



Occasional Paper

# Life, Livelihood and Budget in a Pandemic Era

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Governance Studies

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CGS Occasional Paper 4: Life, Livelihood and Budget in a Pandemic Era, Rashed Al Mahmud Titumir, June 2020.

## SECTION I: Introduction

The 49th national budget of FY 2020-21 has been set forth in the backdrop of an ongoing COVID-19 pandemic. The 49th national budget of FY 2020-21 has been set forth in volatile circumstances. For the first time in thirty years, the trend of poverty is set to reverse its course – what had been a gradual decline in poverty since 1992 is about to take off in an upward direction. The COVID-19 pandemic will aggravate widespread inequality. Economic growth in Bangladesh has been stalled to only 5.2 percent, an absolute low for the first time since 1980 and unemployment to reach an all-time high at 7.75 percent since 1984, a more than 3-point increase from 4.308 in 2018. Amidst such circumstances, the need for a definite point-by-point roadmap in order to reverse this decline in economic performance becomes more crucial by the hour. The massive contraction in the economy has meanwhile taken off. This contraction, however, is not a typical one resulting from declining demand or supply rather it is from the widespread termination of economic activities by governments. Since the causes and the multitude of impacts of the ongoing recession are quite dissimilar to the previous cases, the conventional solutions may not be worthwhile.

Bangladesh has already been facing a plethora of challenges before the COVID-19 pandemic. The ratio of private investment to GDP has remained stagnant for the last few years. There has been negative trend both in public and private consumption. This is significant since Bangladesh has been observing consumption-led economic growth fueled by the inflows of remittance from home and abroad and the continual greater-than-before participation of women in labor market— particularly in RMG and women's entrepreneurship along with their demonstrated resilience. It is observed that the growth of real wage has decreased by 3 percent in 2017 in comparison with 2015 and 2016. During the period of 2008 to 2017, average real wage growth was the minimum in Bangladesh compared to other south Asian countries (3.4 percent). The poverty rate declined by 1.8 percentage points a year between 2000 and 2005, by 1.7 percentage points between 2005 and 2010 and by 1.2 percentage points between 2010 and 2016<sup>1</sup>.

As a result of poor mobilization of revenue collection, public expenditures have been compromised, impacting the economy negatively. Major share of the public expenditure, however, goes to unproductive sectors such as recurrent expenditure, resulting in thwarted productive expansion and job creation in the economy. The slow revenue collection has compelled the government into borrowing heavily from banks. The government has borrowed BDT 471.39 billion from banks during July 01, 2019 to December 09, 2019 while the target of bank loans throughout the FY 2019-20 was set BDT 473.64 billion. The target for the entire fiscal year, therefore, has almost met in only five months— pushing the entire budget management in intense risk. Moreover, such excessive borrowings hamper private investment through creation of liquidity crisis in the banks. The enhanced spending in mega- projects due to failure of completing the projects on time, therefore, imposes a pressure on public expenditure and overall fiscal management. Besides, during the last decade, the transfer of capital in the form of illicit financial flows has been increasing to such an extent that Bangladesh has ranked second in South Asia and among top 30 countries in the world in terms of illicit outflows of money.

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<sup>1</sup> BBS, 2016. Household Income and Expenditure Survey, 2016.

There has been noticeable deficit in current account balance in recent years because of the slow pace of export earnings and remittance income and the high growth of import expenditure. Meanwhile, there can be observed an increasing trend in the amount of medium and long-term foreign loans. The present state of education and health has been in affinity with previous trends of deprivation and low allocation as well as quality. The pandemic, however, further escalated these problems.

There is, however, a consensus amongst the economists on the priorities of the budget of FY 2020-21 amidst the COVID-19 pandemic. They are neither pursuing their usual practice of concentrating on the headline growth figures nor are they obsessed with budget deficit or fixated on the rate of inflation of the regular years, rather are underscoring for beginning of an allocation, knitted in a pathway charted in the budget, underwritten by a medium term macroeconomic framework for the recovery of the economy. They are now heralding the need for harmonization of fiscal and monetary policy prioritizing education, health and social security.

Against this backdrop, this assessment attempts to examine whether the budgetary measures are consistent with the broader consensus in order to recover the economy from the ongoing contraction stemmed from the unprecedented closure of the economic activities.

### ***Life and livelihood: A false binary***

As the control over life diminishes, reinforced by measures of physical distancing and halting of non-essential economic and social activities, the prevailing uncertainty aggravates manifolds. The pandemic has not only been centered on the contagion of the virus itself, but also by widespread anxieties of the people regarding survival and future insecurities regarding food, income and standard of living. As the global pandemic raged through, the apparel industry, the largest export industry of Bangladesh, encountered outright cancellation of orders, necessitating an ample stimulus package to be provided by the government to ensure salaries of its employees and prevent an impending structural unemployment. At the other end, migrant workers returned from Europe and the Middle East as lockdowns imposed in those countries placed their livelihoods in uncertainty. After the first reported death from the virus in the country, a nationwide 'general holiday' was ordained as a form of non-pharmacological intervention which continued for three months that had raised concerns of economic slowdown stemming from closing down of small and medium enterprises, and the particularly vulnerable informal sector that constitutes a staggering 85 percent of employment in economy.

