Annual Development Program)** has been increased by only 19.1% from the original budget of last year (FY 2008-09). In the revised budget of FY 2008-09, the ADP has been decreased by 10.2% from the original budget proposal. This year, the highest total expenditure (16.2% of total) is proposed for Public Service, due to implementation of a new pay scale for government employees. Education and Technology has got the next priority (12.6%) and then Agriculture (7.9%), Social Security and Welfare (7.8%), and Local Government & Rural Development (7.7%).

Table VI. Budgeted Expenditure in FY10 (Amount in Billion Taka)

Sectors	Development Expenditure (1)	Non- Development Expenditure (2)	Total Expenditure (1+2)		
			Total	% of Total	% Growth over FY09R
Public Services	17.5	167.4	184.9	16.2	85.9
Local Government & Rural Development	71.5	15.6	87.1	7.7	17.3
Defense	2.6	67.9	70.5	6.2	2.4
Public Order and Safety	7.2	55.9	63.1	5.5	3.4
Education and Technology	41.1	102.8	143.9	12.	14.8
Health	30.8	39.1	69.8	6.1	12.7
Social Security and Welfare	16.9	71.9	88.8	7.8	17.4
Housing	5.7	6.8	12.5	1.1	-8.3
Recreation, Religion, Cultural Affairs	3.4	5.3	8.7	0.8	-12.9
Fuel and Energy	42.8	0.3	43.1	3.8	48.2
Agriculture	23.8	65.8	89.5	7.9	-14.1
Industrial and Economic Services	5.2	3.4	8.6	0.8	-6.1
Transport and Communication	48.0	26.3	74.3	6.5	41.4
Other	(11.4)	204.6	193.3	17.0	23.7
Total Expenditure	305.0	833.2	1,138.2	100.06	20.9

Source: GOB (2009b).

In **development expenditure**, the highest allocation is for Local Government & Rural Development (Tk. 71.5 bn), and then for Transport and Communication (Tk. 48.0 bn), Fuel and Energy (Tk. 42.8 bn), Education and Technology (Tk. 41.1 bn). In terms of **non-development expenditures**, the highest allocation is for Public Service (Tk. 167.4 bn), and then for Education and Technology (Tk. 102.8 bn), Social Security and Welfare (Tk. 71.9 bn), Defense (Tk. 67.9 bn), and Agriculture (Tk. 65.8 bn). In ten sectors (Public Services, Local Government & Rural Development, Defense, Public Order and Safety, Education and Technology, Health, Social Security and Welfare, Fuel and Energy, Agriculture, and Transport and Communication), the total allocations account for 80.4%.

Out of **total expenditure**, Taka 833 bn is targeted for non-development expenditure (around 73%). The non-development expenditure has been increased by 17.1% over that of the last year's revised budget. Out of this non-development expenditure, around 24% is related to employees in terms of "Pay & Allowance" (19.5%) and "Pension & Gratuity" (4.4%). Other important non-development expenditures include "Interest Payment" (19.2%), "Grants in Aid" (18.4%), and "Goods & Services" (10.8%) [Table VII].

Table VII. Budgeted Non-Development Expenditure in FY10

Items of Non-Development Expenditure	Budget 2009-10		Revised 2008-09		Change over FY09R (%)
	Tk. (bn)	Percent	Tk.(bn)	Percent	
Pay & Allowances	159.9	19.5	151.1	21.6	5.85
Grants in Aid	150.9	18.4	138.5	19.8	8.95
Interest Payment	158.1	19.2	133.1	19.0	18.73
Goods & Services	88.7	10.8	91.6	13.1	-3.20
Pensions & Gratuities	36.3	4.4	36.2	5.2	0.41
Acquisition of Assets & Works	22.7	2.8	23.8	3.4	-4.42
Subsidies	69.9	8.5	83.7	12.0	-16.53
Investment in Shares & Equities	54.7	6.7	20.7	3.0	163.69
Block Allocations (Revenue Expenditures)	42.9	5.2	4.2	0.6	918.53
Programs Financed from Non-Development Budget	14.2	1.7	4.8	0.7	197.07
Others	23.5	2.9	11.3	1.6	107.87
Total Expenditure	821.8	100.0	699.1	100.0	17.56

Source: GOB (2009b).

