

## INCREASING FOREIGN RESERVES

## Ensuring welfare of migrants is key

Experts say

PORIMOL PALMA

The government has to ensure the welfare and security of migrant workers to increase remittance flow, a key factor for foreign currency, experts have said.

Like the global economy, Bangladesh is experiencing weak growth, high inflation, and supply disruptions in the aftermath of the Covid pandemic as well as in the wake of the Russia-Ukraine war.

With the import cost going up and commodity prices rising globally, increasing foreign currency and maintaining macroeconomic stability have become major tasks in hand for Finance Minister AHM Mustafa Kamal.

Experts say, besides increasing export, remittance will be a key factor.

In the first eleven months of the current fiscal year, export earnings were \$47.17 billion, which is 34.09 percent higher than that of the same period of the previous fiscal year. If this trend continues, by the end of the fiscal year, the export revenue will exceed \$ 50 billion.

Mustafa Kamal said in parliament yesterday that there is a plan to ensure overseas employment of 8.10 lakh Bangladeshi workers and provide skill development training to 5.20 lakh workers in different trades.

Common sense would suggest greater numbers of migrants going abroad to work will result in higher remittance inflow. However, more migrant workers have not always translated into higher remittance flow.

At the peak of the Covid-19 pandemic in 2020, when hundreds of thousands of migrants were jobless and unpaid and only 2.17 lakh new Bangladeshis went abroad to work, the remittance went up to \$21.75 billion – a significant rise from the \$18.35 billion in 2019 when more than seven lakh migrants went abroad.

However, remittance in 2015 was \$15.27 billion when 5.55 lakh Bangladeshis went abroad, but in 2016, remittance came down to \$13.60

billion. 7.57 lakh migrants went abroad during that time.

Recruitment industry insiders say more people going abroad means more hundi, an illegal way of money transaction that can have an adverse effect on foreign currency reserve.

Experts say high recruitment costs and the way migrant workers are treated are two factors behind the hundi problem.

Recruitment cost for Bangladeshi migrants is the highest in the world. According to an ILO study, on average recruitment cost of a Bangladeshi is

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\$4903 or Tk 4.16 lakh. The average monthly salary of a Bangladeshi migrant worker is Tk 23,093. And that worker needs to work 17.6 months to recover the amount he had to spend to get the job.

A recruiting agent says a major portion of the recruitment cost is laundered abroad as payment to the brokers there. So, the portion of the foreign currency that would have otherwise been remitted to Bangladesh through official channels remains in that country. An equivalent amount of Taka is paid to the migrants' relatives back home through hundiwalas (hundi traders).

Anisur Rahman Khan, director of migration programme at Awaj Foundation, said high migration cost gives birth to a number of other problems. Layers of illegal brokers get engaged just to make money at the cost of migrants' vulnerability.

"Brokers even arrange job visas against fake or unspecified jobs. Once the migrants arrive abroad, many of them find themselves jobless and clueless," he said.

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PHOTO: PMO

**Prime Minister Sheikh Hasina and Finance Minister AHM Mustafa Kamal entering the House yesterday to join the budget session for fiscal 2022-23.**

## Govt to invest \$80b for climate resilience

MOSTAFA YOUSUF

The government is planning to invest \$80 billion to shift the country from climate-vulnerable to a sustainable climate-resilient country under Mujib Climate Prosperity Plan (MCPP) by 2030, Finance Minister AHM Mustafa Kamal said yesterday while unveiling the national budget for the fiscal year 2022-2023.

In his budget speech, the minister termed the MCPP a strategic investment framework saying the

investment being planned will be funded from both national and external sources.

During his speech, he informed the parliament about the government actions and plans taken for the conservation of the environment.

"Considering the immense importance of environmental protection, the government has made it mandatory to follow a pragmatic and inclusive environment-friendly plan in all development activities", he said.