The conclusion to be drawn is that the health concerns and following non-pharmacological interventions affect different groups with different levels of intensity, owing to the existent inequalities of income, opportunities and access. Simultaneously, it has the potential to affect different sectors of the economy differently, discriminating between physically interactive and physically disjointed sectors – simply put, not all organizations can make use of a 'work-from-home' approach because of the nature of work. For instance, concerns were raised as the garment manufacturers defied a nationwide lockdown to reopen their factories, even if partially, as factory floors are crowded and have little to no scope for physical distancing;

employees agreed to risk getting infected in order to save livelihoods, which could have been averted by ensuring the state support for the workers had reached their hands. The life versus livelihood balance therefore comprises two strands of argument: either, impose lenient restrictions on business operations with an otherwise premature reopening of the economy, or ensure strict lockdown over the length of the contagion until there are no new reported cases. Both scenarios eventually boil down to a loss in the wellbeing and quality of lives led by the people, i.e. adversely affecting lives, either through health crises or loss of livelihood. As a result, it emerges as of utmost importance to gear targeted interventions towards saving lives first, livelihoods second.

## **SECTION II: GROWTH, SAVINGS AND INVESTMENT**

The central questions revolving economic growth are concerned with the nature of growth, how the growth will be achieved and for whom the growth will be. GDP or economic growth matters little when the whole world has been rampaged by the pandemic. Government as the largest spender in the economy rather required to take the mantle in rehabilitation, recovery and reconstruction of the economy from the global crisis. The downturn will be swollen by income reduction, diminished savings and hence dwindling investment which has been hovering around 23 percent in the last few years. Loss of jobs and reduction of remittance earnings as migrant workers have been sent back because of the crisis, will dampen consumption spending in turn constricting the GDP since private consumption is 70 percent of the GDP. The share of savings has lessened to 27.42 percent in FY 2017-18. The private sector growth of credit flow dropped to 10.04 percent by the end of October from 11.32 percent by the end of the last fiscal year. Recovery and reconstruction at this moment seems farfetched but yet requires prudent measures beforehand.

### ***Inconsistency in growth estimation***

Government estimation of growth rate of 5.2 percent in the previous fiscal year remains questionable. Estimations by international organizations in the ex-post pandemic era determine the growth rate to be anywhere from 1.8 percent to 3.8 percent, as opposed to 7.3 percent before the pandemic emerged. The performance of some productive sectors in the economy has been in peril during the latter half of the FY 2019-20 due to COVID-19 pandemic. Comparing the projected contribution of each of the sectors in 2019-2020 to the respective losses incurred in the three months of economic shutdown may give an estimation of GDP (Table 2).

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<sup>2</sup> Bangladesh Economic Review 2019

<sup>3</sup> Author's calculation

<sup>4</sup> Author's calculation

<sup>5</sup> BRAC Rapid Research Response to Covid - 19

<sup>6</sup> BRAC Rapid Research Response to Covid - 19

Table 1 : Losses and contributions of some productive sectors in growth during COVID-19

Sectors	Projected Contribution to GDP in 2020 <sup>2</sup>	to	Estimates of Loss (in crores BDT)	Actual estimated contribution after loss <sup>3</sup>	Percentage share in GDP <sup>4</sup>
RMG	446881.7588		38,000 <sup>5</sup>	408,882	15.49%
Agriculture	252786.5764		56,000 <sup>6</sup>	196,787	8.76%
SMEs	88974.9024		476 <sup>7</sup>	88,499	3.08%
Tourism	27005.50044		5,700 <sup>8</sup>	21,306	0.94%
Banks	90015.238		10,956 <sup>9</sup>	79,059	3.12%
Airlines	1646.963644		1,361 <sup>10</sup>	286	0.06%
Total	907310.9398		112,493	794817.9398	31.44%

Source: Unnayan Onneshan.2020

The losses incurred by all sectors shows a 12.4 percent drop in the overall contribution of these sectors in the GDP. As their total weight in the GDP is 31.44 percent, a 12.4 percent drop in their contribution will mean a 3.9 percent fall in the total GDP.

Table 2 : Estimation of GDP

% drop in sectorial contribution	Provisional nominal GDP in 2019-20	Sectorial loss as % of GDP	Expected nominal GDP in 2019-20	Expected real GDP in 2019-2020	Nominal GDP in 2018-19	Real GDP in 2018-19	Real GDP growth
12.40%	2885872	3.9%	2773380	1154627	2536177	1105510	4.4%

Source: Unnayan Onneshan.2020

The percentage change between the GDP figures between two fiscal years show the expected nominal and real GDP growth rate for Bangladesh, 9.4 percent and 4.4 percent respectively. This is still a moderate estimation yet lower than that of proposed by the government.

### ***Unrealistic growth target***

The growth rate projection for the next fiscal year might have irked many as the government proposes a full and quick recovery of the economy from the covid-19 crisis. The growth rate projection of 8.2 percent in the 2020-21 fiscal year may be deemed unrealistic. Firstly, there is no predicting the end of the Coronavirus as the number of cases still rising in the country and yet to flatten out. There remains also the possibility of a second or third wave of contagion. Secondly, in order to achieve the desired GDP, the economy needs to grow three percent faster than present something which no country has achieved.

