



Budget 2020-21

An Analysis by Research and Policy Integration for Development
(RAPID)



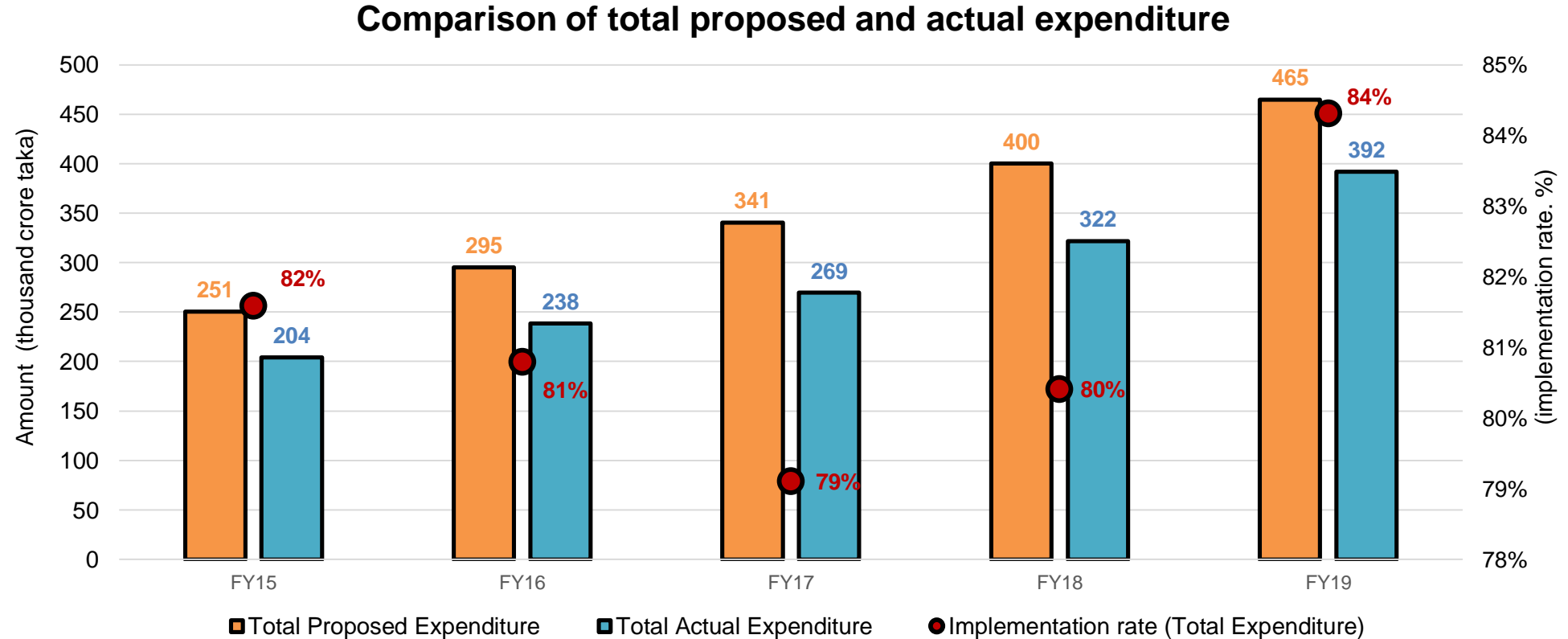
Highlights of Budget 2020-21

Fiscal Year	2019-2020 (R)	2020-2021	Growth
Budget	5,01,577	5,68,300	13.24%
Budget (% of GDP)	18.64	17.91	-3.92%
Budget Deficit (% of GDP)	-5	-6	-20%
Income			
Revenue Income	3,48,069	3,78,003	8.60%
Financing			
Domestic Borrowing (Bank)	82,421	84,980	3.10%
Domestic Borrowing (Non-Bank)	14,924	25,000	67.50%
Expenditure			
Non-Development Expenditure	29,5280	34,8180	17.92%
Development Expenditure	20,2349	21,5043	6.27%
ADP	19,2921	20,5145	6.34%

Note: R implies Revised budget.

Implementation of previous budgets

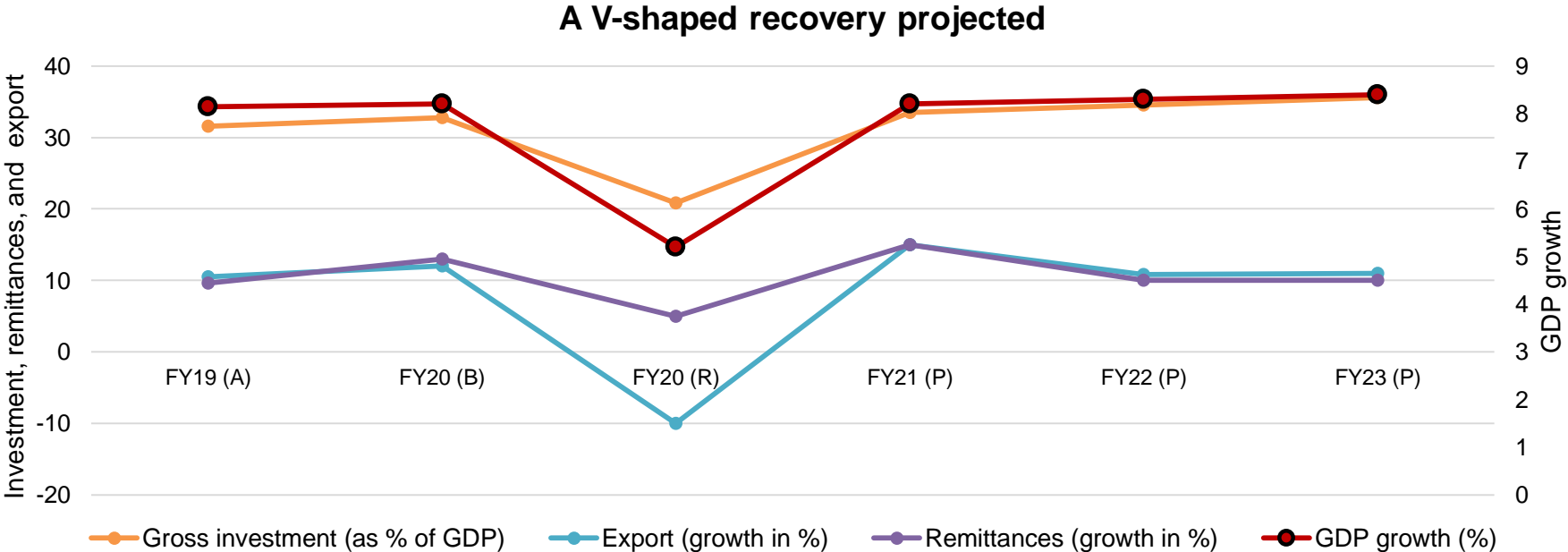
Actual expenditure of budget has been historically lower than the proposed budget, implying the continuous challenge in budget implementation.



Ambitious growth and recovery projection

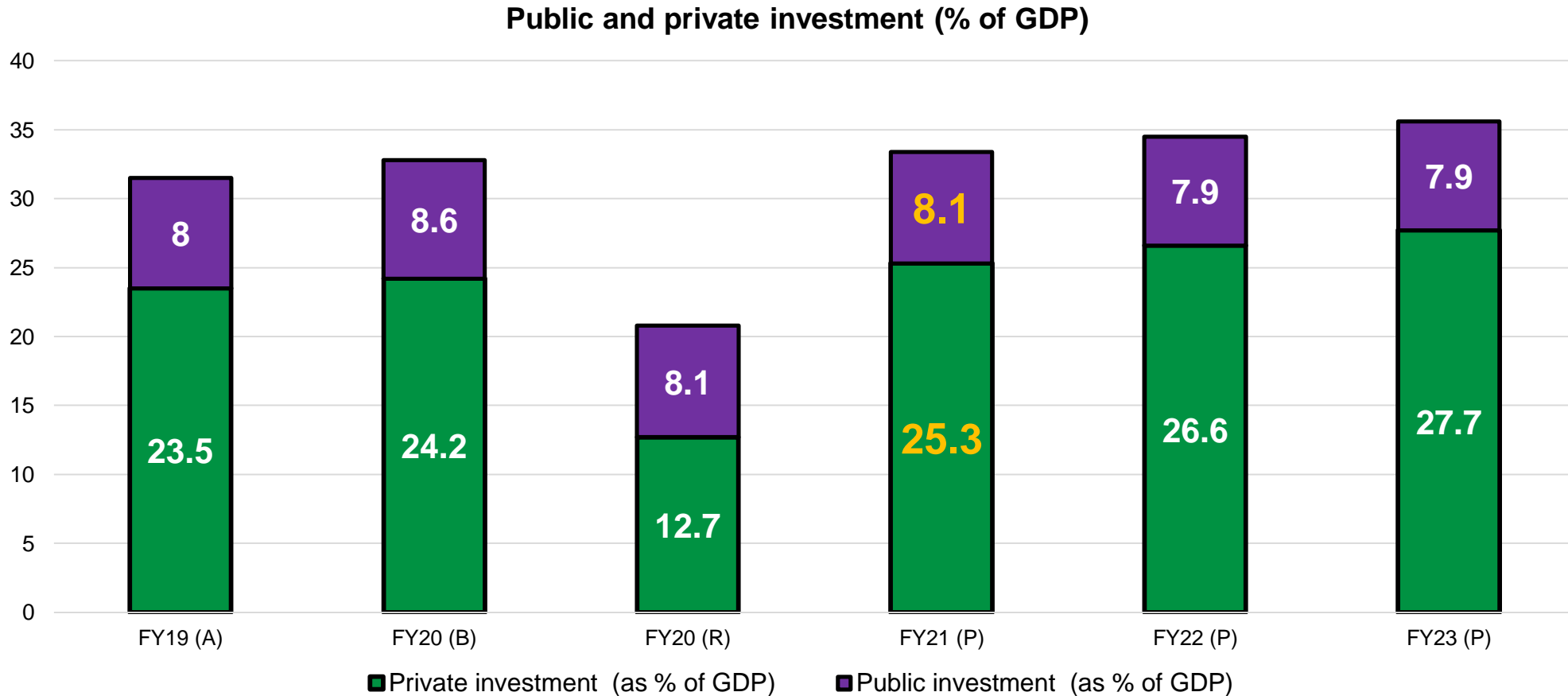
A V-shaped recovery is projected according to government estimation of GDP growth, export, remittances and gross investment.

