ADP ALLOCATION

FY24: Tk **254,392**cr [revised]

Initial allocation: Tk **274,674**cr

EXECUTION

In April of FY24, execution rate was **6.96**%

In April of FY23, it was **8.68**%

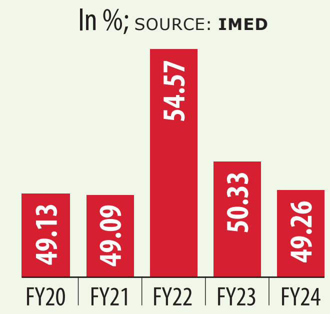
TOP PERFORMERS
Among highest recipients (Jul-Apr)

Power division: **68.29**%

Science and technology ministry: **60.14**%

Agriculture ministry: **58.81**%

ADP SPENDING IN JUL-APR PERIOD
In %; SOURCE: IMED



ADP implementation slows to three-year low

MD ASADUZ ZAMAN

Government spending under the Annual Development Programme (ADP) slowed to a three-year low in the first 10 months of the current fiscal year (FY) of 2023-24, with the implementation rate dropping to 49.26 percent.

According to data from the Implementation Monitoring and Evaluation Division (IMED), the government spent Tk 125,316 crore from its ADP allocation in the July-April period of FY24.

During the same period in FY23, development spending amounted to Tk 119,064 crore, representing an implementation rate of 50.33 percent.

Given the lower implementation rate, government agencies are likely to miss the revised target of spending Tk 254,391 crore on development projects by the end of the fiscal year in June.

The last two months of a fiscal year usually witness a higher trend of implementation and speedy fund disbursement.

But such practices raise questions about the quality of implementation, according to an analyst who spoke with The Daily Star yesterday.

"There is a trend of spending around 80 percent to 87 percent of the ADP allocation in the entire fiscal year," said Mustafa K Mujeri, executive director of the Institute for Inclusive Finance and Development (InM), an independent non-profit institution.

At present, less than half of the work has been done.

So, if implementing agencies want to keep pace with the normal trend, they have to spend over 35 percentage points of the ADP allocation in the next two months.

In April, the execution rate was only 6.96 percent of the total ADP allocation, down from 8.68 percent in the same month of the previous fiscal year, as per IMED data.

"It just shows hurriedness at the end. It may create an opportunity for corruption or to waste money," Mujeri said.

In some cases, many contractors try to implement projects by ignoring quality, which creates persistent problems for beneficiaries, he added.

An IMED official, seeking anonymity, said implementing agencies initially move slowly due to various factors, including land acquisition and import activities.

As a result, disbursement also slows, leading to time overruns, he said.

"When deadlines approach, they try to execute promptly," the official added.

Mujeri also underscored the need to implement projects under the health services division and education sector on a priority basis.

In the July-April period of this year, the health services division spent Tk 3,494 crore, or 37 percent of its total allocation.

That made it one of the worst performers in terms of implementation among the 15-highest ADP allocation recipients alongside the shipping ministry and the Prime Minister's Office.

"The trend of lower execution in health and education projects is alarming," Mujeri said.

"It has a far-reaching effect on public health and education as many low-income people can't afford their expenses," added Mujeri, also a former director general of the Bangladesh Institute of Development Studies.

In the last fiscal year, the IMED received over 350 proposals from ministries and divisions seeking to extend deadlines for various projects.

In this regard, Prime Minister Sheikh Hasina directed officials at a National Economic Council meeting on March 12 to ensure feasibility studies to improve the quality of implementation and speed up implementation of projects that would serve people immediately, according to the IMED official.

Pran-RFL gets nod to use land of shuttered govt textile mills

STAR BUSINESS REPORT

Pran-RFL Group is going to build factories to manufacture products related to textiles on the land of two shuttered mills of the Bangladesh Textile Mills Corporation under a public-private partnership.

The cabinet committee on economic affairs approved proposals in this regard at a meeting yesterday, Cabinet Secretary for Coordination and Reforms Mahmudul Hossain Khan told journalists after the meeting.

A total of 20 acres of land of RR Textile Mills located in Sitakunda of Chattogram will be leased out to the group for 30 years, he said.

Besides, Chorka Textile of the group will set up mills by taking lease of 26 acres of land of Rajshahi Textile Mills for 30 years.

The cabinet committee on government purchase also decided to buy electricity from gas-based Shahjibazar Power Company for five more years.

During the period, the government will purchase electricity from the company at Tk 7.04 per kilowatt.

Besides, the committee also approved proposals to purchase 50 lakh litres of soybean oil at Tk 151.45 per litre, 1.30 crore litres of palm oil at Tk 143 per litre, and 10,000 tonnes of lentils at Tk 101.30 per kilogramme from local markets.