<sup>7</sup> Lightcastle Partners. Covid Impact on Startups of Bangladesh

<sup>8</sup> <https://tbsnews.net/bangladesh/tourism-sector-lose-tk5700cr-because-covid-19-toab-66058?fbclid=IwAR2AuEFKHQxA9i4VlxodDRdA7LaQm7ns7fUZJR1InuYQFF3hjsC8loqCYo>.

<sup>9</sup> <https://tbsnews.net/economy/banking/state-owned-banks-project-tk7717cr-losses-amid-pandemic-80671>

<sup>10</sup> <https://www.dhakatribune.com/business/2020/05/16/airlines-count-tk-1-361cr-in-losses-in-covid-19-lockdown>

Table 3 : Changes in growth rate

FY	Growth	Annual change in growth	GDP billion	GDP Increment (Billion)
2015-16	7.11	0.56	17328.60	2170.60
2016-17	7.28	0.17	19758.20	2429.60
2017-18	7.86	0.58	22504.80	2746.60
2018-19	8.15	0.29	25361.77	2856.97
2019-20	5.2	-2.95	28057.00	2695.23
2020-21	8.2	3	31718.00	3661.00

Source: Author's calculation

Figures illustrated in Table 3 illustrate the change in the growth rate for Bangladesh from 2015 to 2021. During the time, change in growth was negative in 2007-08 by -1.05 percent, which was followed by further fall of 0.96 percent in the following year. Ever since GDP growth rate dipped below seven percent in 2007-08, it remained hovering around five to six percent, until in 2015-16 when the economy finally crossed the seven percent mark. It can be observed that a complete roundabout recovery from a -2.95 percent change in GDP growth in one fiscal year is but a pipe dream.

Ready-made garments industry, remittance and agriculture are the main drivers of the economy. The country, however, lacks control over the course these sectors will take as the global economy is still in recession and require longer to return to its pre-covid state. Export earnings in April fell by 83 percent compared to last year. Remittances will also take time to rebound. Even though the overall earning in the first eleven months surpassed the amount earned last year, the remittance earnings in April and May were the lowest in the recent times. The growth rate hinges most importantly upon the covid-19 scenario as a two-month shutdown shrunk the economy by almost three percent. Any extension in the current scenario will dash the hopes of achieving such a mammoth task at hand. Majority of the physically disjointed sector is based upon e-commerce and F-commerce avenues which have suffered greatly during the shutdown as consumer preferences shifted from the purchase of non-essential goods such as clothing and accessories, to essential goods such as medicines and personal hygiene. On the other hand, agro-businesses experienced a sharp rise in their turnover as more consumers were drawn to fresh produce that is home delivered<sup>11</sup>. In 2017, the contribution of the physically disjointed sectors accounted for BDT 9 billion in the GDP of the country, which is relatively insignificant to the BDT 1335.71 billion contributed by the physically interactive sectors in the same fiscal year.<sup>12</sup>

<sup>11</sup> <https://thefinancialexpress.com.bd/education/pandemic-disrupting-f-commerce-businesses-1589991125>

<sup>12</sup> <https://thefinancialexpress.com.bd/views/e-commerce-in-bangladesh-where-are-we-headed-1578666791#:~:text=In%202016%2C%20%2450%20million%20was,made%20by%20the%20retail%20market.>

## SECTION III: Poverty, wage and employment

### *A deterioration of poverty and inequality*

COVID-19 pandemic has severely impacted the life and livelihoods of the marginalized section of the society— particularly the low-income people, women, children, the elderly, the unemployed, the informal sector workers, lower-middle class and middle class group. Income erosion resulting from the losses in various sectors from the shutdown will create new poor in the country. The income erosion may result in 43.5 percent households having income less than the international poverty line. In the worst case scenario, with prolonged shutdown, the Unnayan Onneshan estimates 47.43 percent of the households might have income below the poverty line. Systematic reopening up the economy with focus on job creation and retention may see the percentage to come down to 39.43 percent. Other estimations put the poverty rate 35 to 40 percent<sup>13</sup>. Poverty situation may plunge into deeper valley of uncertainty due to the repatriations of large number of migrant workers. Almost two million migrant workers are expected to come back to the homeland, creating possibility to increase number vulnerable families who are solely dependent on their income. Almost 35 million people are living below the poverty threshold. The number could become 60 million after adding vulnerable groups, especially, incoming migrant workers and their families (New Age, 2020).

Coronavirus has also exposed the deep divide in the society. Income cuts will disproportionately affect those living in a mediocre standard of living, and extraction of liquidity from powerful elites being neglected as a source of revenue is likely to worsen the pre-existing income inequality. Policies regarding doubling of pensions may be welcomed, but they expose an underlying unequal form of social security which deprives the poor and vulnerable population. Accordingly, the inequality will deepen, with further differentiated return on labor and capital due to erosion of income given the preponderance of most of the labor force engaged in informal sector and loss of employment in both formal and informal sectors. This may even cross the fault line 0.50 from the existing 0.32 in terms of Gini coefficient while further exacerbate if measured by Palma ratio<sup>14</sup> of 2.93 as there would be descent of low and middle-income section as new poor.