Amid the uncertainty and bleak future of a global economic recovery, the ambitious target of 8.2 per cent GDP growth in FY21 seems to be devoid of the pandemic reality. Similarly, export and investment growth are likely to be slow and the projections are highly ambitious.



Investment

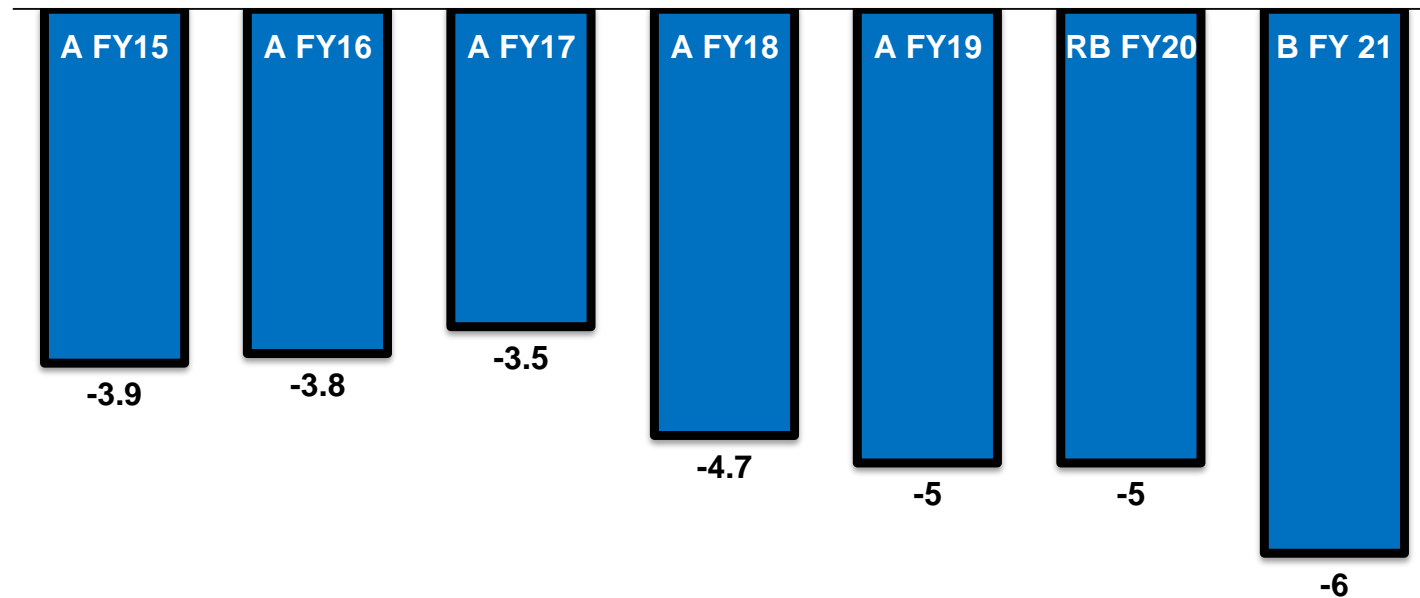
According to budget documents, private investment figure for FY 20 is estimated at only 12.7 percent of GDP and projected to **more than double** (25.3%) in FY21.



Budget deficit

The overall budget deficit in FY21 will be **Tk 190,000 crore**, which is 6 per cent of GDP. Although Bangladesh adhered to a deficit ceiling of 5 per cent of GDP for many years, this budget deficit is nothing unanticipated due to the COVID-19 impacts.

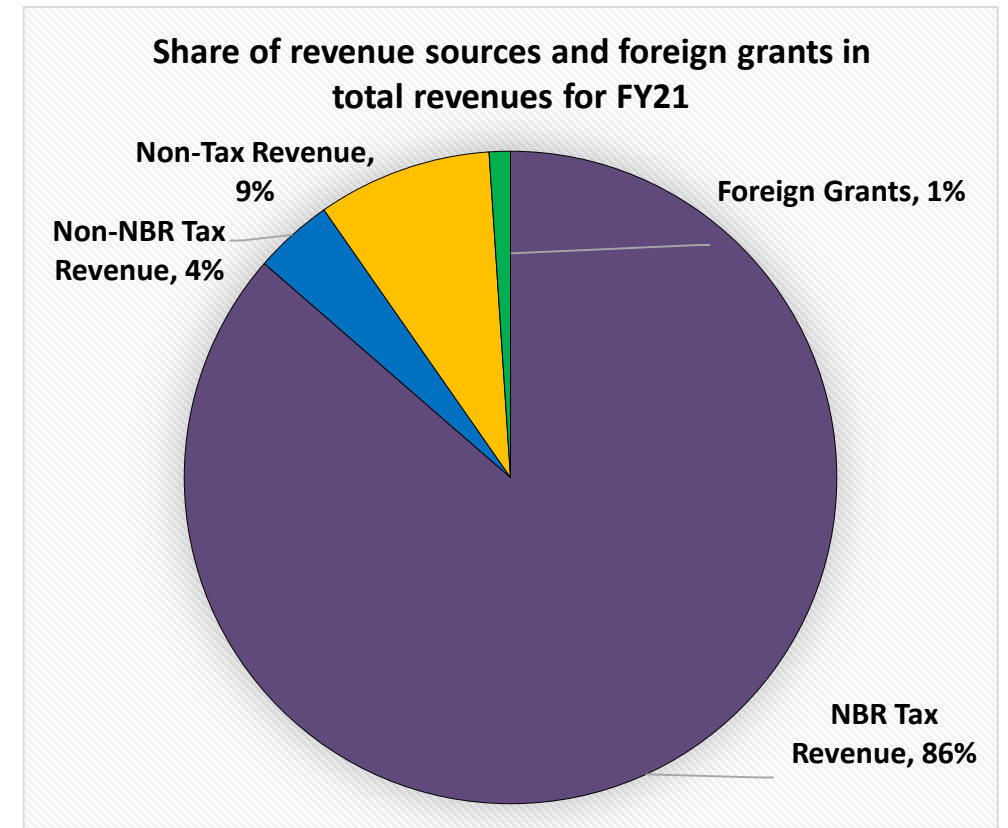
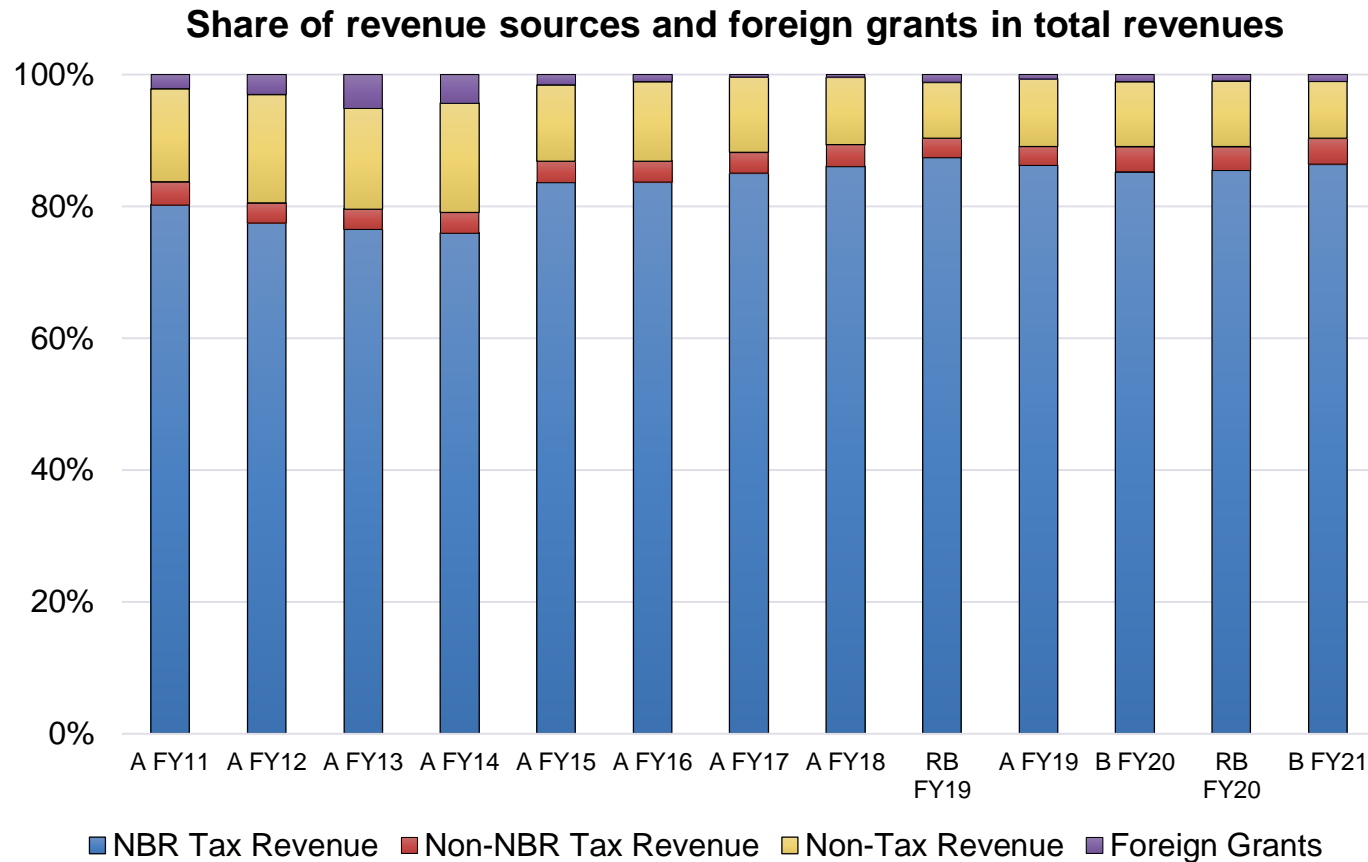
Budget deficit (% of GDP)



Note: 'A' implies Actual budget while 'R' and 'B' implies Revised and Proposed Budget respectively.

