

# Challenge lies

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Admittedly, a change in the culture of tax evasion will not be easy, but the campaign should have started much earlier.

In spite of the visibly good intentions to allocate more funds for public social spending on health, education and the safety nets, the low rates of revenue mobilisation remain the most formidable constraint, on top of the problem of poor service delivery.

While the new VAT law will now finally be implemented, its effects on prices and business incentives remain unclear for a lack of articulation. It is not clear what principles have been followed in applying VAT at different rates instead of the initially-proposed single rate. The VAT rates may vary according to stages of the supply chains from import and production to wholesale and retail trade, which are similar to the existing truncated rates and are justified by the lack of capacity of businesses to claim credits for VAT paid at the earlier stages. But the VAT rates may justifiably vary according to whether the products or services are essentials or luxuries. The resulting implied protection provided to domestic production may be another consideration, although VAT in principle should be neutral to incentives for import or domestic production. It is not clear whether the outcome of these various considerations create more distortions or bring discipline in the VAT system. Negotiating with the business communities is useful since their cooperation is essential for the effective implementation of the

VAT law, but there is no substitute for independent analysis. Most of all, if tax evasion remains rampant, analysing the effects of VAT rates on paper is a non-starter.

In bringing any changes to the tax structure, policymakers are obviously keen to improve the business environment and investment incentives. However, an overlooked fact is that making the truant businesses tax compliant and preventing the malpractices in import-export businesses are effective ways to encourage honest entrepreneurs -- even more effective than providing tax incentives or outright subsidies.

The budget proposes to provide a subsidy to attract transfer of remittances to the banking system away from the illegal channels. The cost of such subsidies will need to be weighed against the intended benefits through monitoring.

There seems to be a proposal to increase the existing Supplementary Duty, over and above the VAT, on services related to mobile telephony. This will work towards making the indirect tax system even more regressive, since such services are now considered necessary even for the poor. As it is, the mobile phone companies are already paying the lion's share of indirect taxes. In general, the fiscal authorities should exercise self-restraint against temptation to go for the low-hanging fruits irrespective of the equity aspect of taxation.

[The writer is an economist and former adviser to a caretaker government.]

# PM helps

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the national budget, on behalf of the finance minister, at the Bangabandhu International Conference Centre at 3:00pm.

The press conference, an event held the day after the placement of the budget, was supposed to be attended by Kamal, but due to his ailments, the PM will be attending the briefing, according to her daily schedule.

The finance minister yesterday entered the parliament straight from a city hospital where he was admitted with high fever a couple of days ago, sources at the parliament secretariat said.

Kamal started presenting the national budget for 2019-20 at 3:07pm. After reading out the budget speech for around 40 minutes, the finance minister looked exhausted. He was struggling to speak clearly.

From the beginning of his speech, senior Awami League MPs Matia Chowdhury and Sheikh Fazlul Karim Selim were seen helping him read out his speech.

At one stage, Kamal sought assistance from the prime minister, also Leader of the House.

He also asked for the Speaker's permission to allow the PM to read out the rest of the budget speech. As the PM also sought her permission, Shirin Sharmin gave her the floor.

"If the Speaker allows it, I can read out the budget speech as much as I can," the PM said.

As Hasina began the speech, she said both she and the finance minister had been suffering from same illness.

Earlier on Sunday, the PM in her press conference at the Gono Bhaban

# Pledges there

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The banking sector faced a wide range of financial scams in recent period, which led to rise in default loans to Tk 110,874 crore as of March, up 25.15 percent year-on-year.

In his budget speech yesterday, the minister proposed some reform measures including revising the bankruptcy act, enacting a new law for merger and acquisition for weak lenders.

Experts welcomed the proposals but said there should have been a roadmap to implement those.

"I welcome the confession made by the finance minister as no needful measures were taken to this end in recent years," said Mansur, also a former economist of the International Monetary Fund.

In his speech, the finance minister said the Bank Companies Act 1991 will be amended so that amalgamation, merger and absorption of banks can be legally processed, if required.

He also said stern measures will be taken against the wilful defaulters of bank loans.

Necessary amendments will also be brought to the Bank Companies Act to modernise the functions of holding companies and subsidiary companies. The Bankruptcy Act will also be revised so that the loan recipients can get an exit route if they fail to repay loans, he added.

The minister said he did not find any mentionable reform initiative in some areas, especially in the banking sector from the beginning.

He also hinted at forming a bank commission to restore corporate governance.