### *A rise in the unemployment rate*

Due to the shutdown, 95 percent people have lost a massive share of their salaries and 51 percent workers have no job currently due to shutdown of economic activity and layoff (BRAC, 2020). In the ready-made garments sector, around one million workers from a workforce of 3.5 million have been laid off because of the pandemic. The future looks bleak as exports earnings are projected to shrink by 18 percent in the current fiscal year (IMF, 2020). According to the Unnayan Onneshan estimation, a percentage decrease in the GDP growth will result in 0.93 percent increase in unemployment rate. Hence, the unemployment rate may rise more than three percent because of the fall in GDP. Large industries and the RMG sector has slashed many from the work as the crisis prolongs and orders getting cancelled. As a result, thousands of

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<sup>13</sup> CPD estimates the poverty rate to be at 35% while SANEM estimates poverty rate of 40.9%

<sup>14</sup> The Palma ratio measures the richest 10 percent of the population's share of gross national income (GNI) and divides it by the poorest 40 percent of the population's share.

workers have lost jobs just from the RMG sector. In April 2020, total job postings in the largest online job searching sites declined by 87 percent in Bangladesh implying thin job opportunities (The Dhaka Tribune, 2020).

### ***Substantial loss of income***

Workers in different sectors have lost a substantial share of their salaries. Workers involved in industrial and technical sector have faced 28.4 percent decrease in their salaries. Service sector workers have lost their salary by 31.2 percent. The percentage decrease for public transport and residential service workers are 46.3 percent and 16.5 percent respectively (LightCastle partners, 2020). Average income of the households has decreased by 34 percent in the Dhaka metro area (ibid).

### ***A greater brunt for the informal economy***

Employment in the informal sector in the country is around 85 percent and about 15 percent of the total population has a per capita average daily income of less than Tk. 500. Since a large part of the population is dependent on daily wages to run their families, drastic measures like lockdown can lead to even greater disasters at the individual and family level. A recent survey of 5,461 households in rural and urban slums found that their average income decreased by about 70 percent and food expenditure by 26 percent (BIGD and PPRC, 2020).

In addition, the pandemic is supposed to affect the mental health of the people negatively. The negative consequence has already become visible. The domestic violence and various forms of social instability has already increased. For example, a study finds that about 98 percent slum women are facing domestic violence.

## **SECTION IV: PROVISION OF UNIVERSAL BASIC NEEDS**

The COVID-19 pandemic has made the policymakers rethink about the current challenges and failure of universal basic needs i.e. health, education, social security, food, shelter and others. The significant logic behind entitling these public goods with "universal" is embedded in the failure of the social safety net scheme or other targeted approaches since these kind of programs create possibility of two problems. Firstly, there might be "selection bias" while making list of the beneficiaries of these sectors. This bias gets exacerbated when political affiliation is considered as a hidden requirement and advantage to obtain the benefits. Some may get excluded and some may get over-privileged given his/her comparatively better economic status than that of the excluded one. This scenario is not uncommon at all in the perspective of Bangladesh. Secondly, considering health, education and social security part of any targeted scheme turns them into "relief" which is not so in reality. Education, health and social security are not charity for citizens of the country. These are both citizen rights and needs which should be ascertained by the state for mass people.

## **Health**

### **A severe lack of accessibility**

Assuring accessibility for all was an imperative this year. Most people of Bangladesh do not take health treatment from the formal health coverage. The budget of new fiscal year has not been able to ensure the accessibility of general people to the formal health care service. Regardless of gender most people rely on pharmacy/dispensary/compounder (HIES 2016). Other than that, people consult private doctors more often than the government doctors. Another noticeable issue is that the percentage of seeing kabiraj/hakim/ayurved is higher than NGO health workers or doctors who are more professional. 40.21 percent of the total population take medical treatment from the pharmacy/dispensary/compounder while only 9.28 percent go to government institutions to avail health service (HIES, 2016).

### **Struggles with affordability**

Out of pocket expenditure (OOP) in health sector is still very high and there is neither instruction nor any particular program to mitigate the OOP. In Bangladesh OOP is 67 percent which is more than India (62%), Pakistan (56%), Nepal (47%), Bhutan (25%) and Maldives (18%) (BNHA, 2017). Per capita government expenditure is the lowest in Bangladesh (\$88) comparing with Pakistan (\$129), India (\$267), Sri Lanka (\$369) and Maldives (\$2000) (The Business Standard, 2020).

### **Worsened disease burden**

The whole health structure has been plunged in disease burden for several months. Doctors, nurses and technicians are dealing with the newly emerged pandemic whereas, non-communicable disease is being not being handled with optimum attention. This discrepancy has already taken a drastic shape due to unavailability of proper treatment for non-communicable diseases. Most of the hospitals are not treating patients suffering from noninfectious diseases. As a result, people are not only dying from the contagious disease but also from the noninfectious ones. The budget has failed to address this aspect either.