Share of revenue sources and foreign grants in total revenues

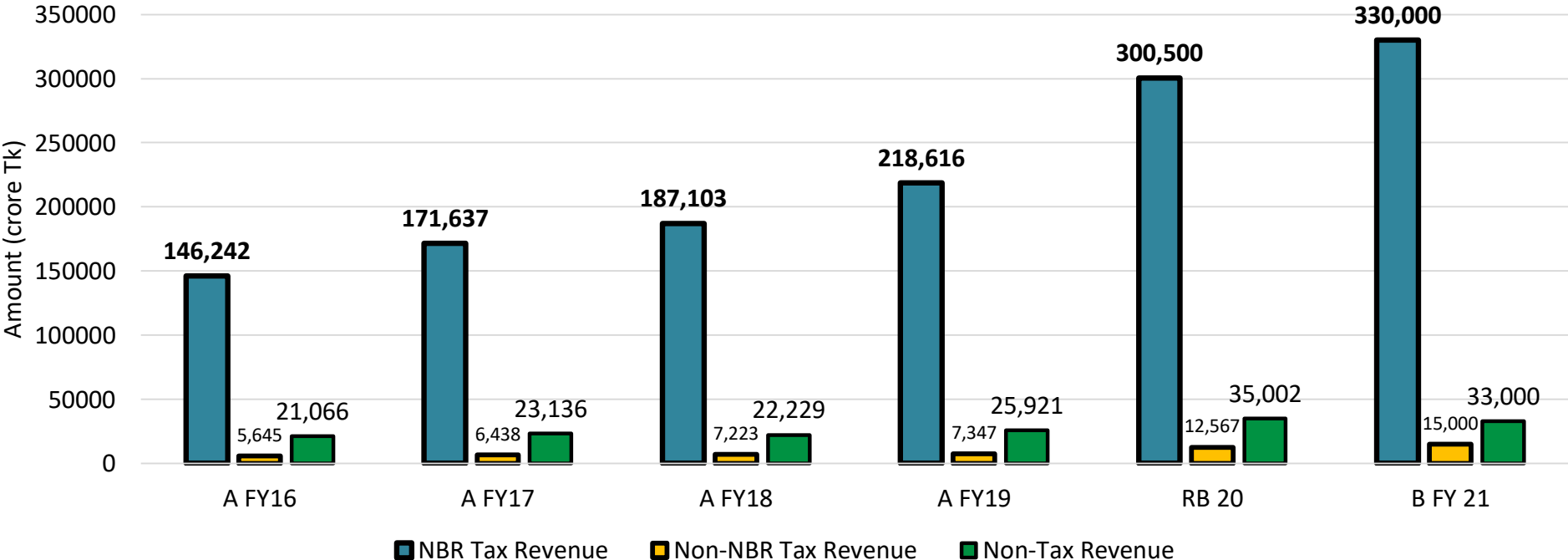
As usual, share of NBR tax revenues is the major source of revenue collection (86% of total revenues).



Tax revenue distribution

The government is aiming **Tk 3,78,000 crore** in revenue income at about 9 per cent higher than that of the revised target of FY20.

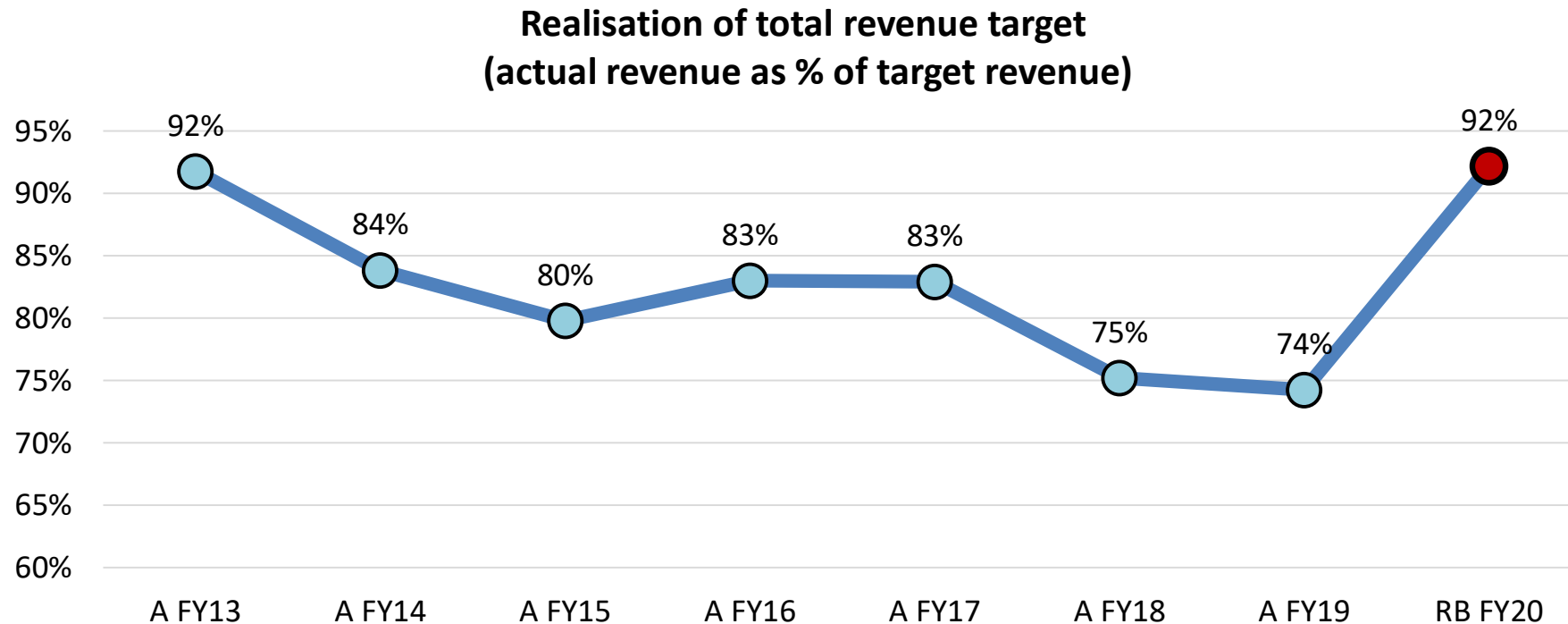
Of the total amount, the **NBR** has been tasked to realise a revenue of **Tk 330,000 crore**, the **non-NBR revenue** collection target is **Tk 15,000 crore** while the **non-tax revenue** collection target is **Tk 33,000 crore**.



Realisation of total revenue target

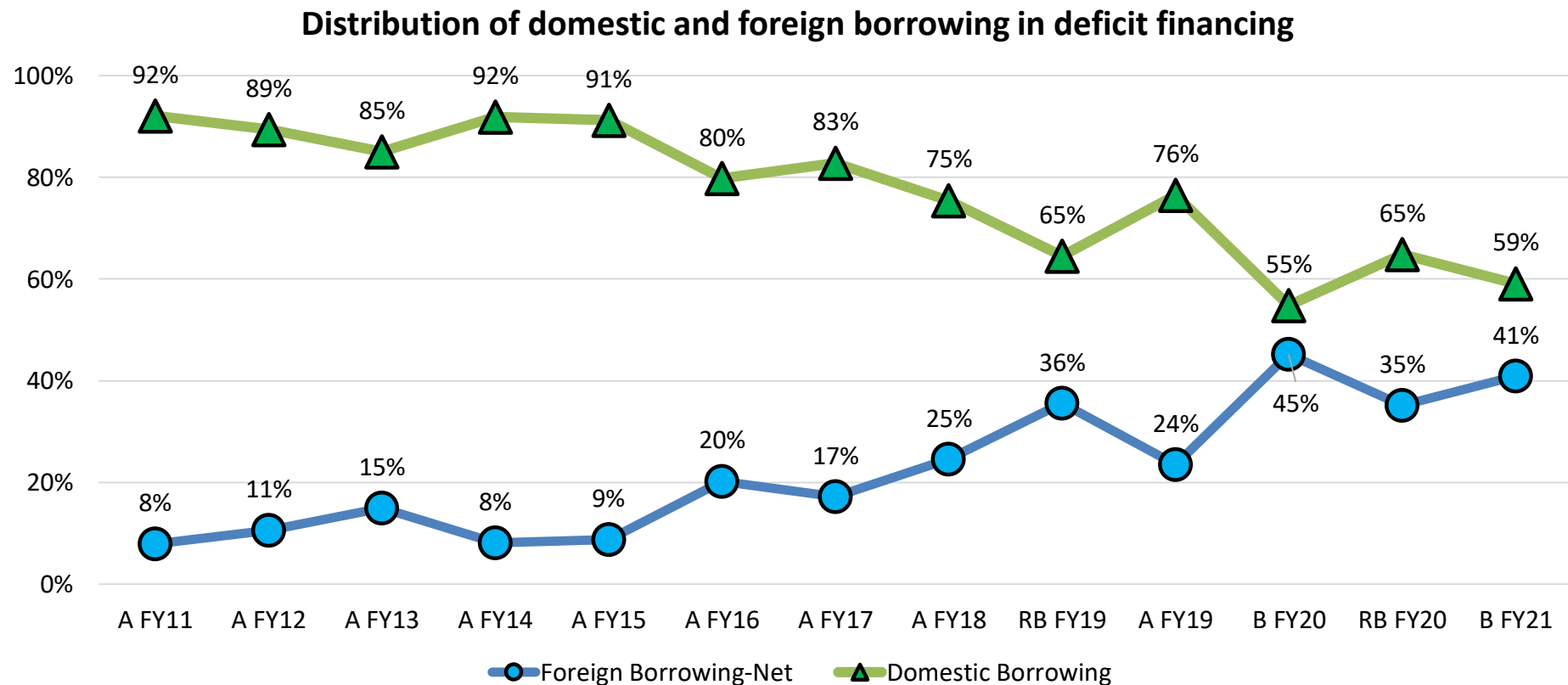
Realising the revenue target of Tk 345,000 crore from the taxable sector will be a daunting task.

Although the revised budget of FY20 showed a 92 per cent revenue realisation, this is likely to be an overestimate as revenue collection efforts were severely affected due to COVID-19.