"We have heard for long about establishing a bank commission for bringing discipline in the banking and financial sectors. We would discuss with all concerned in this matter and do what is needed."

Mansur said if a commission is truly

formed, the government should allow it to work independently.

AB Mirza Azizul Islam, a former adviser to a caretaker government, also expressed doubt about the effectiveness of a banking commission.

"It is impossible to strengthen the governance in banks despite forming a commission until lending on political grounds stops."

Mirza Aziz added that the finance minister had not given any clear indication on how to tackle the directors of banks, who had given loans to each other through what can be termed "mutual understanding".

"Also, there is nothing on how to recover crores of money stuck at the money loan courts."

In the speech, Minister Kamal said stern measures would be taken against wilful defaulters of bank loans.

But, Salehuddin Ahmed, a former governor of the central bank, said there is no definition or mechanism to identify wilful defaulters.

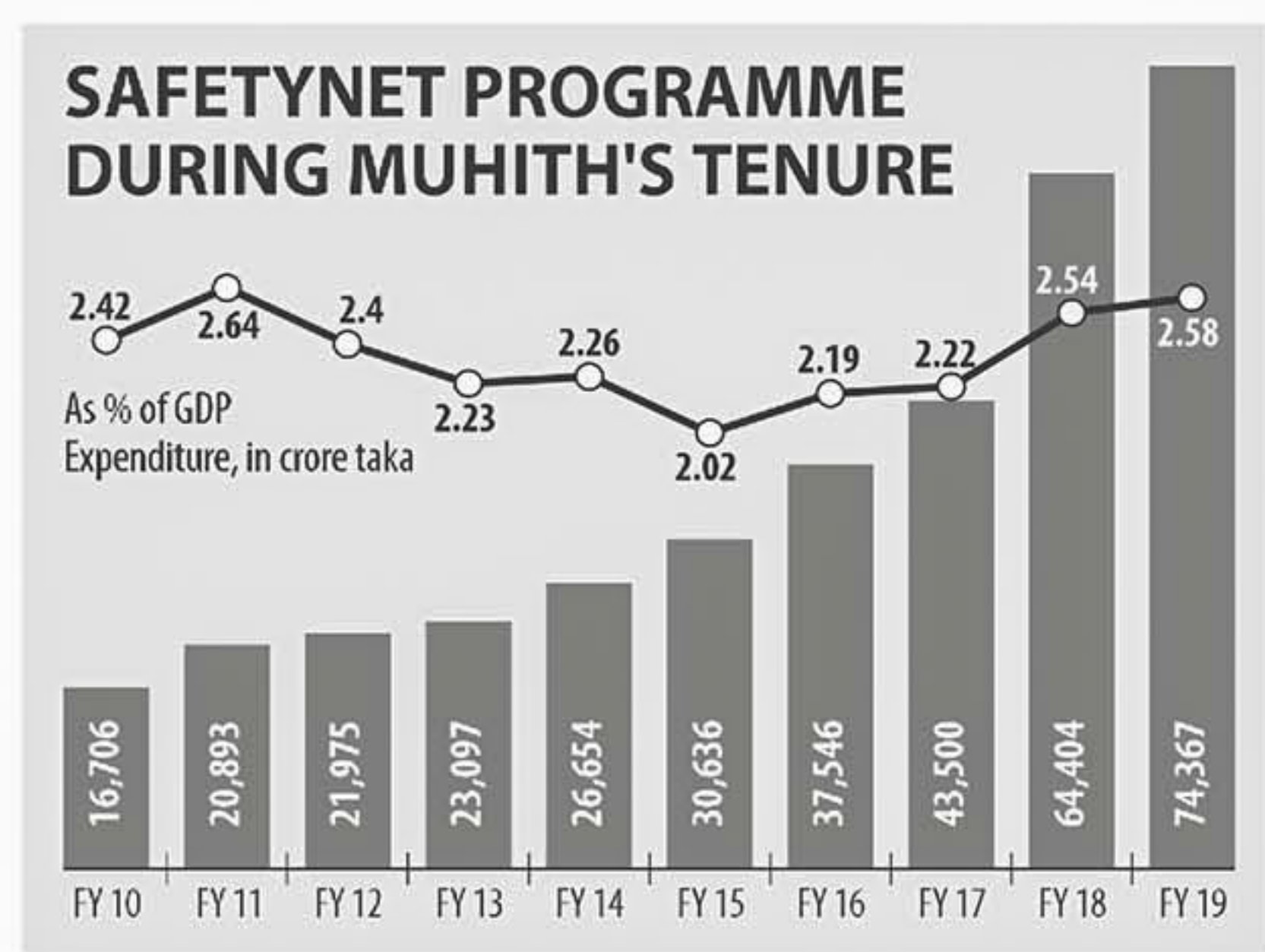
He said the finance minister's speech seemed superficial as there was no explanation as to who was the habitual defaulter.