### **A superficial increase in allocation**

Allocation in health sector has superficially increased in the new financial year that is 5.1 percent from 4.9 percent in the previous year. There are two relevant questions regarding the allocation. Firstly, is this allocation sufficient? Secondly, if envisaged as sufficient, will the incumbent authority be able to utilize the allotted money for substantial development in the health sector? There is no clear answer for these questions in the current budget. As experienced before, the allocated money for health sector is not utilized properly since most of the money go to several sections of this sectors, especially for salary and infrastructure. Despite allocation as share of operating and development budget has increased slightly for health sector, development sector remains stagnant at 5.8 percent whereas operating budget has increased to 4.7 percent in 2020-21 from 4.3 percent in 2019-20. Still now, health sector comprises only 0.9 percent of GDP in spite of constant suggestions by organizations like WHO. WHO recommends that health budget should occupy raised to 4 percent of the GDP which is

not followed in reality. It is conspicuous that, health management is not working properly. There should be reforms in four stages in the whole health sector; primary, secondary, higher secondary and tertiary. Building reforms should start from the community level. In this structural reforms, there needs to be an independent health commission to be responsible for healthcare of the populations. Universal health care service should be promoted. "One doctor for one citizen" initiative should be undertaken. National identity card of a citizen will work as his/her health card. The health commission will make separate provision for health management and expertise doctors.

## ***Education***

### **Inadequate allocation**

Allocation in education and technology is not up to the mark yet. This sector is going to receive BDT 85,760 crores in FY2020-21 budget which is 15.1 percent of the total budget. Allocation has increased than that of FY2019-20 but it shows a decrease in percentage as share of operating and development budget (15.2 percent in 2019-20). Development budget in education sector has slightly increased to 19.4 percent from 18.1 percent in 2019-20. Education and technology sector takes 2.7 percent of the GDP which is not sufficient at all. The allotted money gets disbursed among several sectors equivocating presence of the required budget for skill development and life-long training. UNESCO recommends 6 percent budget allocation as share of total GDP in education which is not visible in the current trend. Most of the time money is spent on salaries and make infrastructural development which are mainly included in the physical development portion. Creating extensive opportunities in vocational education learning is another big challenge for Bangladesh. Enrolment in academic education is increasing but the outcome is very poor due to lack of skills, especially life-long learning skills. Vocational learning provision should not be marginalized or made a targeted approach for a particular class of students. It should be imperative for all the students from the pre-primary level. Developed countries are going ahead in terms of employment, research and innovation by dint of life-long skills whereas, plethora of private companies in Bangladesh hire personnel from abroad due to inadequate skills of the local jobs seekers. This budget was expected to provide clear indication with regard to focus on skills development and it should have been specified that how much money is going to be spent for skills training and life-long learning. Ironically, these attributes have not been prioritized in the budget.

Like health sector, there should be structural reforms in the education sector which should be divided in four layers. Restructuring educational management has become inevitable to make productive outcomes from this sector. It is suggested that, a constitutionally mandated education commission is needed to focus on the prime objectives of education- skill development, innovation and building citizenship capacities. The commission will focus on the research and development in the education. It is undeniable that research is indispensable to prosper in innovation. In this backdrop, the commission will work to increase research capabilities and practices in the higher educational institutions. It will create skilled workforce in compliance with ongoing demand so that sufficient skilled workforce can be supplied in line with the fourth industrial revolution.

### **Inequality of access to education**

Education is still not accessible for larger section of people. There is huge inequality between the number of rich and poor students in the academic arena, mostly in tertiary level of education. 65 percent of the total students of public universities are represented by the 20 percent richest class. Poorest 20 percent constitute only 5 percent in public universities (World Bank 2019). In private universities, 57 percent of the students are from richest 20 percent class while only 5 percent are from poorest 20 percent class and 3 percent are from lower middle income group (World Bank 2019). Current pandemic has introduced another version of inequality, that is, access to internet while several institutions are taking class virtually. Most of the students abiding in the rural areas are unable to attend classes which are being held via virtual network. They do not have proper internet facilities in the rural areas, let alone remote areas. Online education is only available to the students living in the capital and in other metropolitan areas mostly. Besides, students representing poor families do not have capability to manage internet facility due to money problems. Question remains unsolved, what steps are going to be taken by the government to remove several dimensions of inequality? Unfortunately, the new budget has failed to consider these segments.

### **A dearth of knowledge on public health**

The current pandemic has unveiled the necessity of public health education. Fighting against this public bad would be easier if there was proper awareness regarding health and hygiene. Apart from taking dilatory actions, government is struggling to aware mass people regarding the fatality of the disease and precaution against it. Most of the people have not taken the pandemic seriously at the preliminary level because lack of public health concern and consciousness. It has become visible that, people seldom know about infection diseases, how they get spread and how they should be tackled. There should have been special provision for public health education in the current budget which is not traced thoroughly in reality.

### ***Social security***

#### **A declining budgetary allocation**

If the total pensions and gratuity expenditure (BDT 27,637 crores) is excluded from the social security sector, the allocated money covers around two percent of GDP. Current budget carries a question mark on filling up the holes regarding selection bias which is mostly politically driven. The social safety net in the budget for the fiscal year 2020-2021 is to include 16.15 lakh more poor people under state protection. The number of beneficiaries will rise by 20 percent this time, with intent to provide more poor people with allowances in tackling the coronavirus impact. But the amount of the monthly allowances will remain unchanged. The allocating of BDT 6,438 crores for safety net programs for the next fiscal year is going up from BDT 5,393 crores this fiscal year. Currently, around 80 lakh impoverished people get different allowances. The number will go up to 96 lakh in the next fiscal year. If the new poor and vulnerable due to impact of job-loss is taken into consideration, the number of beneficiaries from safety net programs is very trivial.