Financing the Budgeted Expenditure: Around 70% of the budgeted total expenditure of Taka 1138 billion will be financed by public tax and non-tax revenue (56% from tax revenues and 14% from non-tax revenues). Thus, 30% of the budgeted expenditure will be financed by foreign grants (4.5%), foreign borrowing (7.6%), domestic borrowing form banking system (14.7%) and domestic non-bank borrowing (3.3%) (Table VIII).

Table VIII. Financing Total Expenditure

Sources of Financing Total Expenditure	Tk. (bn)	Percent	% Increase from FY09R
NBR Taxes	610.0	53.6	15.1
Non-NBR Taxes	29.6	2.6	17.0
Non-Tax Revenue	155.1	13.6	13.6
Foreign Grants	51.3	4.5	4.1
Foreign Borrowing	86.7	7.6	48.7
Domestic Borrowing form Banking System	167.6	14.7	56.6
Domestic Non-Bank Borrowing	38.0	3.3	8.6
Total Financing	1138.2	100.0	20.9

Source: GOB (2009b).

Financing of ADP (Annual Development Program): Around 46.4% of the ADP of Taka 305 billion (around 26.8% of total expenditure) will be financed by domestic sources (32.6% from revenue surplus and 13.7% from other domestic resources) and the remaining (53.6%) from foreign resources (table IX).

Table IX. Financing ADP

Sources of ADP Financing	Budget 2009-10		Revised 2008-09		% Change over FY09R
	Tk. (bn)	Percent	Tk. (bn)	Percent	
Revenue Surplus*	99.6	32.6	65.0	28.3	53.1
Other Domestic Resources	41.9	13.7	35.1	15.2	19.4
Total Domestic Resources	141.4	46.4	100.1	43.5	41.3
Total Foreign Resources	163.6	53.6	129.9	56.5	25.9
Total ADP	305.0	100.0	230.0	100.0	32.6

*Revenue Surplus = Tax Revenue + Nontax Revenue–Non-development Revenue Expenditure

Source: GOB (2009b)

Tax Revenue Target and Financing in the Budget

Revenue target in the Budget 2009-10 has been shown in table X below. Tax revenue is targeted in the budget at Taka 640 billion with an expected rise of 15.2% over the last fiscal. Key sources of tax revenues include import duties, value added taxes (VAT), income taxes, and supplementary duties (SD). Out of total tax, about 95% is to be collected by the NBR (National Board of Revenue). There will be the highest increase over the last fiscal in case of income tax (22.3%). Thereafter, Turnover Tax is expected to be raised by 20%, SD on Domestic Goods and Services is expected to be raised by 17%, although overall SD will be increased by 15%. VAT on Domestic Goods and Services is expected to be raised by 16.9%, although overall VAT will be increased by 13.3%. In terms of share in total tax, VAT has the highest share (35.6%), then Income Tax (25.9%), Supplementary Duty (16.4%) and Import Duty (16.3%).

Budget deficit has remained in the range of 4 to 4.5% in Bangladesh since fiscal 2000-01. This year overall deficit (excluding Grants) as a percent of GDP is expected to be 5% from last year's 4% due the global recession and declining border tax collections (table V).

Table X. Tax Revenue Target in the Budget

Tax Revenue	Budget 2009-10		Revised 2008-09		% Increase over FY09R
	Tk. (mn)	%	Tk. (mn)	%	
<i>National Board of Revenue (NBR) Portion</i>					
Taxes on Income and Profit	165,600	25.9	135,380	24.4	22.3
Value Added Tax (VAT):	227,890	35.6	201,110	36.2	13.3
VAT on Imports	102,400	16.0	93,800	16.9	9.2
VAT on Domestic Goods and Services	125,490	19.6	107,310	19.3	16.9
Turnover Tax (TT)	60	0.01	50	0.01	20.0
Import Duty	104,300	16.3	95,700	17.2	9.0
Excise Duty	2,610	0.4	2,370	0.4	10.1
Supplementary Duty (SD):	104,850	16.4	91,210	16.4	15.0
SD on Imports	26,110	4.1	23,950	4.3	9.0
SD on Domestic Goods and Services	78,740	12.3	67,260	12.1	17.1
Other Taxes and Duties:	4,690	0.7	4,180	0.8	12.2
Travel Tax	4,678	0.7	4,170	0.8	12.2
Other Taxes & Duties	13	0.0	10	0.0	25.0
Sub-Total: NBR Portion	610,000	95.4	530,000	95.5	15.1