The budget speech mentioned many problems of the banking sector, but it bypassed the way of solutions, he added. "Many problems will go away if there is strict enforcement of the existing laws."

The finance minister also laid emphasis on making a vibrant bond market to avoid fund mismatch of banks.

He said lenders are now giving long-term loans by collecting short-term deposits, which has created the fund mismatch. The bond market will help banks mobilise fund by way of issuing long-term bond.

Mirza Aziz observed that the government has long been assuring the financial sector of taking measures to make the bond market vibrant but that has yet to happen.



# Safety for 16 lakh more

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remarkable progress by getting 1.6 crore people out of poverty over the last decade, 12.9 percent of the population are still ultra-poor and live on less than \$1.90 a day, the global poverty line, according to the Bangladesh Bureau of Statistics.

The government has also planned to gradually bring all cash transfers under the government to persons (G2P) system so that the recipients do not have to jump through hoops to get the money.

Under the G2P system, payments are processed from the government exchequer to the beneficiary's bank or mobile bank account.

The government yesterday proposed allocation of Tk 74,367 crore for all its safety net programmes, up by Tk 9,963 crore from last year.

Last year, the government had allocated 14.55 percent of its entire budget for social safety net programmes but this year it dropped to 14.21 percent.

However, it plans to double the allocation in the next five years.

Economist Hossain Zillur Rahman, also a former adviser to a caretaker government, told The Daily Star that the steps taken so far were better than before and would help reduce the rich-poor gap. He, however, said the allocation should have been even bigger considering recent inflation.

"Protecting people from risks and human resource development are the two main objectives of the social safety net," he said.

On the G2P system, he said, "Some of the payments are being made directly to bank accounts or mobile banking accounts. All projects should be brought under this system."

Zillur said the government yesterday did not propose any new areas of safety net coverage, like healthcare for the marginalised.

KAM Morshed, director advocacy at Brac, told The Daily Star yesterday that the allocated amount was not bad. He, however, said there were problems in

beneficiary selection and the existing fund transfer process.

He said the amount of increased allowances beneficiaries would get was small. The government itself has identified these problems. If these are addressed properly, the existing allocation will be more fruitful, he said.

Morshed lauded the government's plan to arrange universal pension scheme.

All registered insolvent people with disabilities (15.45 lakh) would get government allowances, according to the proposed budget. In this fiscal year, only 10 lakh got the benefit.

This year, 1 lakh differently abled students would get stipends, up from 90,000.

A primary student would get Tk 750 instead of Tk 700, secondary student Tk 800 instead of Tk 750, and higher secondary students would also get a Tk 50 increase in allowances.

The budget proposed state honorarium for valiant freedom fighters at Tk 12,000, up from Tk 10,000.

At least 4 lakh more people would get old-age allowance. Now, 40 lakh get the benefit.

Fourteen lakh widows and victims of domestic violence receive government allowances and in the upcoming fiscal year 3 lakh more would be added.

Additional 20,000 gypsies and people of disadvantaged communities would be added to the existing list of 64,000 getting benefits from the government.

The number of beneficiaries in the Third Gender Livelihood Development programmes would increase to 6,000 so that all people of the gender come under the net.

Nearly double the cancer, kidney, liver cirrhosis, and paralysis patients (30,000 total) would get government benefits in the upcoming fiscal year.

At least, 70,000 more poor mothers (7.7 lakh total) would get maternity allowances.

# Devalue Taka to help

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for paying cash incentives on garment export receipts. Some Tk 3,060 crore has been allocated for paying incentives on remittance receipts.

Ahsan H Mansur, executive director of Policy Research Institute, said it was not needed to raise the cash incentive against the export receipts as it could be compensated by devaluing the local currency against US dollar.

According to him, the devaluation of taka is long overdue.

"There is a room for devaluation of the local currency by another Tk 7, of which the exporters would get at least Tk 4 as they have to spend Tk 3 for import of raw materials," Mansur told The Daily Star over the phone.

"The exporters deserve more, but they should not be compensated with the people's tax money. The government should not give an incentive to any matured industry," he observed.