### **An influx of migrant worker returnees; emergence of the new poor**

The unsettled issue is, in case of rising official figures of people living below poverty which may increase to new heights after repatriation of more migrant workers, coverage and scope of social security requires reconsideration. Will the social safety net scheme be able to help the new poor escape poverty caused by COVID-19 pandemic? Besides, it is quite uncertain whether the allocation is determined focusing on the new poor people representing the vulnerable ones. It is important to keep in mind that migrant workers will not be new poor themselves but families dependent on their remittance will join the vulnerable group vastly. Almost 35 million people are living below the poverty threshold. If other vulnerable groups, especially, incoming migrant workers and their families are included, the number could become 60 million (New Age, 2020). Thus there will be more poor households who are already in need of social security. The current budget makes ambiguous position regarding the allocation for the newly included poor people, their number, allocation for them and the process to help them survive. Time-worthy questions are reiterated that, will these kind of universal coverage based programs beneficial for the society comprehensively?

## **SECTION V: STATE OF REAL SECTORS**

COVID-19 has posited an added layer of challenge to the real sectors of the economy. These sectors had been vulnerable to collapse far before the pandemic emerged and need adequate budgetary allocation for revival in the economy. The decreasing rate of subsidy, inappropriate pricing due to involvement of middlemen and powerful syndicate and inadequate allocation in terms of technological innovation, higher input price and absence cash capital to the farmers are the main hurdles in the agriculture sector and for ensuring food security. The manufacturing sector, whereas, greatly relies on a single industry and needs diversification and financial assistance to the SMEs and the women entrepreneurs. Drastic fall in remittance inflow, insufficient supply of skill and low return on labor are the main drawback to overcome in the service sector and vigorous earmarking and focus on these issues are requisite.

### ***Agriculture***

#### **Failing farmers without fair prices and sustainable practices**

In agricultural sector, technological advancement is very trivial and input price is also very high. There has been very little innovation in this sector during post-green revolution. Farmers have been deprived of fair prices due to engineering of middlemen and powerful syndicate. During COVID-19, farmers of Bangladesh has faced loss of more than BDT 56 thousand crores in the last one and half months (BRAC, 2020). The impact of COVID-19 has cost farmers more than BDT 56,000 crores in a month and a half. It has been depicted a loss of about Tk. 15,000 crores in the grain sector and BDT 39,000 crores in the fisheries sector in a month and a half. The average loss of each farmer is about 2 lakh 8 thousand taka (BRAC, 2020). The government is therefore going to introduce two refinancing schemes of BDT 8000 crores in total to ensure support to the farmers but failing to ensure the fair price to the farmers would be the strongest obstacle.

### **Turning back on achieving food security**

Bangladesh being heavily dependent on food imports would face a severe crisis in food availability in coming days. As the pandemic severely impacts agriculture production across the world, global prices of farm produce will be increasing. Bangladesh needs to annually import 60 to 65 lakh tons of wheat, five to 10 lakh tons of maize, 80 percent of its required oil including much of its sugar, pulse, spice requirements and different varieties of seeds to meet the local demand. Growers of Boro rice, the largest cereal crop of the country, are incurring heavy losses as they are now forced to sell their grains at a lower price than the rate fixed by the government. Over the last six years, the subsidy in agriculture has remained BDT 9,000 crores which means that the proportion of subsidy is decreasing every year as the size of the budget increases. In the FY 2020-21, the government has increased the subsidy by 500 crores but in face of the global pandemic, this increment is not enough to create stable food security. The scenario indicates that food security is in serious threat in coming days if prudent attention is not paid to agricultural sector.

### **Diversification remains a distant dream**

Around 40 percent of the population is dependent on agriculture. In order to unleash the potential, the limited drive for diversification is not adequate. The government has embarked on direct purchase from farmers to ensure fair farm-gate prices and to keep retail prices affordable to ensure food security for all. Financial subsidies for fertilizer, seeds and pesticides ought to be continued along with debt relief. These actions would require a 150 percent increase from the current budgetary allocation. In this budget, the allocation has only increased by 0.3 percent.

### **Insignificant Budgetary Allocation for Agriculture**

Against the backdrop of many suggestions regarding real sectors of Bangladesh, in reality, agriculture is still in less than sufficient priority in terms of attaining allocation in the Annual Development Programme (ADP). In FY2019-20, BDT 16,985 crores was allocated for agricultural sector (including fisheries and livestock) which is not adequate, especially when the issues of higher input price, lack of technological innovation and over-reliance on imported goods come forward. Emergency fund for farmers, especially when production falls due to natural calamity or pandemic and need of importing goods increases, has not been announced. Farmers do not have adequate cash capital to cope with negative downturn of production. In this case, financial assistance from the government is very low.

