

are not owing to the lack of adequate analytical capacities and institutional capabilities to generate the right data. It is important, therefore, to focus on both because just looking at numbers might be misleading. In this article I will focus on the strategy part and review the numbers in follow up pieces.

From a strategic perspective, the budget speech has a number of attractive features that I very much welcome and would like to congratulate the finance minister for laying them out as a part of the government's economic policy making. If these policies and institutional reforms are properly implemented, this will be a major milestone for Bangladesh. These include: 1) focus on decentralisation; 2) modernisation of land market; 3) raising public revenues by 4 percent of GDP over the next 5 years; 4) modernisation of the tax system through emphasis on a progressive income tax system; 5) renewed commitment to a prudent macroeconomic strategy that keeps budget deficit under control and maintains monetary discipline to bring down inflation rate to 6 percent; 6) emphasis on public-private partnership (PPP) for infrastructure financing; 7) emphasis on manufacturing exports; 8) strengthening infrastructure development; 9) adoption of the National Social Protection Strategy, and 10) adoption of a green tax.

The merit of each of these proposed policies and institutional reforms is hard to question. Many of these reforms were on the table for a long time. It is naturally heartening to see the government's willingness to adopt these reforms explicitly. The main issue is whether the government has done its homework on the implementation side.

In the spirit of being constructive, let me provide some ideas about how the government might go about implementing them.

Decentralisation is by far the most challenging reform. From my long association with the finance minister, I know it is close to his heart and he is passionate about it. But based on the results on the ground, it is not obvious that there is a full political buy-in at all levels of the government. The bottleneck has always been the sharing of power between the parliamentarians and the members of the local government. An added challenge is the decentralisation of fiscal powers. The government has taken the first step by establishing elected local governments. It now needs to go to the next step by legislating the devolution of spending and revenue authorities to local governments. The development of this

legislation will require a lot of homework; but that can be easily acquired as there is considerable international experience that Bangladesh can learn from. The main challenge is to get the buy-in from the political leadership. Once this huge hurdle is crossed, the issues of capacity building or training will come in. Many development partners are willing to provide technical assistance to implement this critical reform.

The modernisation of the land market is an essential pre-requisite for modernising the economy. Land has become a binding constraint for manufacturing as well as for housing. It is arguably also the biggest source of corruption and conflict. Hence the proposed policy to computerise land records, improve land survey and simplify land transactions is a most welcome initiative. However, implementation will require substantial background work and technical assistance. There is also a need to assign proper institutional responsibility, define a time line for implementation and monitor progress. Along with this, registration and recordation process has to be simplified and the associated fee rationalised to avoid land valuation problems. A start can be made by requesting technical assistance from one of the donor agencies.

The task of getting 4 percent of GDP additional tax revenues over a 5-year period is ambitious but not impossible. The government has already made some significant gains in revenue mobilisation over the past few years. This year's budget is significant in that it also aims to modernise the tax structure by increasing reliance on a progressive income tax system. This is a much needed reform and I whole-heartedly endorse it. For many years I have been writing on the subject pointing out the huge hole in the income tax system. In Bangladesh the top 10 percent of the population owns 35 percent of the national income while personal income taxes are a meager 1.5 percent of GDP. This is reflection of a serious governance problem in Bangladesh, where the rich and powerful do not pay their fair share of taxes. So, the attempt in this budget to cover a part of the hole through a range of measures including taxation of capital gains from land and stocks is very much welcome.

But the budget goes only a part of the way. There are still a number of areas where reforms are needed. The income tax measures have to be broadened substantially with a well articulated income and property tax reform. Without this broader reform, the 4 percent of GDP additional taxes will not likely materialise. Second, the budget continues to rely rather heavily on supplementary trade taxes that are not consistent with the objective of export

diversification. These supplementary duties will have to be rationalised to reduce investment distortions. Third, the implementation of the NBR modernisation plan is very slow and needs to be substantially speeded up.