Automation a must for better customs management

FBCCI chief says

STAR BUSINESS REPORT

Full automation and proper implementation of the customs laws are a must now to simplify customs management, said Mahbubul Alam, president of the Federation of Bangladesh Chambers of Commerce and Industry (FBCCI).

The customs management should be fully automated as trade gets disrupted due to various complications related to declaration, customs and harmonised system (HS) code, he said.

"No matter how beautiful the law is, if it is not properly implemented, it will not be beneficial."

If the act is implemented with necessary amendments, businesses, trade and economy will be dynamic, he said.

Alam made the comments at a workshop at the FBCCI office in Dhaka on Sunday jointly organised by the FBCCI and the National Board of Revenue (NBR).

Necessary amendments will be made in the Customs Act considering the logical proposals of the business community, said Abu Hena Md Rahmatul Muneem, chairman of the NBR.

China vows to help foreign firms

AFP, *Seoul*

China's Premier Li Qiang said his country will always be open to foreign companies and promised steps to boost their confidence in the world's second-largest economy, state media reported.

Li made the comments during his meeting with the chairman of South Korean tech titan Samsung in Seoul on Sunday, the eve of a trilateral summit between South Korea, China and Japan. A world leader in chips and smartphones, Samsung is one of the most prominent foreign companies in China, investing billions of dollars over the years into facilities that produce semiconductors and other electronics.

"Foreign-funded enterprises are an indispensable force for China's development and China's mega-market will always be open to foreign-funded companies," Li said during the meeting with Samsung boss Lee Jae-yong, according to the Xinhua news agency.

China will take steps including expanding market access to improve the business environment so that foreign companies "can rest assured in their investment and development in China", he added.

"China welcomes South Korean companies including Samsung to continue to expand investment and cooperation in China."

The European Union Chamber of Commerce in China said this month that its member firms were suffering because of issues such as market access and regulatory barriers.

During his meeting with Samsung's chairman, Premier Li also "called on enterprises of China and South Korea to tap deeper into their cooperation potential in new areas such as... artificial intelligence", Xinhua reported.

Govt begins formal talks

FROM PAGE B1

Three rounds of meetings of the joint study group were held last year to pave the way for last week's formal launch of the negotiation.

Bangladesh is in talks with major trading partners to pen pacts such as the Free Trade Agreement (FTA), the Preferential Trade Agreement (PTA), the Comprehensive Economic Partnership Agreement, and the EPA to retain the zero-duty benefit on exports after the graduation of the country from the group of least-developed countries (LDCs) in November 2026.

Bangladeshi products will be subject to up to 18 percent duty in the Japanese market from the current zero-duty benefit if the EPA is not signed.

Bangladesh risks losing $8 billion in exports annually in the post-LDC era if the trade preference ends in all markets. Currently, 73 percent of the country's shipments enjoy LDC-linked benefits.

Japan is Bangladesh's 12th largest trading partner in exports and seventh-largest in imports. It is the lone country in Asia where Bangladesh's exports crossed the $1-billion mark nearly a decade ago on the back of the duty benefit.

The export of merchandise, especially garment items, to the Far East nation stood at $1.90 billion in the last fiscal year of 2022-23 while imports amounted to $2.02 billion, data from the commerce ministry showed.

About 85 percent of the local and Japanese companies with operations in both nations want their governments to sign an FTA, according to a survey of the Japan Bangladesh Chamber of Commerce and Industry in 2021.

About 15 years ago, textile and logistics industries from Japan began to expand their footprint in Bangladesh thanks to its abundant and inexpensive labour force.

In recent years, firms such as motorcycle manufacturers, major telecommunication companies and IT companies have invested in the country to tap the business potential in the fast-growing consumer market of 17 crore, the joint study group report said.

The number of Japanese companies operating in Bangladesh has tripled over the past decade to nearly 350. The stock of foreign direct investments from the country was $533.66 million in December 2023.

More investments are expected through the Bangladesh Special Economic Zone, which partially opened in December 2022. Located in Narayanganj, it is the first zone developed by a Japanese company in partnership with the Bangladesh Economic Zones Authority.

Both sides have targeted to conclude the negotiation by December 2025.

In December 2020, Bangladesh signed a PTA with Bhutan to safeguard the duty benefit, its first bilateral trade deal with any nation.

Tax benefit for infrastructure

FROM PAGE B1

started granting tax exemptions for physical infrastructure in July 2011 to encourage private investment and meet the country's infrastructure deficits. It extended the benefit on several occasions since then.

At present, investors of such infrastructure enjoy a tax break on 90 percent of their incomes in the first two years after beginning commercial operations.

The tax exemption benefit on the income declines to 75 percent in the third year.

In the 10th year, investors get a tax break on 25 percent of their incomes, according to the law.