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## Approach not a good fit

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he recommended allocating Tk 113,576 crore, up from the outgoing fiscal year's Tk 107,614 crore, for social safety net programmes in 2022-23 FY. The amount is 16.83 percent of the total budget outlay and 2.55 percent of the gross domestic product (GDP).

Economists, however, stressed the need for revamping the safety net in tandem with the needs of the people, but also making it more efficient.

"We have to be more realistic," said noted economist Qazi Kholiquzzaman Ahmad.

In terms of inflation, the country is still in a better position than many others. However, there is a possibility that things could take a bad turn in the coming days, he said.

Kholiquzzaman, also the chairman of Palli Karma-Sahayak Foundation (PKSF), said the country was making a decent recovery from the pandemic when the war in Ukraine began. It took global commodity and oil prices to higher levels. There will be an adverse effect on Bangladesh's economy as well.

"We have to take measures keeping these factors in mind," he said, suggesting that the government should double the number of beneficiaries from 50 lakh who can buy rice for Tk 10 each kg to relieve the pain of soaring commodity prices.

Binayak Sen, director general of the Bangladesh Institute of Development Studies (BIDS), suggested introducing a rationing system for the affected people rather than giving cash support to them.

He said the government can provide rice at a cheaper price for the next six months. For that, the government has to buy rice from the domestic market and store it. But the problem is, he said, even if the government buys the staple, it cannot stock due to its inadequate storage capacity.

"We could not make fully operational the eight silos built in the public sector in the last decade. Someone has to take the responsibility for this."

He said cash support could be given to the affected people. "Providing cash support will help enhance people's purchasing power, but there would be an inflationary trend in the overall food market," said Binayak.

The government's social safety net programmes are faced with two major challenges.

First is delivering the support to intended beneficiaries as there were examples of irregularities such as inclusion of ineligible people with political connections in the list of beneficiaries leaving many genuine ones out.

Second is the lack of accurate data. The

government does not have a central database of the people who are in need of the assistance. So, when the government started providing a cash support of Tk 2,500 to people hit by the first Covid wave in 2020, allegations of anomalies in the list of beneficiaries cropped up, forcing the authorities to halt midway.

Experts said the government must ensure that the process is fair and benefits reach the deserving people. They also emphasised on establishing a central digital database for social safety net programmes, and budget allocations have increased almost eight-fold compared to the allocation made in the budget for FY2008-2009.

He proposed increasing the number of beneficiaries for specially abled persons by 3.57 lakh to 23.65 lakh in the FY 2022-2023 in place of 20.8 lakh. The rate of monthly allowance will be increased by Tk 100, from Tk 750 to Tk 850, he said, proposing to allocate Tk 2,429 crore as disability allowances.

Kamal also proposed increasing the number of beneficiaries of maternity allowance to 12.54 lakh in FY2022-2023 from 10.45 lakh in the outgoing fiscal year.

Poor pregnant mothers in rural areas and low-income lactating working mothers in urban areas get the allowance under the "Mother and Child Support Programme".

He said the government should consider the fact that a huge number of people belonging to low-income groups could fall below the poverty line because of the rising cost of commodity prices and living.

"We need to keep this perspective in mind and take measures accordingly," he added.

by the readymade garment sector, which is now well-established.

The cash incentive for the sector should be reduced, he said, adding it should be phased out gradually.

Selim Raihan, executive director of the South Asian Network on Economic Modelling, said the budget deficit would be widened if the subsidy was increased further. In that case, the government will have to borrow the amount from the banking sources.

If the government

Around 115 social safety net programmes are currently being implemented by 24 ministries, a large number of the programmes suffer from overlapping in various forms due to a lack of coordination and proper monitoring. Besides, ensuring transparency and accountability remain major problems.

**WHAT'S IN BUDGET PROPOSAL?**

In his budget speech, the finance minister yesterday said 29 percent households have already been covered by social safety net programmes, and budget allocations have increased almost eight-fold compared to the allocation made in the budget for FY2008-2009.