Distribution of domestic and foreign borrowing in deficit financing

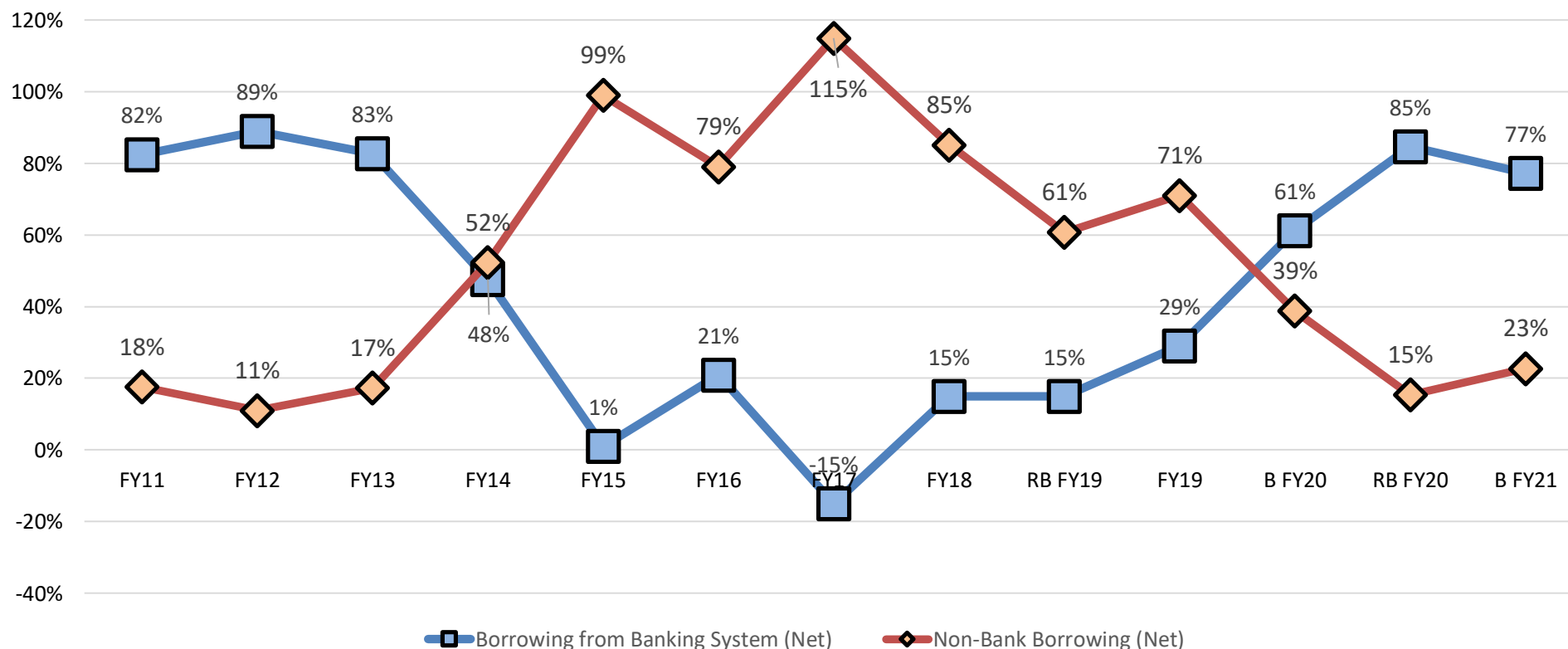
Out of the total deficit, Tk 80,017 crore will be financed from external sources, while Tk 109,983 crore from domestic sources. Domestic borrowing will comprise of 59 percent of the total financing.



Share of bank and non-bank borrowing in domestic borrowing

Of the domestic sources, **Tk 84,983** crore will come from the banking system and **Tk 25,000** crore from savings certificates and other non-bank sources. Share of bank borrowing in domestic borrowing is about 77 per cent.

Share of bank and non-bank borrowing in domestic borrowing (%)



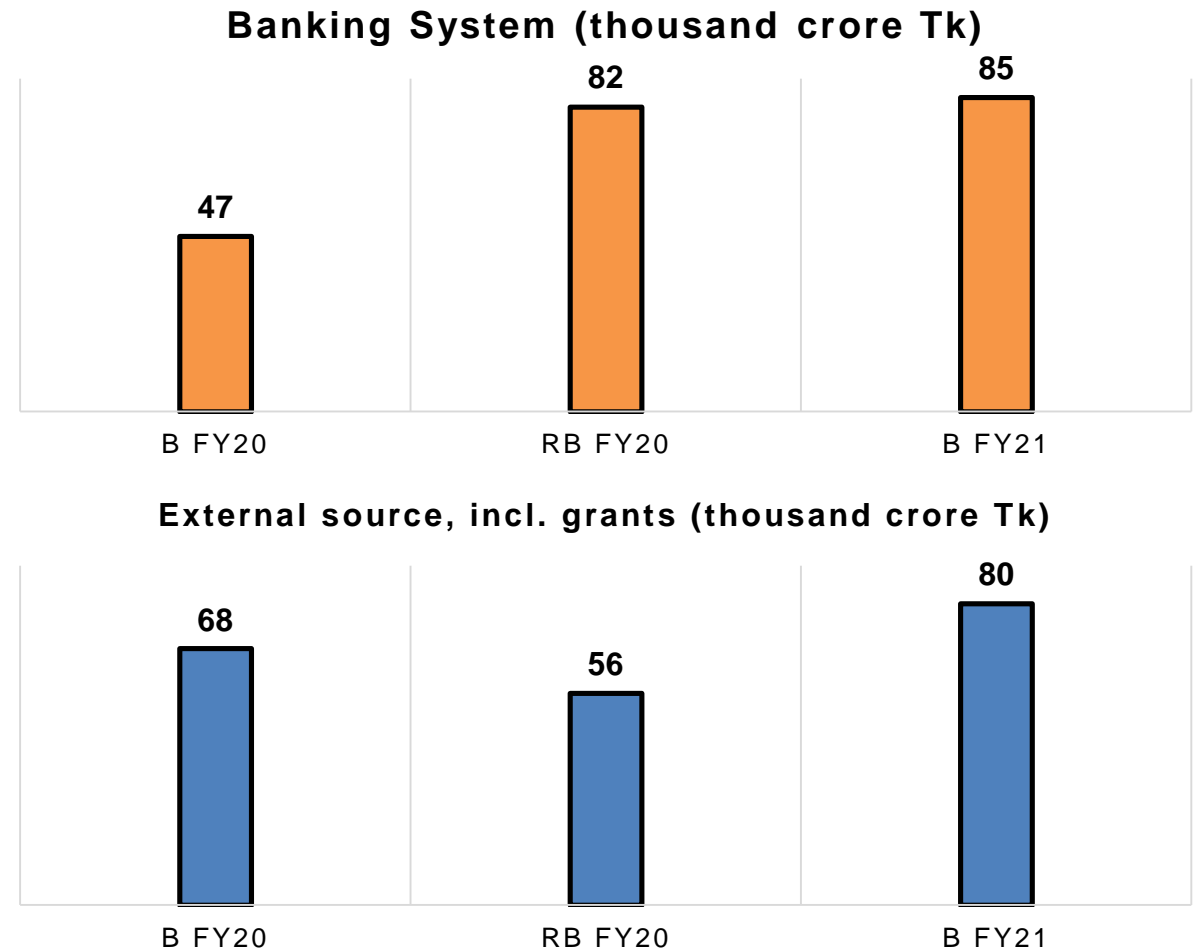
Deficit financing: banking system and external sources

The government has increased its bank borrowing target by more than **79 per cent to** Tk 84,980 crore from the original goal of Tk 47,364 crore for FY20.

The higher borrowing target raises the question of whether the ailing banking sector has the ability to provide the funds, or what will be the impact if it is done. For example,

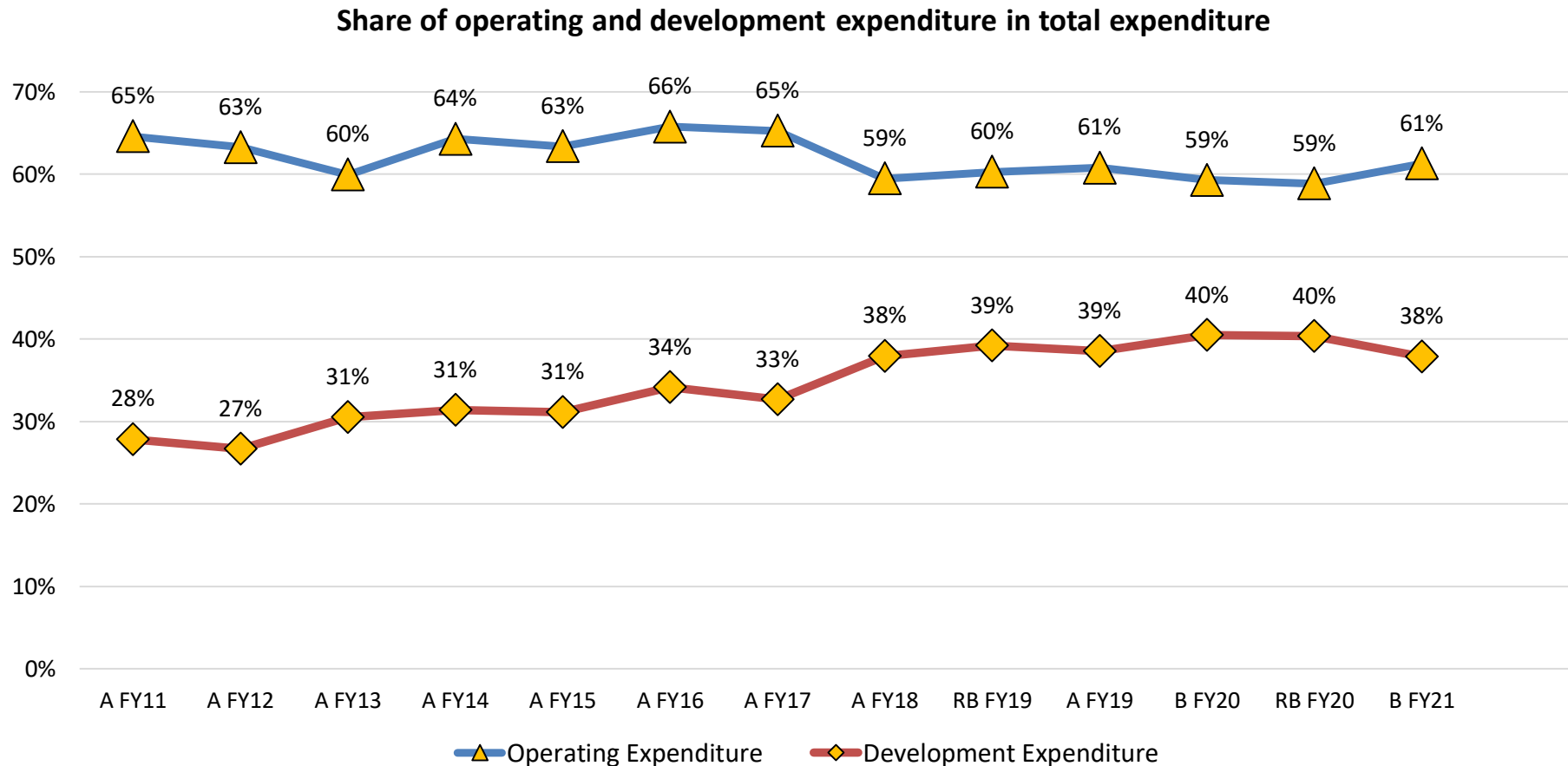
Financing from external sources has been kept at only **2.5 per cent of GDP** (Tk 80,017 crore).