Rubana Huq, president of Bangladesh Garment Manufacturers and Exporters Association (BGMEA), platform for garment factory owners, said 1 percent cash incentive was quite inadequate for them as they were "passing through a very bad time".

The apparel exporters had demanded 5 percent cash incentive.

"Had it been at least 3 percent, it would have been okay for us," Rubana said at a Facebook live event on the budget.

She said it was estimated that the amount of cash incentive would be Tk 14,000 crore at the rate of 5 percent in a year solely for the garment sector, but the government allocated Tk 2,825 crore for the same period.

Zahid Hussain, lead economist at the World Bank's Dhaka office, said it is not right to include the offer of a cash incentive in the national budget, rather taka should be depreciated against US dollar.

He said given the real time effects of exchange, taka can be devalued up to Tk 90 against \$1 which is now exchanged between Tk 84 and Tk 84.50.

The economist said the garment exporters would be more benefited from the devaluation of the local currency.

He, however, said he was not sure about the necessity for giving a cash incentive to the garment sector as the country's garment export was on the rise.

Moreover, a big opportunity has been created for Bangladesh due to the current global trade scenario. For instance, Bangladesh has been receiving a lot of work orders, especially from the US retailers and brands, over the last one year because of the ongoing tariff war between the US and China, he told this newspaper over phone.

Many Western retailers and brands have been transferring work orders from China, the world's largest apparel exporter, to Bangladesh and some other neighbouring countries, mainly to avoid any uncertainty in the entire supply chain, said the WB official.

Furthermore, the US government recently suspended the GSP facilities of India and Turkey, two major global competitors of Bangladesh, which has also created an opportunity for the local exporters to grab more share in the US market, Zahid said.

According to him, many competitors of Bangladesh in Asia devalued their local currencies significantly to be more competitive in global trade and to give incentives to their exporters.

He said the government did not need to pay a two percent incentive to the remitters.

Salehuddin Ahmed, a former governor of Bangladesh Bank, said taka can be devalued slightly.

"We may devalue taka slightly against US dollar in line with the market demand, but we have to keep in mind that there is no negative impact on the imports," he told The Daily Star.

Bangladesh Bank data shows that expatriate Bangladeshis sent home \$15.06 billion in eleven months (July 2018-May 2019) of the current fiscal year.

In the ongoing fiscal year, cash incentives are being offered against 35 categories of export products, according to budget documents.

Export incentives provided in fiscal 2008-09 amounted to Tk 1,500 crore, which stood at Tk 4,481 crore in the fiscal 2017-18.

# Long on promises

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this year's revised budget.

This is a lofty target, given the NBR managed to collect Tk 153,477 crore in the first nine months of FY 2018-19, meaning more than Tk 126,522 crore has to be collected in the last three months. This is not possible, if past records are any indication.

This begs the crucial question: How would the government pull off an even bigger amount next fiscal year? Kamal's game plan is therefore wishy-washy at best.

He speaks of establishing revenue offices in every upazila and growth centres in the country, bringing in more people under the tax net, simplifying the laws and processes for income tax, value-added tax and customs, and checking corruption.

But there are no details about how he would do that.

For instance, there is a plan to automate the VAT system, with the National Board of Revenue working to set up electronic fiscal device in every business organisation to make VAT collection more transparent. But would it be done in fiscal 2019-20? He doesn't say.

The long-awaited VAT law will finally take effect in the new fiscal year.

Prescribed by the International Monetary Fund, with a single VAT rate of 15 percent at the turn of the decade, it has gone through populist changes since.

The overwhelming opinion of economists and tax experts is that its implementation would be rather tricky.

Kamal had the chance to dismiss those fears by coming up with a definitive plan but he held back. All he said was that all logistical support would be provided.

One area where he sounded more assured is income tax, as the government is desperately looking for ways to bring in revenue.

Work on formulating a new income tax act in line with the international best practices is underway, and is likely to be placed before parliament next year.

Effective initiatives have already been taken to expand the income tax department. The number of tax zones will be increased to 63 from the existing 31.

Also, fixing the banking system is the need of the hour. The problem has built up over the years and the Awami League government has so far not taken a corrective action plan.

Kamal's predecessor AMA Muhith spoke of forming a banking commission in the run-up to the budget for 2018-19, but in his budget speech the issue went missing.

Kamal at least mentioned it, along with the much-needed amendment to the Bank Company Act to facilitate absorption of weak banks by stronger ones, stern action for wilful defaulters

and an effective insolvency and bankruptcy law. Again, he stopped short of giving a timeline.