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taxpayer, who earned up to Tk 15 lakh a year, could get 15 percent tax credit on the amount of eligible investment which is 25 percent of the taxpayer's total income. The tax credit rate was the same for an individual earning up to Tk 15 lakh.

In the next fiscal year, the tax credit rate for individuals with annual income of above Tk 15 lakh is going to increase to 15 percent from 10 percent.

Based on the changes, the amount of overall rebate will decline, increasing tax burden mainly on the middle-income taxpayers.

For example, a taxpayer who earned Tk 6 lakh a year was entitled to a tax credit of Tk 22,500 in the outgoing fiscal year.

According to the changes proposed by the NBR, the tax credit will fall to Tk 18,000. This will increase tax burden on the taxpayer, leaving him or her with less money to pay for food, education, healthcare and other necessities after tax payment.

By contrast, if an individual earns Tk 20 lakh annually, the amount of tax credit for the person will go up to Tk 60,000 in the next fiscal year from Tk 50,000 in the outgoing fiscal year, thanks to a 15 percent tax rebate benefit.

The reduction in tax

liability of such individuals has surprised many like Snehasish Barua, partner of Snehasish Mahmud & Co, a chartered accountancy firm.

He explained that the advantage of the existing slabs of investment and tax rebate (15 percent tax rebate for income up to Tk 15 lakh) is that it gives higher credit to low-income groups and lower credit to higher income groups.

"The additional tax will be an extra burden [on taxpayers in lower-income slab] given the unabated inflationary trend.

"This is unfair to the middle-income groups, especially for those who earn Tk 10 lakh annually. Moreover, the rebate is reduced... The cost of living is going up. This will lead to a reduction in disposable income of the taxpayers," he noted.

Towfiqul Islam Khan, a senior research fellow at the Centre for Policy Dialogue, said corporate tax has been reduced for both exporters and domestic market-oriented businesses.

"But we see no exemption or waiver for the low-income and middle-income taxpayers. I am surprised... This is a sort of betrayal with them.

"The middle-class people don't get any relief... It seems there is no one to sympathise with them for

## Budget to help draw

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industries and 10 percent for all green factories. Till now, only the garment sector had enjoyed this tax benefit.

Currently, many sectors have to pay 20 to 25 percent tax. Implementation of the proposal will minimise discrimination, Reaz said.

The 21 percent increase in subsidies for the energy, liquefied natural gas and power sectors will boost power supply to industries and reduce the cost of doing business, he said.

Another boost is the reduction of corporate tax by 2.5 percent, irrespective of listed, non-listed and one-person companies (OPCs).

"This kind of gradual reduction will signal to foreign investors that the country is becoming ready to attract more investment," said Reaz.

Ahsan H Mansur, executive director of the Policy Research Institute (PRI), said different incentives and reductions of taxes like income and corporate tax will definitely encourage investment.

"So, this budget is business-friendly and it is a move in the right direction for attracting investment."

Moreover, more than Tk 82,000 crore subsidy in the energy, power, infrastructures and health sectors will have positive impacts on investment, he added.

Md Saiful Islam, president of the Metropolitan Chamber of Commerce and Industry, said the private sector investment will grow by 0.50 percent from the existing 23 percent thanks to various encouraging incentives and steps in the budget.

The rationalisation of corporate tax, income tax for the RMG and non-RMG sectors and the reduction of duty on the import of industrial raw materials to 4 percent from 10 percent are very encouraging, Islam said.

Md Shahidullah Azim, senior vice-president of BGMEA, said the

government's continued support in the form of incentives will attract investment in the garment sector.

Moreover, the corporate tax reduction, 5 percent VAT reduction on subcontracting factories and increasing allocation for skills development will attract investment, he said.

However, he called the source tax at 1 percent and the imposition of 1 percent duty on the import of solar panels discouraging.

Mohammad Hatem, executive president of Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), said although the proposed budget has a lot of positives, the increase of source tax to 1.0 percent from the existing 0.5 percent is discouraging.