A more realistic and proactive approach would be to secure more external funding and thereby to finance, amongst others, social security spending for the coming unusual year. The cost of external borrowing is lower than that from the domestic sources, so inability to mobilise foreign aid would be a missed opportunity at this critical time.



Share of operating and development expenditure in total expenditure

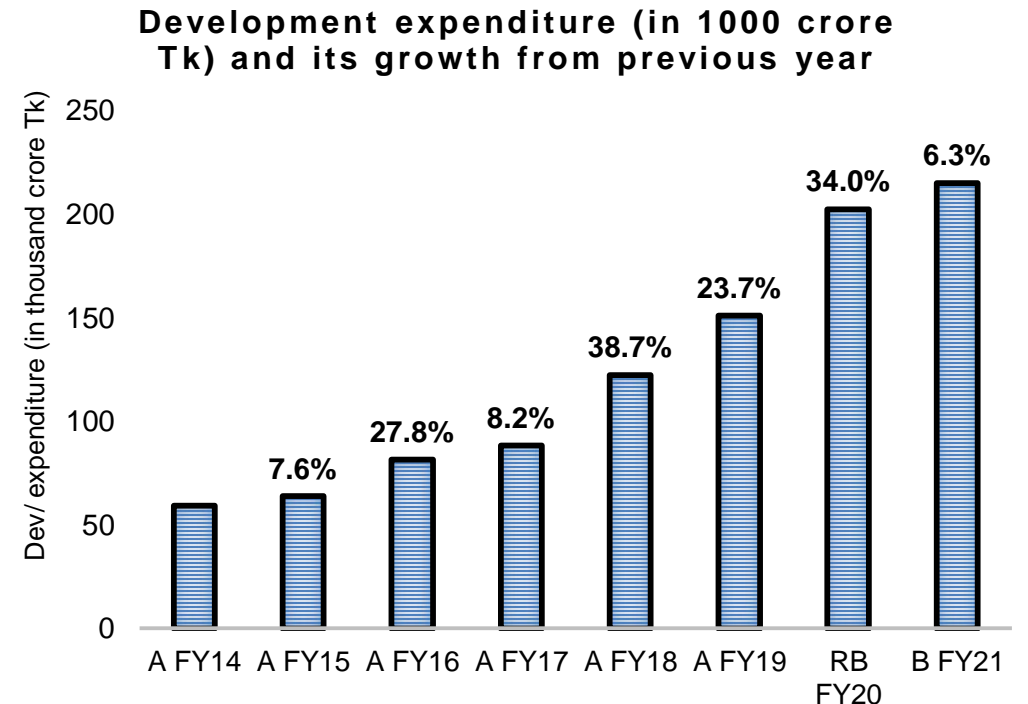
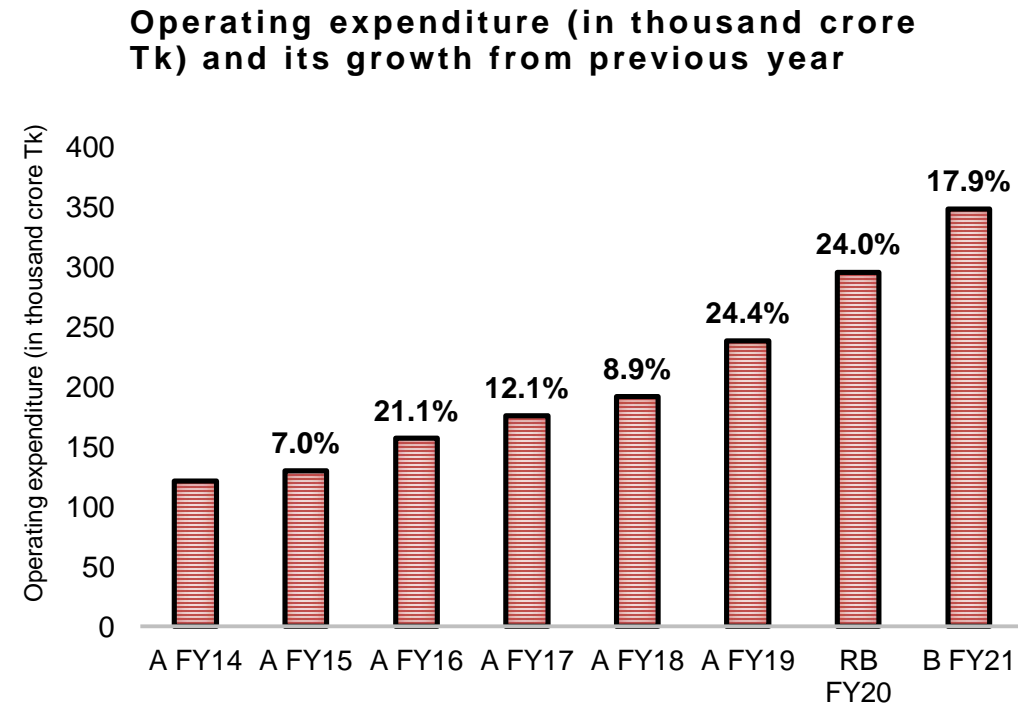
For FY21, operational expenditure will comprise around 61 per cent of total expenditure, dominating the overall expenditure as usual.



Growth of operating and development expenditure

For FY21, operational expenditure (Tk 3,48,180 crore) will be around **18 per cent more** than that of the revised budget of FY20.

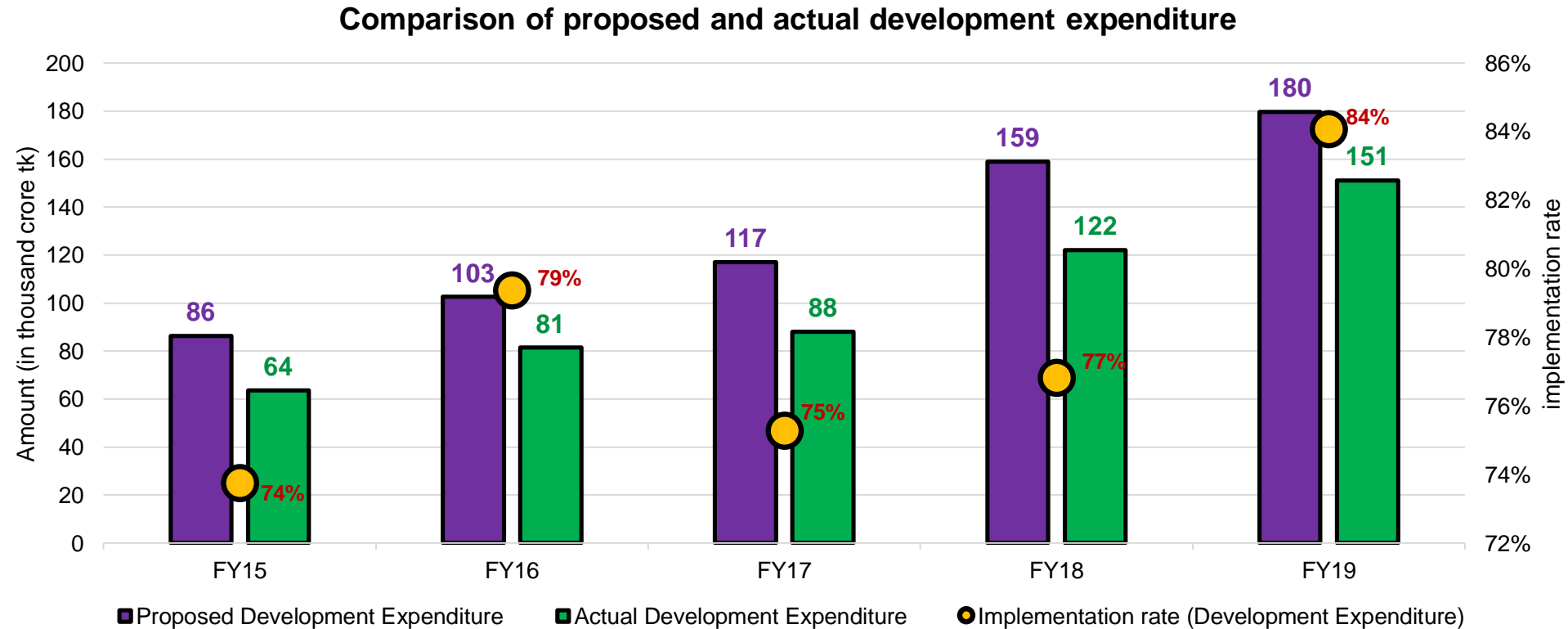
Proposed development expenditure of **Tk 215,043 crore** is nearly **6.3 per cent higher** than that of the revised budget of FY20.



Development expenditure in past

Implementation of development budget has been historically low.