Non-NBR Portion					
Narcotics and Liquor Duty	550	0.1	520	0.1	5.8
Taxes on Vehicles	6,600	1.0	5,500	1.0	20.0
Land Revenue	4,903	0.8	4,086	0.7	20.0
Stamp Duty (Non-Judicial)	17,500	2.7	15,150	2.7	15.5
Sub-Total: Non-NBR Portion	29,553	4.6	25,256	4.5	17.0
Total Tax Revenue	639,553	100.0	555,256	100.0	15.2

Source: GOB (2009c).

Tax Structure in the budget 2009-10 is shown in table XI below:

Table XI. Tax Structure in the Budget

Types of Taxes	Budget 2009-10		Revised 2008-09		% Increase over FY09
	Tk. (mn)	Percent	Tk. (mn)	Percent	
Direct Tax	192,693	30.1	158,796	28.6	21.3
Taxes on Income and Profit	165,600	25.9	135,380	24.4	22.3
Other Direct Taxes*	27,093	4.2	23,416	4.2	15.7
Indirect Tax	446,860	69.9	396,460	71.4	12.7
Border Taxes	232,810	36.4	213,450	38.4	9.1
Domestic Taxes	214,050	33.5	183,010	33.0	17.0
Total Taxes	639,553	100.0	555,256	100.0	15.2
Tax-GDP Ratio	9.3		9.0		
Revenue-GDP Ratio	11.6		11.2		

*Other NBR Taxes and Duties + Land Revenue + Stamp Duty.

Source: GOB (2009c).

The **tax structure** in Bangladesh is still dominated by indirect taxes (70% of total taxes) of which 36% comes from international trade taxes at border point, but if we look at the annual expected growth of taxes, the expectation shifts on income taxes and both domestic other direct and indirect taxes. However the tax-GDP ratio of Bangladesh is still below the expected level (around 9%) although the revenue-GDP ratio is to some extent acceptable (more than 11%) (table XI). Although the GDP growth is also conservatively set at 5.5% in FY 2009-10 (which was 5.9% at a provisional estimate in FY 2008-09).

Financing the deficit: The budget FY 2009-10 shows an overall deficit of Tk. 344 bn (excluding foreign grants) which is 30% of total outlay and 5% of GDP. However, overall deficit net of foreign grants is Tk. 292bn which is 26% of total outlay and 4.2% of GDP. The overall deficit would be financed by both foreign

and domestic loans. Around 40% of the overall deficit will be financed by foreign sources and the remaining (60%) from domestic borrowing. Table XII shows the deficit financing of the budget FY 2009-10:

Table XII. Financing of Overall Deficit (Excluding Foreign Grants)

<i>Source of Financing</i>	Budget 2009-10		Revised 2008-09		% Increase over FY09R
	Tk. (bn)	Percent	Tk. (bn)	Percent	
Foreign Grants	51.30	14.9	49.29	19.7	4.08
Foreign Borrowing	86.73	25.2	58.33	23.4	48.69
Domestic Borrowing form Banking System	167.55	48.8	106.98	42.9	56.62
Domestic Non-Bank Borrowing	38.00	11.1	35.00	14.0	8.57
Total Deficit Financing	343.58	100.0	249.60	100.0	37.65

Source: GOB (2009b).

MAJOR FISCAL INCENTIVES UNDER THE BUDGETARY MEASURES IN FY 2009-10

The key fiscal measures have been undertaken through the Finance Act 2009 (placed as the Finance Bill 2009 just after placing the Budget on 11 June 2009 and passed as the Finance Act 2009 on 30 June 2009) to achieve the fiscal targets in the budget. The Finance Act 2009 contains 62 sections in total, of which 04 (sections 3-6) for amendments of the Customs Act 1969; 39 (sections 7-45) for amendments of the Income Tax Ordinance 1984; and 17 (sections 46-62) for amendments of the VAT Act 1991. There are also different SROs (Statutory Rules and Orders), general or special orders of the NBR and other types of explanations or circulars issued by the NBR. Following is an enumeration of the key fiscal incentives under the income tax, customs duty and the value added tax.