If government agencies disconnect utilities like electricity, water and gas, businesses will not grow, he said. "However, the cut in the corporate tax rate and the uniform tax rates will definitely encourage investment."

Mohammad Ali Khokon, president of Bangladesh Textile Mills Association, welcomed the aspects of the budget like the reducing corporate tax and the reduction of VAT on the sales of man-made fibre (MMF) to Tk 3 per kg from Tk 6 per kg.

"The VAT reduction on the sales of MMF will encourage investment in the non-cotton sector."

The cut in VAT on the sale of finished fabrics to 2 percent from 5 percent and the continuation of tax at 15 percent for the textile sector will encourage investment, Khokon said.

However, higher revenue collection targets in the proposed budget will put pressure on the private sector, according to the entrepreneur.

"The government's continued incentives for the economic zones will also help attract investment."

## Relief for the rich, burden

the ordeals they are going through now," he added.

The CPD had earlier suggested increasing the tax-free income threshold for individuals to Tk 3.50 lakh in view of the added pressure of rising food inflation and the pandemic-induced erosion of income.

The next slab for individual income tax, which is 5 percent for an additional Tk 1 lakh, should be raised to Tk 3 lakh to provide a cushion to the middle-income earners, it said.

The suggestions, however, remain unheeded.

The CPD also said the NBR should reinstate the highest tax rate of 30 percent to promote tax justice. In fiscal 2020-21, the NBR reduced the rate to 25 percent.

For the next fiscal year, the tax authority has not sought any changes in wealth tax surcharge. This means wealthy taxpayers will not have to pay any increased amount of wealth surcharge as the NBR has kept the ceiling of net wealth and the corresponding rate of tax surcharge unchanged for the second consecutive year.

The tax authority introduced the surcharge in 2011-12 as an alternative to wealth tax to collect more taxes from the affluent section of society.

**TAX RULES TIGHTENED**

Professor Mustafizur Rahman, a distinguished fellow of the Centre for Policy Dialogue, said the budget did not meet the demand of the hour. He, however, applauded the initiative aimed at reducing the corporate tax rates.

The reform initiatives in the financial sector should be implemented properly, he said.

Binayak Sen, director-general of the Bangladesh Institute of Development Studies, voiced concerns about the decrease in the tax-to-GDP ratio.

"It's alarming,"

The NBR has tightened tax rules to expand tax net and improve compliance by individuals and businesses in the next fiscal year. For instance, contractors will have to submit proof of submission of income tax return to avoid paying 50 percent higher tax on the payable amount.

During receipt of payment, service providers will also have to pay 50 percent higher tax for failing to show proof of tax return submission.

Snehasish said such a move will push up the cost of business.

Until now, savers in banks and financial institutions have to submit Taxpayers Identification Number (TINs) to avoid paying 15 percent tax on interest income from deposits. In the next fiscal year, they will have to show proof of tax return submission.

To recover unpaid tax, the NBR wants inclusion of a provision in the law to ask utility providers to disconnect gas, electricity and water supply in case of failure to pay undisputed tax.

It also seeks to widen the scope for spot assessment to bring more people under the tax net. Firms will also face higher scrutiny by tax offices that will see whether source tax has been collected properly.

## Budget doesn't reflect reality

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Selim Raihan, a professor of economics at the University of Dhaka, said, "Although the budget acknowledges the global context, the domestic context is not well-analysed and addressed."

He said they did not find adequate initiatives in the budget to protect the marginalised groups from the onslaught of inflationary pressure.

"The budget acknowledges the rising inflationary pressure. However, the expectation of containing the average inflation to 5.6 percent in

the next fiscal year is quite ambitious, given the current situation and shifting global economic factors."

The budget did not reflect the challenges facing micro and small enterprises, he said.

Prof Selim, however, called the plan related to the sales through the Trading Corporation of Bangladesh to mitigate the effect of inflation on the low-income people commendable.

"The budget also promises to continue taking actions against hoarders, but does not offer a detailed plan."