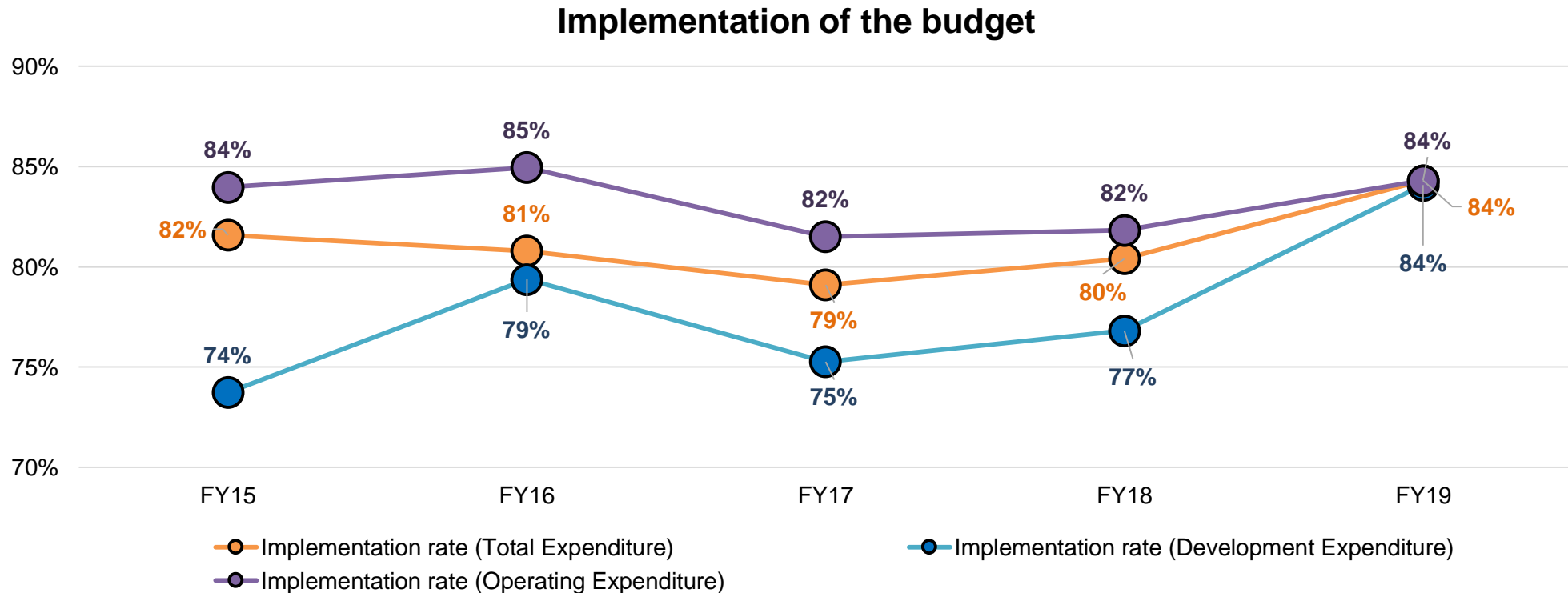
Development expenditure continues to suffer from implementation challenges.



Implementation rate of budget

Implementation rate of total expenditure is usually below 85 per cent.

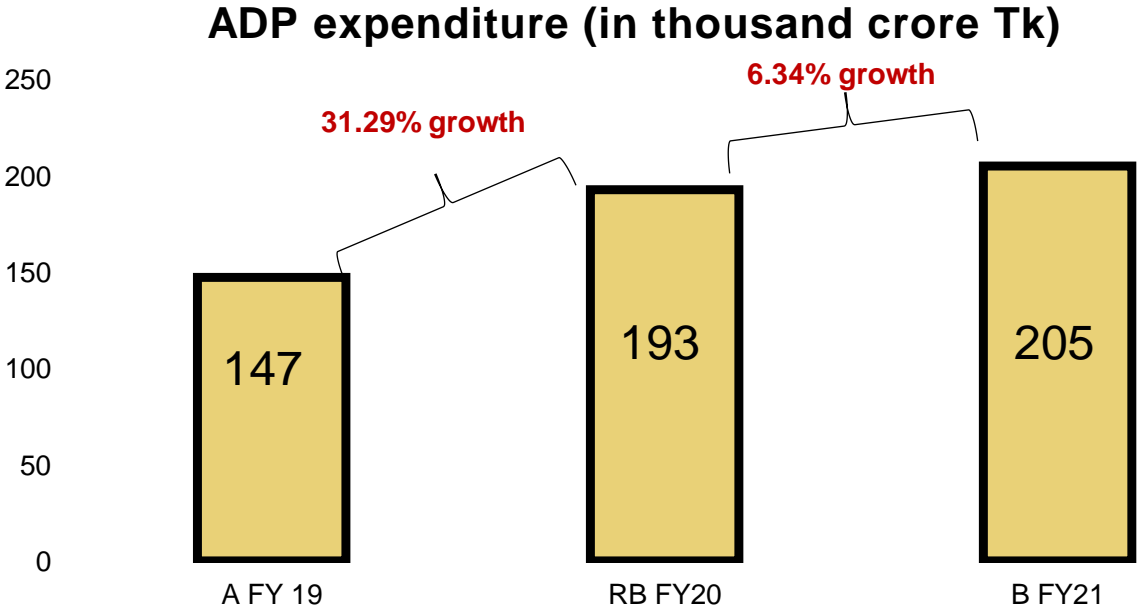
Implementation rate of development expenditure is generally less than that of operating expenditure.



ADP expenditure

Allocation for Annual Development Programme (ADP) has been estimated at Tk 2,05,145 crore – a 6.34 per cent growth from the revised outlay of FY20.

This can be an important area of review where resources can be saved from some of the not-very-urgent projects to be allocated in favour of health and social security spending.