In this budget, agricultural sector has an increased allocation worth of BDT 29,983 crores, which is BDT 2,960 crores higher than that of the revised outlay for FY 2019-20. Agricultural sector has been marred with decrease in procurement of crops and income of the farmers, increase in input price and reliance over import. The farmers have gone through a loss worth BDT 565 billion during the 45-day general holidays announced by the government to prevent the spread of coronavirus, according to BRAC. (The Financial Express, 2020). The real change in the agriculture sector is only 0.3 percent which indicates the incompatibility of the government to resolve the downturns in this sector. As a result, the attempts to distribute food

to the poor and extreme poor households may be disrupted due to scarcity in the food stock. Until the third day of the current month, the Directorate General of Food (DGF) purchased only 7,750 tons of Boro paddy from farmers, which is less than one percent of the target of 800,000 tons (The Daily Star). The agricultural sector, having only 0.9 percent of GDP as the allocation in this fiscal year, is ineffectual in maintaining stable food security and livelihood of the farmers.

## ***Manufacturing industry and CMSMEs***

### **Putting all eggs in one basket**

Manufacturing sector has been struggling for several years since there is a lack of business confidence. The characteristic of being a one-sector based manufacturing sector has made the business climate more susceptible to shocks. Small and medium level owners are not failing to acquire opportunities to avail loan from banks to establish and run their factories. There is miniscule diversification in products and markets which results in negative motion of export growth. Against the backdrop of current predicament, export of RMG has decreased by USD 448 crores during March, April and May from that of the previous year. Order worth BDT 318 crores has been cancelled for 1150 factories where more than 2.2 million workers are involved. They are on the verge of losing their jobs (BGMEA, 2020). An estimated 3.5 million Bangladeshis work in the garment sector, and around one million workers have been reportedly laid off. Exports are projected to contract by around 18 percent in FY20 and further decline by one percent in FY21 as demand from major trade partners remains weak (IMF, 2020). To tackle this crisis, the government have created a fund amounting BDT 5,000 crores for the export oriented industries so that the industries can continue to pay salaries and allowances to the workers and employees.

### **An increasingly volatile business climate**

Manufacturing sector has been concentrated in one sector which is at risk of massive loss due to current COVID-19 crisis. Most of the factories are facing cancellation of orders which tends to make huge loss. On the other hand, initiatives to regain the market of China is not that much visible. Vietnam has been able to catch the market of RMG sector through several time-worthy action plans and sub-contracting policies. Bangladesh has already lagged behind Vietnam in terms of export earning in RMG sector. Because of low level efficiency and productivity, average production cost going higher offsetting the low labor cost. The export of Bangladeshi RMG products fell by 7.59 percent to \$15.77 billion due to decline in the global demand in between July and November of 2019 (Export Promotion Bureau, 2020). The government have introduced a working capital loan facility of BDT 30,000 crores at a subsidized interest rate for large industries in this budget.

### **Counting significant losses**

The Ready-made Garments (RMG) industry has already been projected to face a loss of USD 1.6 Billion due to the cancellation of order as an effect of the pandemic. Under these

circumstances, the share of manufacturing to GDP is projected to decrease 8.72 percent in FY 2019-20 than FY 2018-19 and stands at 15.49 percent. The share of large and medium scale industries has been projected to become 12.41 percent in FY 2019-20 which shows a loss of 7.95 percent than the previous fiscal year. The share of small scale industries has been projected to be 3.08 percent facing a loss of 0.78 percent from the last year (Bangladesh Economic Review, 2019). In the budget of FY 2020-21, allocation for the industry and economic services is BDT 3940 crores which was BDT 4101 crores in FY 2019-20 adjusting inflation. This reduction in the allocation is not going to reinforce the manufacturing sector combating the pandemic.

Micro, Small and Medium enterprises (MSMEs) are considered the lifeline of the economy of Bangladesh. The SMEs contributed to one fourth of the GDP, the value of which was 79 Billion USD in 2018 and accounts for 40 percent of the total manufacturing output (ADB, 2015). Every two out of three jobs in the private sector get employed in SMEs which amounts to 7.8 million individuals (SME Foundation, 2018) and 31.2 million people's livelihood depending on SMEs (BBS, 2016).

Around 52 percent of SMEs have locks hung over their businesses generating zero revenue and 28 percent of SMEs have seen revenues drop by at least 50 percent. Two-third of the SMEs have a window of less than 4 months to survive in current conditions before they exhaust all their cash reserves. 40 percent SMEs from service industry took a heavy hit of substantial revenue loss by 50 percent or more. It has been estimated that, 68 percent SMEs will exhaust their cash reserves and permanently shut down their businesses if the lockdown persists for more than four months and an aggregate 31 percent of the enterprises will go for some sort of layoff (1-50% of staff) to minimize costs and keep their businesses afloat (LightCastle, 2020). Small and medium scale entrepreneurs are not getting easy access to loan provision due to the delicate conditions imposed by the banks. Besides, banks are now experiencing liquidity crisis and lack of capital due to default money and borrowing by government. The government have introduced another working capital loan facility of Tk. 20,000 crore at a subsidized interest rate for the Cottage, Micro, Small and Medium Enterprises (CMSMEs).