The prudent management of the macro economy has been a hallmark of Bangladesh's long-term development. So, the continued emphasis on this is welcome. Keeping the budget deficit at the 5 percent of GDP level is appropriate. Setting the inflation target at 6 percent is a smart move. However, there is a need to carefully watch the consistency of policies with these targets.

As the experience of 2010-12 shows, there is often a tendency to push the Bangladesh Bank to loosen its monetary policy to cover the shortage in fiscal policy or to compensate for policy failings in the stockmarket or public banks. This must be resisted. A particular risk is that the budget adopts a very ambitious development spending target and an attempt to implement this without adequate revenues or foreign loans could put pressure on monetary policy and compromise the inflation target. As chair of economic policy making, the finance minister will have to watch both the implementation of the budget and its consistency with inflation target and monetary policy.

The strategy for PPP financing of infrastructure has been on the cards for a while. But implementation record is poor. This is not a reflection on the Bangladesh economy. While political uncertainties are a problem, Bangladesh remains an attractive destination for private investment. What is lacking is a well-thought-out implementation strategy for PPP. International experience shows that securing PPP financing for large infrastructure projects requires a managing entity that is equipped with seasoned and competent technical staff who have knowledge and experience in developing, negotiating and supervising these projects. A proper legal framework providing internationally attractive guidelines and incentive policies is also required. Bangladesh is lacking on both counts. PPP cannot be managed as a part of the day-to-day bureaucracy. Without these essential reforms the ambitious \$11 billion plus PPP projects identified in the budget will not materialise.

The emphasis on manufacturing exports is appropriate. This is an essential element of a strategy to secure higher growth and employment. However, while the budget is strong on intentions it is weak on policies except in the garment sector. A major problem is the

continued policy bias against exports provided by trade tariffs and supplementary duties. It is high time that the National Board of Revenue and the commerce ministry should get together to develop a trade tariff policy that reconciles revenue mobilisation with investor incentives.

In the search for revenues, the fiscal policy is completely oblivious of implications of the tariffs and supplementary duties for investment decisions. Research shows that the underlying incentive regime favours inefficient domestic production that may not even be consistent with manufacturing growth and employment targets. This has been a serious shortcoming of all the previous budgets and this budget is no exception.

The focus on infrastructure continues from the first budget of this government in FY2009. This is appropriate as the infrastructure deficit remains serious. Good progress has been made in the power sector.

In other areas the record is mixed. Primary energy continues to pose a challenge. The budget talks about increasing gas supply but there is no mention of a coal policy. The absence of a long-term primary fuel strategy remains a serious weakness of the government's energy policy.

In the transport sector the budget adopts a highly ambitious stance including the construction of the Padma bridge. The emphasis on transport is good but higher allocations through ADP are not enough. A review of past experience shows a serious implementation constraint in the roads sector. Too many projects are ongoing with slow implementation. A better strategy would be to adopt a phased implementation plan with high-priority projects on the frontline along with time-bound completion plans.

Procurement continues to pose corruption problems and delays in infrastructure project implementation. I have been repeatedly emphasising the importance of doing turnkey projects for large infrastructure to avoid procurement debacles and capacity constraints. The government may want to think seriously about this. Reliance on development partners (such as World Bank, ADB, IDB, and JICA) for doing turnkey style large infrastructure projects can be instrumental in accelerating the supply of essential infrastructure.

I welcome the finance minister's announcement of the adoption of the National Social

Protection Strategy (NSPS). It is high time that Bangladesh introduces a modern social protection system that seeks to provide predictable cash transfers to the poor and the vulnerable members of the society through a combination of budget transfers and employment-based social insurance. The adoption of the NSPS will be a major step forward in the government's effort to fight poverty and reduce social vulnerability. However, considerable preparatory work will be needed to implement the NSPS. Alongside, the proposed health insurance policy should also be implemented.

Finally, the idea of introducing a green tax is commendable. Considerable work needs to be done to make fiscal policy an effective instrument for fighting pollution and environmental degradation. Yet, the signal sent through this move is an excellent step forward. The next step would be to prepare the groundwork for incorporating a system of taxes and subsidies in the future budgets for environmental management and climate change.