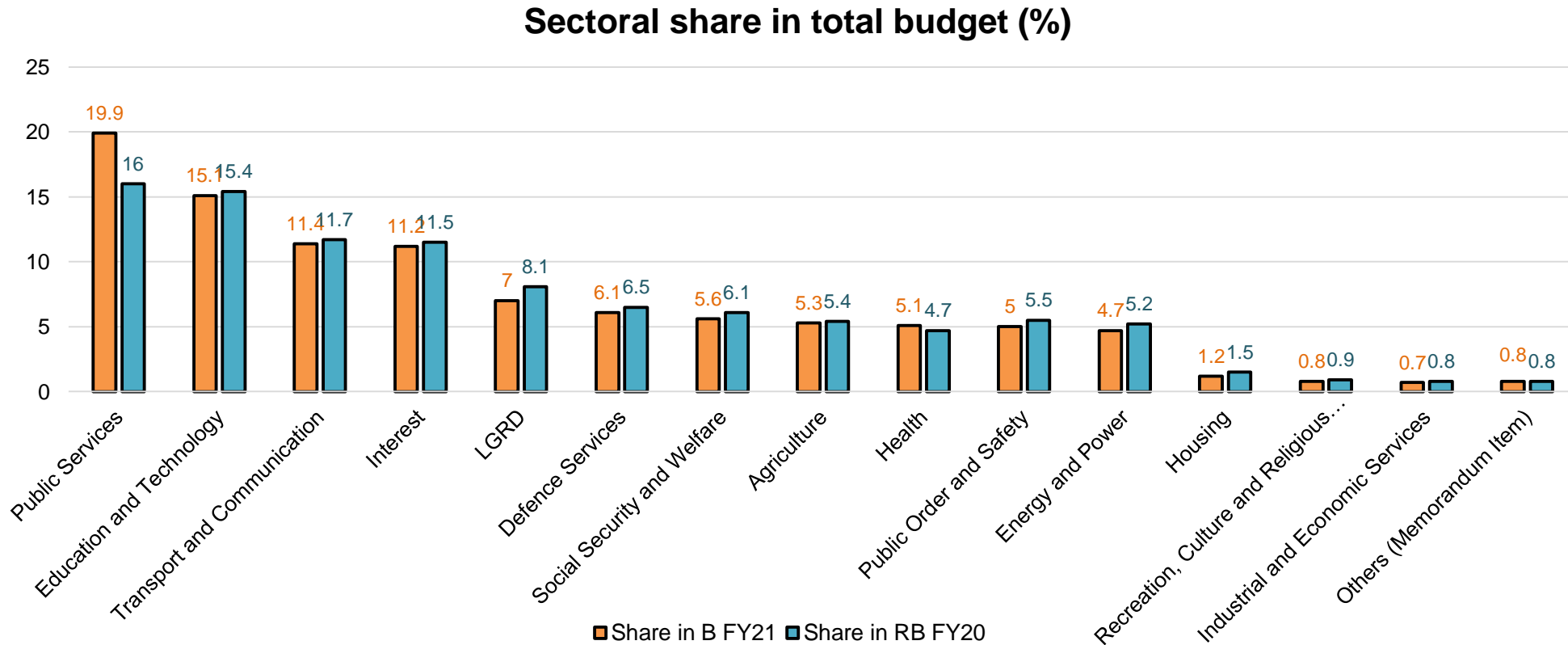


Sectoral Allocation

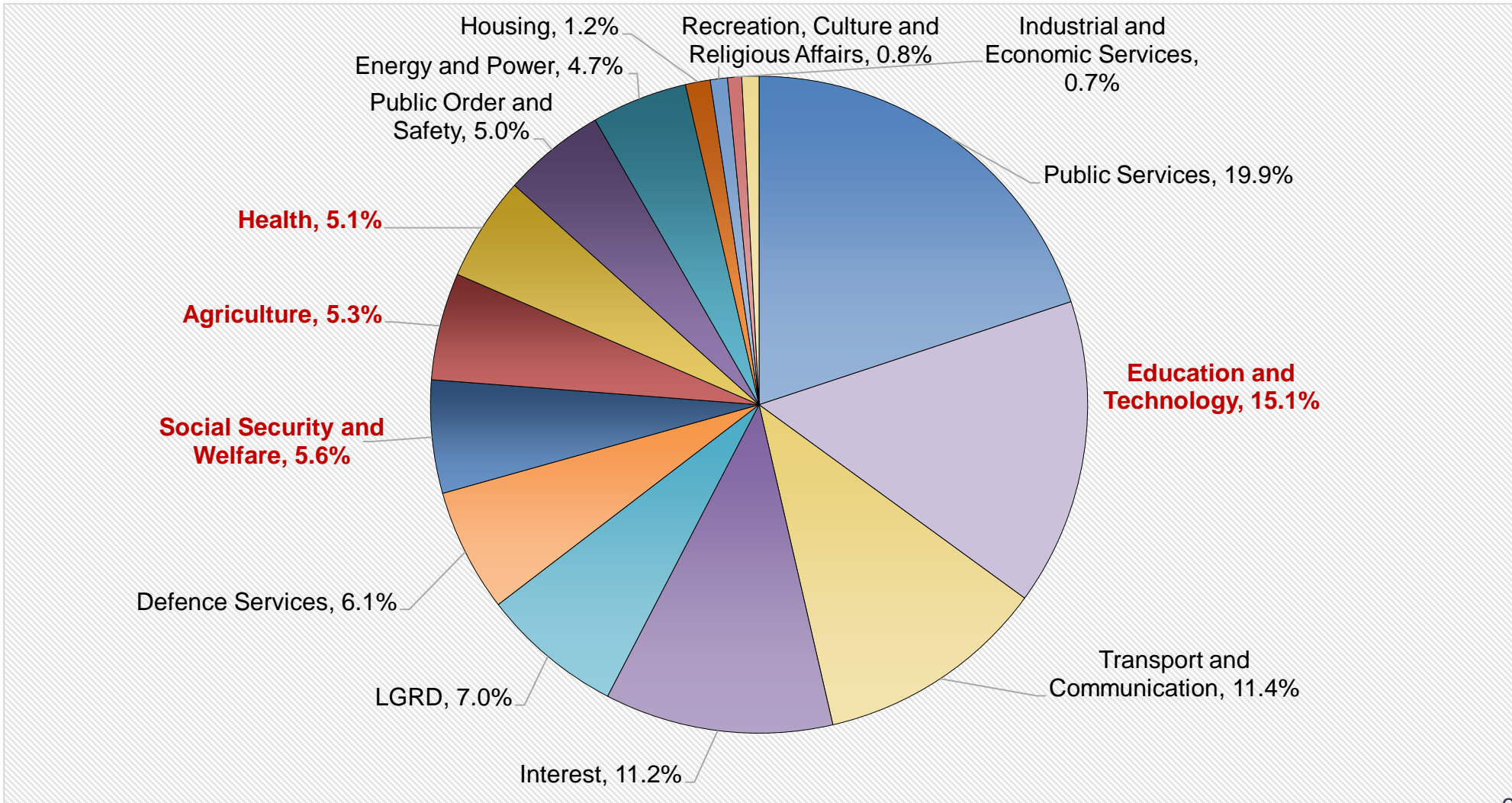


Comparison of sectoral share in revised budget FY20 and budget FY21

In terms of share in total budget, public services; education and technology; and transport and communication are the top three sectors.

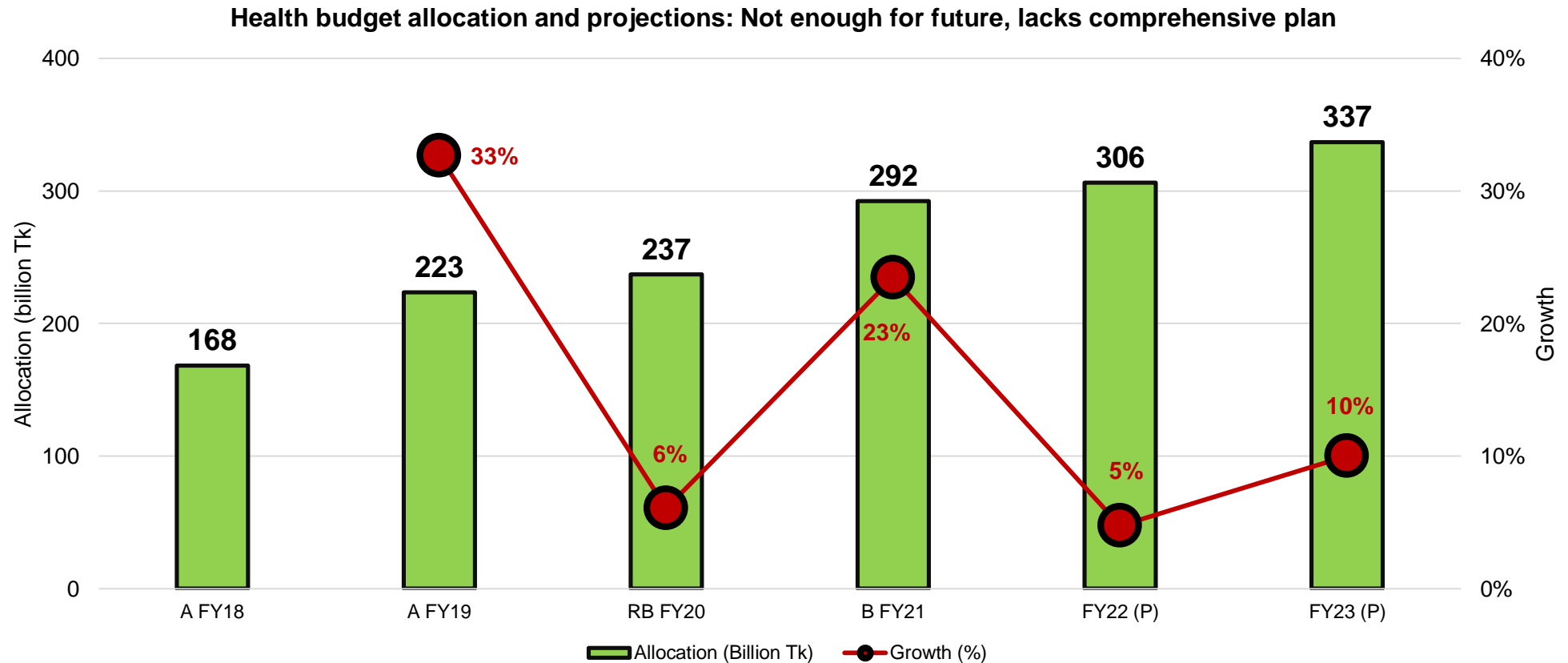


Sectoral share in FY21 (% of total budget)



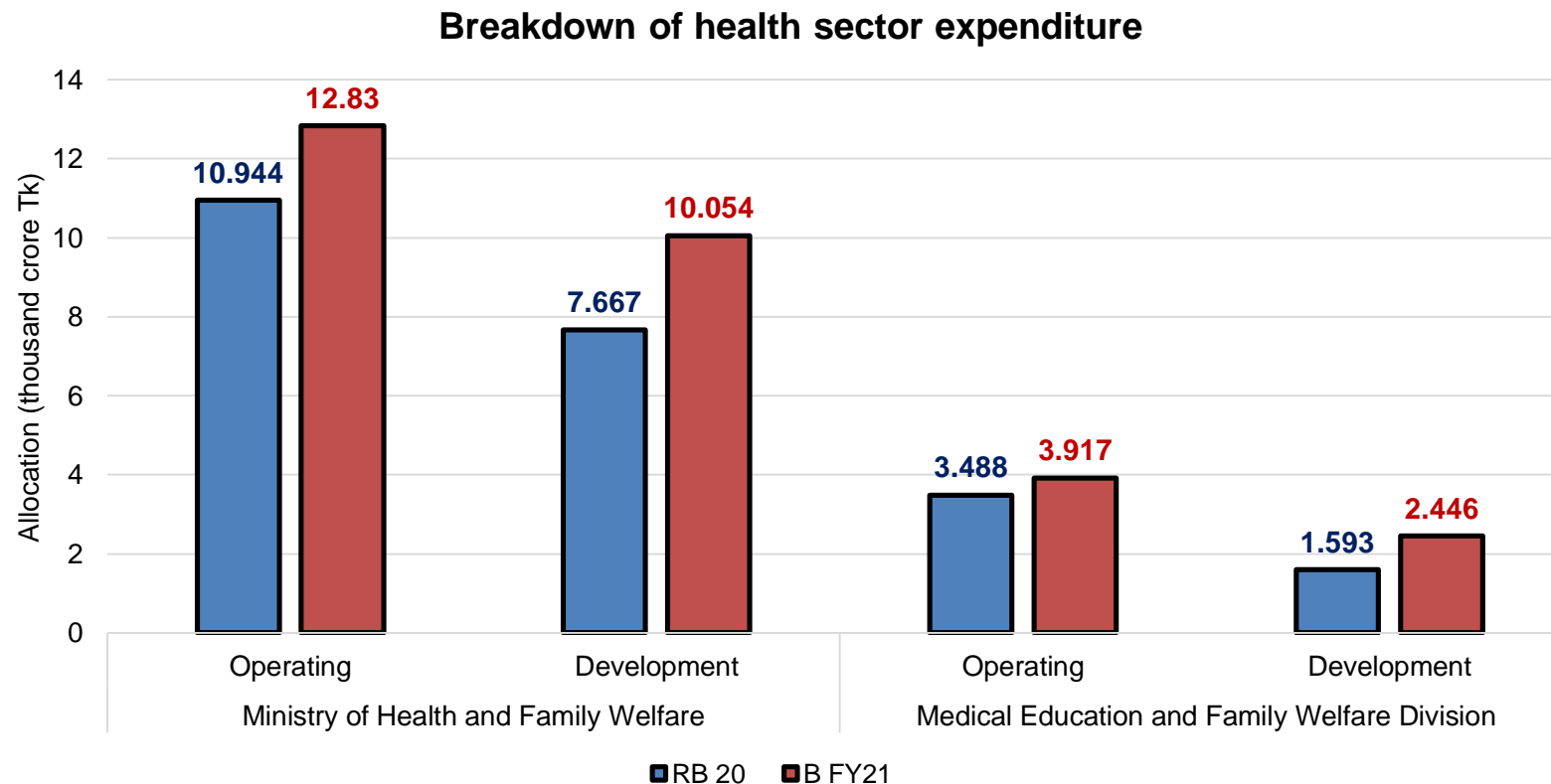
Health

The health sector received an allocation of **Tk 29,247 crore (Tk 292 billion)**, which is nearly 23 per cent more than the revised allocation in FY20.



Breakdown of health sector expenditure

Operating expenditure will account for about **57 per cent** of the total allocation. A considerable amount will thus go into increments of the employees and officials, bonus, pensions and other trivial issues.



Implementation remains challenge

- The government also allocated **Tk 10,000 crore** for emergency Covid-19 response.
 - Unfortunately, there is a lack of definite guideline on how the allocated funds will be used.
 - Given the nature of the crisis, this allocation is grossly inadequate.
- The allocated funds, despite being inadequate, will have to be disbursed judiciously as implementation of the health budget has been a longstanding challenge.

Social Safety Net

The government has allotted Tk 95,574 crore— up from Tk 81,865 crore in last year's revised budget. This allocation is about 17 per cent of the total budget and 3 per cent of GDP in FY21.

Unlike the widely expected significant rise in social safety net spending, the increase in social safety net (as share in budget) has been a modest one.