But rejuvenating the cash-strapped banking system is imperative given the government's plan to raise its borrowing from this source by 53 percent to Tk 47,364 crore.

The need for enhancing the quality of human resources did get some attention in the budget.

"Much of our future depends on how we manage our education system. Our government will take necessary measures from this year," Kamal said.

He allocated Tk 100 crore for training and employment of the youth. Youth unemployment for a lack of necessary job skills is a growing headache for the government.

A three-year programme has been taken up to create more jobs in the industrial sector.

The government will facilitate qualitative employment for the growing population within the next two years, Kamal said.

In the new budget, Tk 100 crore has been allocated to provide seed money for budding entrepreneurs.

One of the common broadsides directed at the government when it claims tremendous economic growth in the last one decade is that a large portion of the population is yet to see any of its benefit trickle down.

Kamal tried to address the issue to some extent by expanding the social safety net a little: 15.45 lakh people would be added in the incoming fiscal year to take the tally to 1.13 crore.

Some Tk 74,367 crore has been allocated for this, up 15.47 percent year-on-year. The amount is 2.58 per cent of the GDP, which is too paltry a share.

The agriculture sector, which is still the backbone of the economy, has been neglected in comparison with other sectors, particularly the issue of ensuring fair prices of their produce.

But the biggest hole in Kamal's budget was the absence of any special plans for the mega infrastructural projects, which are non-negotiable if Bangladesh wants to become a higher middle-income country and then go beyond.

Fifteen mega projects got Tk 202,721 crore, but the minister did not articulate whether special attention would be given to ensure their completion as early as possible.

Every year, they are given huge allocations only to witness little work taking place.

What is most important at the end of the day is effective implementation of the budget -- shorn of corruption, leakage and evasion. Unless that is ensured, even an unlimited amount of resources would not be of any help.

# Silent on rising

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while the rest is meant for development.

A major portion of the development budget will be spent on establishing new hospitals, medical colleges and related facilities.

According to the proposed plan, eight new medical colleges will be established across the country. Nephrology units and kidney dialysis centres will be set up at all government medical college hospitals and district sadar hospitals.

The plan also includes establishing cancer treatment units in all medical college hospitals at the divisional level.

Besides, there are plans for establishing Institutes of Nuclear Medicine and Allied Sciences at the campuses of eight medical college hospitals, and establishing a medical university in each division. The government has also undertaken steps to recruit as many as 9,792 medical officers.

Ehteshamul Huq Choudhury, secretary general of Bangladesh Medical Association (BMA), said setting up more medical colleges and hospitals is essential, but this requires a significant increase in budgetary allocation.

He said they had expected the health budget to be at least 8 percent of the total budget. According to the World Health Organisation, an ideal health budget should be 15 percent of the total budget.

"Nutrition of mother and child, safe delivery and childcare are some of the most important aspects of healthcare. We haven't seen any provision in the budget proposal to facilitate these aspects," he added.

Even the school health programme, which is an important component of improved lifestyle and food habit, was not mentioned in the proposed budget, Ehteshamul added.

Mahbub Elahi Chowdhury, acting head of Universal Health Coverage Programme at the icddr, said governance is currently the most important aspect of Bangladesh's health sector.

"There are doctors posted at the upazila level hospitals. But when you go there, you don't find them. So, people don't go there," he said.

Such a dismal situation in the public medical facilities push them to avail services from the private hospitals at a higher cost.

Many people even have to sell their

# Prices up, Prices down

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land and other properties to finance their treatment.

According to a study conducted by the health ministry in 2015, out of pocket expenditure (OOP) in Bangladesh is 67 percent of the total healthcare expenditure which is highest in the South and the Southeast Asia.

OOP refers to the expenses that a patient or the family has to pay directly to the health care provider, without a third-party (insurer or State), Mahbub said.

Reducing the OOP should be major concern of the government to achieve universal health coverage. However, the proposed budget did not mention anything about this issue.

Mahbub also claimed the allocated money for health sector cannot be utilised fully due to the existing inefficient system.

"Unless that's changed, mere increase in allocation won't help," he added.

# 400 arrested at Moscow police abuse march

AFP, Moscow

Russian authorities sought Wednesday to crush a new protest wave, arresting more than 400 people at a Moscow march a day after police suddenly dropped trumped-up drug charges against a respected journalist.

Among those detained on Russia Day, a public holiday, were teenagers and Russian and foreign journalists.

Opposition leader Alexei Navalny was also arrested but was then released hours later.