The NBR may be tasked with collecting Tk 4.80 lakh crore in fiscal year 2024-25, which would be 17 percent higher than the current year's target.

The tax administration's average annual growth in revenue collection has been 11 percent for the past five years.

The NBR has been under pressure to improve collection and thereby fulfil one of the conditions for a $4.7 billion loan approved by the International Monetary Fund last year.

Fitch lowers Bangladesh rating

FROM PAGE B1

have been insufficient to stem the fall in foreign exchange reserves and resolve domestic dollar tightness."

The central bank has raised the policy rate by 375 basis points in the last three years to tame inflation. Still the situation has not come under control owing to external and internal factors and cheaper funds driven by the lending rate cap and market mismanagement.

Similarly, the foreign currency reserves are down substantially due to continued interventions, capital outflows, and the persistent use of informal channels for remittances.

Reserves have fallen by 15 percent from January 2024 levels to $18.4 billion. It is, however, far lower than the $41 billion accumulated in August 2021. "We project reserves to stabilise on recent reforms," Fitch said.

The recent shift to a crawling peg aims to increase exchange-rate flexibility. Whether this will fully address lingering forex market distortions and support significant reserve build-up remains unclear, according to the report.

Fitch said the stable outlook reflects the mitigation of external refinancing risks by a favourable external creditor composition -- the International Monetary Fund (IMF) programme, which aims to improve macroeconomic stability and address banking sector weaknesses, moderate government debt and favourable medium-term growth prospects.

It, however, said uncertainty remains around the implementation of the new forex regime, and to what extent the official rate will be permitted to align with the parallel market rate.

Bangladesh Bank has said the crawling peg is an interim arrangement before moving to a fully flexible market-based exchange rate.

"Further moves to increase exchange rate flexibility may be complicated by persistent high inflation," the ratings agency said.

In Bangladesh, the domestic US dollar scarcity has resulted in effective import restrictions, as authorities manage the allocation of forex. Lower imports from such measures and sustained export growth drove the current account surplus to a Fitch-estimated 1.4 percent of GDP in the fiscal year ending on June 30.

"Greater forex flexibility should ease US dollar shortages, which could drive up imports in the next few years."

According to the US firm, the impact on the current account should be modest, as remittances through formal channels should also accelerate with better alignment between the official and parallel market exchange rates.

Fitch expects high inflation to persist due to domestic supply shortages, import restrictions and a weaker exchange rate.

Inflation in FY24 has so far averaged 9.7 percent, far above the central bank's target of 7.5 percent. It averaged 9.02 percent in the last financial year.

The removal of interest rate caps for banks and non-bank financial institutions could bode well for monetary policy transmission, it said.

It also highlighted the country's low revenue collections.

The low revenue-GDP ratio is a long-standing fiscal weakness. At 8.2 percent of GDP, this is far lower than the 19.5 percent "B" median.

Revenues continue to underperform budget targets owing to prevailing tax exemptions, weak tax administration and challenges in implementing tax reforms.

Several tax reforms are planned under the IMF programme, which was agreed in January 2023. Some measures to increase revenue collection, including tax hikes on tobacco and land registration, have been implemented. These measures pose an upside risk to its revenue forecasts, said Fitch.

The report describes the medium-term growth outlook as favourable, supported by a well-established readymade garment sector, demographic dividend, and stable remittance inflows.

In the near term, however, it expects growth to moderate to 5.3 percent in FY24 due to the US dollar shortage that is likely to weigh on investment and the high inflation-reducing consumption.

The current debt composition was termed as favourable.

The medium-term external debt is owed either to bilateral or multilateral partners, and financing from these sources is likely to continue, supporting ongoing debt service capacity, notwithstanding US dollar shortages.

Projected external debt service is low relative to peers, averaging about 9.2 percent of current external receipts over 2024-2025, against a "B" median of 20 percent. The IMF programme also supports continued access to multilateral and bilateral financing, subject to meeting programme targets.

It said gross government debt would increase gradually to about 40 percent of GDP over the medium term, from about 36 percent in FY23, but still well below the current "B" median of 55 percent.

Budget underperformance owing to a revenue shortfall, high borrowing costs, extension of forbearance measures to the banking sector and potential contingent liabilities owing to weaknesses in the banking sector and debt of state-owned enterprises are risks to the fiscal position.

Speaking about the weak banking sector, it said the sector's credit metrics - asset quality, capitalisation and governance standards - are weak, especially those of public-sector banks.

The non-performing loan ratio was 9 percent in 2023, while that of state-owned banks was about 21 percent.

"These ratios could rise once forbearance measures are withdrawn. The sector could be a source of contingent liability for the sovereign if credit stress intensifies."

The removal of lending rate caps on banks and NBFIs is a significant step towards improving the banking sector profitability, Fitch added.