New Income Tax Incentives

Following are the major income tax incentives for assessment year (AY) 2009-10 through the amendments of the Income Tax Ordinance:

- There is no change in non-corporate tax rate, but initial exemption limit for

retarded persons increased from Tk. 180,000 to Tk. 2 lakh and that for persons having age 65-70 years increased from Tk. 165,000 to Tk. 180,000.

- Tax rate for banks and financial institutions has been reduced to 42.5% from 45%.
- Some prescribed new industries (established during 2009-12) have been prescribed for special reduced tax rates of 5 or 10 percent over first 5 to 6 years, subject to certain conditions including not allowing for tax holiday or accelerated depreciation.
- Special 15-year tax holiday has been provided for private sector power generation company.
- No question on source will be raised through tax payment over one-year (2009-10) at special tax rate of 10% on undisclosed income invested in prescribed new industry or physical infrastructure facility, or in the expansion or balancing, modernization, renovation and extension of an existing industry or through the purchase of stocks and shares of a company listed with any stock exchange; and also payment of square meter-based specific tax on undisclosed income invested in the construction or purchase of any building or apartment.
- Income from pensioners' savings certificate has been exempted.
- Provision for depreciation @ 50% on Bangladeshi made software has been introduced and the notional cost price of motor vehicle not plying for hire has been raised from Tk. 10 lakh to Tk. 20 lakh for the purpose of allowing tax depreciation.
- The ceiling of allowable expenditure by way of royalty, technical services fee, technical know how fee or technical assistance fee has been increased from 5% to 8% of the profit.
- Deemed income Ceiling for unpaid informal loan has been raised from Tk. 50,000 to Tk. 1 lakh.
- Ceiling of investment allowance has been increased from Tk. 5 lakh to Tk. 10 lakh and a new item for investment allowance has been allowed for "purchase of one computer or one laptop."
- Source tax from Export Cash Subsidy at 5% has been withdrawn and some rates of source-tax have been reduced (e.g., from 6% to 2% for compensation against acquisition of property; from 5% to 3% for shipping business of a resident for services rendered between two or more foreign countries; from 5% to 2% or 1% for persons engaged in real estate or land development business).

New Incentives on Customs Duty

Following are the major tax incentives for FY 2009-10 through the amendments of the Customs Act:

- Period of warehousing for export oriented ship building industry has been extended to a period not exceeding 48 months from the date of warehousing (previously it was a period not exceeding 24 months from the date of warehousing).
- The import duty on basic raw materials has been reduced from 7% to 5% in order to make the local industries more competitive both in local and international market. However, other duty slabs of 3%, 12% and 25% remain unchanged.
- To redress the prevailing power crisis, the customs duty on solar panel has been reduced from existing 3% to 0% and fully exempt parts of energy saving lamps from the existing customs duty of 7% and VAT to facilitate industries producing energy saving lamps to be more competitive.
- The duty rate on books other than text books has been reduced from existing 12% to 5%.

New Incentives on VAT, SD (Supplementary Duty) and TT (Turnover Tax)

Following are the major tax incentives for FY 2009-10 through the amendment of the VAT Act:

- The decision of the Government to provide VAT exemption under international treaty or memorandum of understanding (MoU) has been accommodated. However, a new provision has been made to offset the claim of 'deemed export' for domestic use of goods and services delivered in foreign currency except provided under an international agreement or MoU.
- In order to keep the commodity price under control, the provision to accept the unit price of some goods and services fixed by any Government office or other agencies has been incorporated in the VAT Act. The VAT and supplementary duty is collectible through back calculation from the unit price of the good or service.
- Provision has been made to exempt any particular sector from submission of price declaration.
- VAT has been exempted on Electricity, Cancer preventive drugs, hard board, Electric generator, Refrigerator, Motor cycle, Solar panel, and goods carrier at "Manufacturing stage", on Internet service (only if provided to educational

educational institution) and Specialized doctor at "Service" stage and on Maize (corn) seeds at "Trade stage".