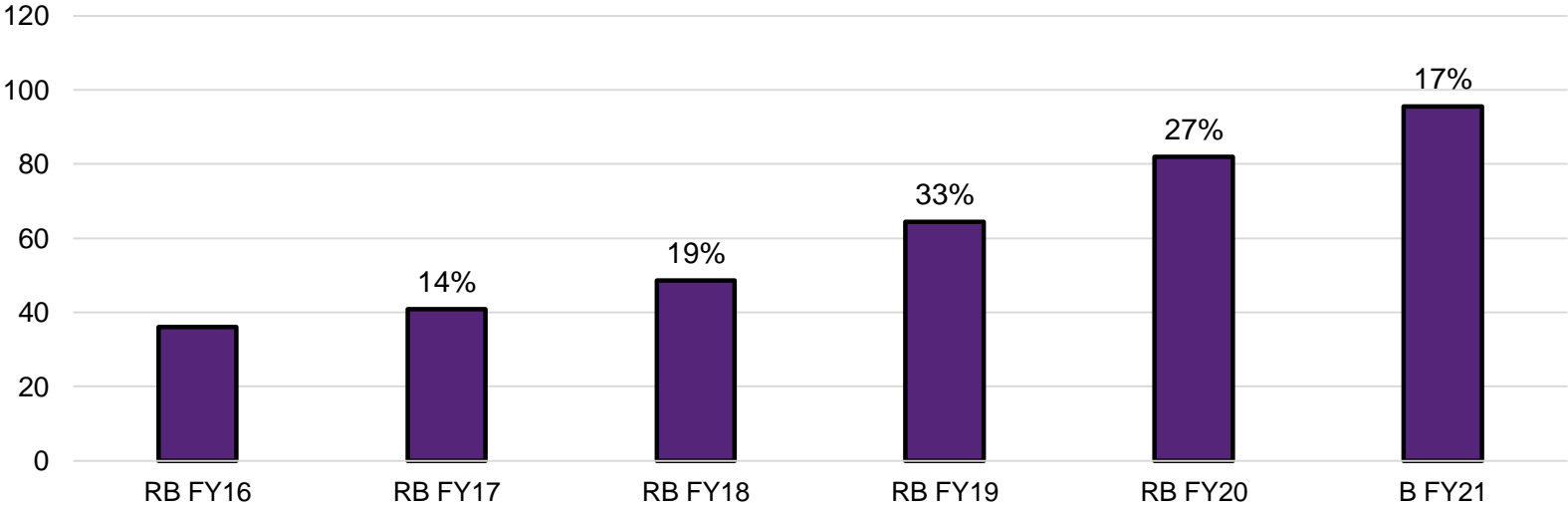
Coverage of Social Safety Net, FY21	Amount (crore Tk)			No. of beneficiaries (lac)		
	RB FY20	B FY21	% change	RB FY20	B FY21	% change
Cash Transfer (Various Allowances)	33048	33739	2.1%	99	107	8.9%
Food Security and Employment Generation Programs	15564	17981	15.5%	841	873	3.8%
Stipend Programs	2526	4090	61.9%	46	74	60.4%
Cash/Materials Transfer (Special Programs)	9154	19758	115.8%	268	357	33.4%
Credit Support Programs	1087	5813	435.0%	274	203	-26.0%
Assistance for Special Communities	515	537	4.3%	5.63	6.25	11.0%
Various Funds and Programs	3099	1378	-55.5%	7.97	7.95	-0.3%
Development Activities (Ongoing Development Projects / Programs):	16584	11784	-28.9%	4114	4983	21.1%
Development Activities (New Projects / Programs)	288	492	70.7%	0	0	0.0%
Total	81865	95574	16.7%	5654	6611	16.9%
Share in budget	16.32%	16.83%				
Share in GDP	2.92%	3.01%				

Social safety net spending

Although an increase in allocation in social security spending has been observed, **almost a quarter of this allocation** will be spent on pension payments of retired government employees.

A close look at the allocation reveals that nearly **44 per cent of social safety net budget** will be spent on pension payments, interest subsidies, agricultural subsidies, agricultural refinance scheme and agricultural rehabilitation. Excluding these items, there is very little support available directly related to poor and vulnerable which is inadequate to navigate through the pandemic-inflicted crisis.

Social Safety Net Spending (in crore Tk and % change from previous year)



Social safety net lacks pro-poor and pro-vulnerable vision

- Social safety net budget **continues to include** expenditures **not linked to addressing poverty and vulnerability** such as public pensions, stipends to secondary and higher education, subsidies to interests on bank loans to provide relief to borrowers, subsidies to interests on loans as well as the amount of loan to the financially excluded households and enterprises.
- It includes several items such as the inclusion of interests (excess over the Bank Rate) paid on the National Savings Certificates, agricultural subsidies and agricultural refinance scheme.
- There is a lack of pro-poor and pro-vulnerable vision in the social safety net budget.

Informal sector and new poor remains largely overlooked

- The proposals to extend safety net coverage - particularly for poor senior citizens and all widows and women in the 100 upazilas that are most exposed to poverty - deserve appreciation.
- As poverty rate is expected to jump to 35-40 per cent from the current level, it was anticipated that new poor will be brought under the safety net coverage to cushion the economic fallout of the pandemic.
- Although the finance minister declared Tk 100 crore under the 'Rural Social Services Programme' to create self-employment opportunities for the poor and helpless in rural areas, there is no specific direction to support the informal sector which comprises a major portion of the economy. **Thus, the informal sector and 'new poor' remains largely overlooked in the budget.**

Education

- With a total allocation of Tk 66,401 crore, **the share of education budget in total budget and GDP has decreased** in FY21, compared to the revised budget of FY20 (Tk 59,408 crore). The amount is 11.69 per cent of the total budget and 2.09 per cent of the GDP.
- Of the total amount, **Tk 24,940 crore** for the primary and mass education ministry, **Tk 33,117 crore** for secondary and higher education division and **Tk 8,344 crore** for technical and madrasa education division have been allocated.

Education budget	RB FY20	B FY21	% change
Operating budget	39887	43156	8%
Development budget	19521	23245	19%
Total education budget	59408	66401	12%
Share of education budget in total budget	11.84%	11.69%	
Share of education budget in GDP	2.12%	2.09%	

Education

- There have been anticipations that the allocation for education will rise significantly to contain the possible increase of school dropouts which will eventually cause an increase in child marriage, early pregnancy, and child labour.
- In fact, UNICEF study indicates that the economic fallout of the pandemic could slide more than 86 million children into household poverty by the end of 2020.
- The budget **lacks a specific recovery plan and allocation** to avert the adverse impacts on school-going children.
- Also, the allocation will barely lift the hard-hit education sector as online classes are disproportionately affecting students residing in rural areas and belonging to disadvantaged households.

Agriculture

The agriculture sector received an allocation of Tk 22,849 crore for FY21, which is 5.3 per cent of the total budget. **This allocation shrunk in percentage terms compared to the 5.4 per cent sectoral allocation in FY20.**

Agriculture	RB FY20 (crore Tk)	B FY21 (crore Tk)	% change
Agriculture (net)	19022	20480	7.66%
Subsidy and incentive	8001	9501	18.75%
Pension and gratuities	0	2	-
Total	27023	29983	10.95%

Agriculture

- Finance minister announced a new **Tk 3,198 crore** project for **farm mechanization**.
 - Initiative to modernize the agriculture along with a reduction in import duty on agricultural machinery will contribute to an increase in output which is definitely a welcome move. But modernization also comes with the possibility of reduction in job creation. It would have been better to have a clear guideline on offsetting the adverse effects of such mechanization on employment across this sector.
- The government has allocated Tk 9,500 crore for agricultural subsidies and Tk 200 crore support for farm mechanization. Two refinancing schemes for the sector – one with Tk 5,000 crore agricultural credit to farmers and another Tk 3,000 crore for small income farmers and traders have been included in the budget.
 - These four allocations are already included under the stimulus packages declared earlier by the Prime Minister and not exclusively introduced for the current fiscal year.
- However, **small scale farmers hardly get any benefit from the majority of the credit facilities as they fail to meet the conditions to receive credits from the banks.**

Decreased allocation in disaster management

Despite being a disaster prone country, ministry of disaster management and relief experienced an 11.4 per cent decrease in allocation compared to last year's revised budget.

Allocation for ministry of youth and sports increased marginally.

Ministry	RB FY20	B FY21	Percentage change
Ministry of Disaster Management and Relief	11103	9836	-11.4%
Ministry of Youth and Sports	1456	1478	1.5%

Stimulus packages

- The budget did not come up with any new stimulus package other than what has already been announced by Prime Minister Sheikh Hasina.
- Clearly, **there is a critical need for new stimulus packages to support the informal sector and new poor**, amongst other affected vulnerable groups.
- In this aspect, the budget lacks innovation and falls short to be pandemic-responsive.
- As funds from development partners have started flowing in, the government must come up with stimulus packages to support the hardest hit population groups.
- Meanwhile, efficient and transparent handling of funds will ensure a speedy recovery.

Sl	Name of the packages	Tk (in crore)
1	Special fund for salary support to export oriented manufacturing industry workers	5,000
2	Working capital loans provided to affected industries and service sector	30,000
3	Working capital loans provided to SMEs, cottage industries	20,000
4	Expansion of facility provided through Export Development Fund (EDF) by Bangladesh Bank	12,750
5	Pre-Shipment credit refinance scheme	5,000
6	Special honorarium for doctors, nurses, medical workers	100
7	Compensation in case of infection/death	7508
8	Free food distribution	2,503
9	OMS of rice at 10 taka/kg	251
10	Cash transfer to targeted poor people	1,258
11	Expansion of cash allowance programs	815
12	Construction of home for homeless people	2,130
13	Additional procurement of paddy/rice (2.0 lac ton)	860
14	Support for farm mechanization	200
15	Subsidy for agriculture	9,500
16	Agriculture refinance scheme	5,000
17	Refinance scheme for professional farmer and small traders	3,000
18	Employment creation through four State owned entities	2,000
19	Subsidy for commercial bank's suspended interest of April– May, 2020	2000
Total (In Crore Taka)		103,117
As % of GDP		3.7

Budget falls short of being pandemic-responsive

- Although the budget speech is titled as ‘Economic Transition and Pathway to Progress’, the FY21 budget fails to reflect the pandemic reality and lacks extraordinary response to chart the recovery from the current crisis.
- Despite being inadequate, ensuring value for money, effective utilization of resources, quality expenditure and good governance at all levels will play a pivotal role for **implementation of the budget**. Ongoing unprecedented crisis now demands an innovative and all-out approach to save life and livelihood.

Thank you