- SD on local manufacturing stage on powder milk from liquid milk has been withdrawn.
- Supplementary duty and VAT has been exempted from internationally awarded Bangladeshi cinema, nationally awarded Bangladeshi cinema and cinema made of government grant.
- The VAT exemption limit for sample medicine export has been increased from Tk. 20,000 to Tk. 30,000. In order to protect the fully manufacturing industry (local) the VAT has been exempted from Refrigerator and Motor cycle for the next one year.
- The provision regarding monthly submission of return has been increased to three months for the 100% exported oriented garment industries and 100% deemed exported accessories industries.
- Annual turnover threshold has been increased from Tk 25 lakh to Tk. 40 lakh for turnover tax or VAT registration.
- Cottage industry facility has been amended in the following way: (a) The investment limit behind plant and machinery has been increased from Tk. 15 lakh to Tk. 25 lakh; (b) Annual turnover threshold has been increased from Tk. 24 lakh to Tk. 40 lakh; (c) Condition of barring the cottage industry from subcontracting has been withdrawn. Now the cottage industry benefit enjoying firm can produce branded goods of local VAT registered person after submission of price declaration to the VAT divisional office and taking approval therefrom.
- Order has been made to significantly reduce tariff value on 5-75 KVA electric transformer.

CONCLUDING OBSERVATIONS

The foregoing discussions lead to conclude that this paper is the outgrowth of an analytical study on a policy-led approach to budget planning in Bangladesh as well as the National Budget of 2009-2010. In the view of the 1973-78 period as the first FYP coverage, if regular FYPs duly continued, the nation is likely to reach the 8th FYP (2008-13). But owing to two-year plan over 1978-80 and two-year plan holiday over 1995-97, the country adopted 5 FYPs so far before its imposed planning shift from FYP to PRSP. During the FYP regime, the annual budget was linked with the annual targets envisaged in the concerned FYP. The preparation of FYP was discontinued since 2002-03, but the PRSP has practically been implemented since FY 2003-04 as an interim policy instrument. However, the policy-led approach to budget planning through the three-year MTBF (Medium

Term Budgetary Framework) has first been implemented in FY 2005-06, which has been working as a linkage between the PRSP and the annual budget. Due to its comprehensiveness for individual ministry/division with two-year forward looking indicative forecasting, the MTBF has made the annual budget more transparent and accountable. Although only 20 ministries/divisions out of 53 ministries/divisions (i.e., 37.7 percent of total number of ministries/divisions) have been covered under the MTBF, however, these ministries are of wide coverage in terms of percentage of program spending (63 percent of total program spending). Owing to its instrumental forward-looking advantage of the MTBF, the Government has to continue to follow the MTBF with continuing expanded coverage of ministries/divisions (32 ministries/divisions in FY 2010-11, i.e., 60.4 percent of total number of ministries/divisions). The interesting point is that the Ministry of Finance or the apex tax authority, the National Board of Revenue (NBR), is still outside this MTBF, which is an urgent need because of their involvement in preparing and implementing the budgets. As stated above, the budget of 2009-10 is the ever largest budget with some innovative schemes, such as mainstreaming the private-public partnership, recognizing the importance of reform agenda in various areas including anti-corruption initiatives, strengthening local government and right to information, considering the sensitivity to global economic crisis with additional stimulus package, and recognizing the need to revisit budgetary framework through unification of budget, deepening of the MTBF, enhancement of ADP implementation network, and so on. The fiscal incentives are expected to contribute to helping the low earning people and further capital formation and industrialization with projected export growth.

With the dream of Vision 2021, and in the advent of new 5-year plan (FYP) within an 11-year perspective plan and also with an intention to converting the present 3-year MTBF (Medium Term Budgetary Framework) into 5-year MTBF, people can expect that the budget targets will be achieved by the new Government. As a sequel to the shifting from PRSP (Poverty Reduction Strategy Paper) to FYP, the Government might raise stronger voice in the Bangladesh Development Forum (BDF) and other international forums. The present policy led approach to budget planning is also expected to be more transparent and forward-looking with more multi-period coverage to make an action-oriented yet accountable government.

Finally, it is evident that the major findings of the study show a chronological account of the policy-switching of the country with respect to the national annual and long-term macroeconomic policies from a traditional FYP system to the PRSP containing a dynamic accountability-oriented multi-period rolling budgetary approach, and then back to the traditional policy coffer of FYP by

maintaining the virtues of the exiting framework of budgeting. Given the continuing expansionary coverage of the MTBF, the study recommends the early reinstatement of the five-year plan with similar five-year rolling MTBF for all the ministries or divisions. The five-year rolling MTBF would be a significant facilitator of quick adoption of FYP, and after its overall coverage, the MTBF would be an equivalent undulating FYP.

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