### **Differentiated adversities for women in manufacturing sector**

Small women entrepreneurs are the real victim of the pandemic crisis. Most of the women entrepreneurs are not capable of sustaining under the existing situation if Covid-19 induced crisis for another couple of months. Many small entrepreneurs would be forced to close business soon finding no other alternative. Access to finance is a big concern for the women entrepreneurs for long. Women entrepreneurs are supposed to receive at least 15 percent of all credit within the SME sector. Despite this initiative, most women entrepreneurs are facing difficulties to get credit from the banks and other NBFIs. The key barriers of the women entrepreneurs are related to collateral requirements and guarantee, trade license and rigidity of loan procedures and mindset of the bankers toward women entrepreneurs (Financial Express, 2020). This issue was not adjusted in the budgetary allocation this year as it is only 0.7 percent of the GDP.

### **Pathway of reviving the manufacturing sector**

The entire manufacturing process must undergo drastic makeovers with a balance between domestic consumption and export orientation. Capabilities in this sector can be ameliorated through diversification, productivity augmentation, technological catching up and increased competitiveness in agriculture, manufacture and service sectors. To address the massive changes in the post-COVID era, mobilizing SMEs and start-ups, and the large firms, with the objectives of employment creation, product diversification, value addition, greening and alternative export creation are obligatory. With a negative real change of 3.9 percent, the allocation for industry and economic services in the budget distinctly demonstrated the lack of focus and strategy to fight the challenges occurred due to the pandemic. Financial assistance and subsidies, tax holidays and tax exemption at different stages has to be disbursed in accordance with the outcomes and targets which seems out of the question with the current budgetary allocation.

### ***Service sector***

#### **A scarcity of required skills**

Service sector has been facing hindrances in terms of skill supply. The scarcity of skills has led to hiring of documented and undocumented workers from abroad at higher class positions than the local citizens making a colossal outflow.

### **Tourism, Transport and Communication take a hit in a pandemic-stricken world**

The COVID-19 situation has more or less halted all the sectors of the tourism industry businesses. Till May, 2020, the world has faced a loss of USD 97.05 billion in the tourism sector alone (Pacific Asia Travel Association's Bangladesh chapter, 2020). Tourism experts assume if the lockdown situation continues like this, Bangladesh will have to face economic loss of more than BDT 3 billion. Half a million of people who are directly or indirectly employed in the tourism and hospitality industry, are in the risk of losing their jobs. It has been estimated the loss of around BDT 5700 crores due to the pandemic (New Age, 2020). The transport and communication sector was hit hard by the pandemic. The transport sector has lost around BDT 500 crores daily due to the lockdown. The allocation for the transport sector in this year's budget is BDT 4742 crores less than that of the previous year. This sector has the lowest real change of -5.5 percent in this budget. It will be difficult for the government to encounter the effects of the global pandemic in this sector with this reduced budgetary allocation.

### ***Infrastructure: power, energy and mega-projects***

#### **Megaprojects and high costs of operation**

Allocation for mega projects will be curtailed in the FY2020-21 with allocation of BDT 44,640 crores for the 17 projects, down from BDT 52,758 crores in the previous year. Ruppur nuclear power plant will get the highest among the mega projects in the ADP this fiscal year followed by Matarbari coal power plant, Padma Rail Link, Karnaphuli river tunnel, Hazrat Shahjalal International Airport expansion (first phase) and Dhaka-Ashulia elevated expressway. Delays in the ongoing megaprojects due to the economic shutdown will add further woes by rise in cost.

Cost of a constructing one km road is between 2.5 to 11.9 million US dollars. Whereas the cost of constructing the same road in India is between 35,900 to 45,600 US dollars, 63,100 US dollars in Nepal, 59,500 US dollars in Thailand and 85,400 US dollars in Vietnam (World Bank 2017). The quality of roads remains questionable despite the high cost. Bangladesh ranks 100 among 160 countries in the Logistic Performance Index with a score of 2.58.

### **Choice of exorbitant, non-renewable sources**

There have been no significant policy changes made in the power and energy sector as it still remains heavily dependent on fossil fuels. Natural gas is still the dominant energy source for electricity generation followed by furnace oil. Three coal fired power plants are in the pipeline and will soon generate 3840 megawatts of electricity. Renewable energy sources are still overlooked in policymaking. Per unit megawatt installation and per unit power generation cost have declined in solar and wind power. The cost of installing one MW solar power plants has reduced to BDT 11 crores in 2018 from BDT 35 crores in 2010. Installation cost of 1 MW onshore wind turbine has come down to BDT 12 crores in 2018 from BDT 15 crores in 2010 (IRENA, 2018). In this circumstance, instead of concentrating on renewable sources, government is swimming against the tide by erecting more non-renewable source based power plants.

### **Higher government subsidies**

Quick rental power plants have been incurring losses as they remain idle and as a result government has to pay the private producers in the form of capacity charge. Demand for electricity has lowered even more during the Covid-19 crisis and as a result, the capacity charge will only rise in the next fiscal year. Subsidy paid to the Power Development Board rose to BDT 800 crores in the fiscal year 2018-19, almost double the amount paid in the previous fiscal year. By 2030, the generation of electricity will be 58 percent higher than the demand due to the addition of new coal and LNG fired power plants (Nicholas and Ahmed, 2020). Government subsidy to Bangladesh Petroleum Corporation has reduced to almost zero due to the fall in oil prices but oil price in the local market has not changed.

### **Ecological balance between nature and mankind**

Protection of the ecology must be ensured while building new infrastructures. The environmental impact of coal fired power plants has completely been disregarded by the government in Rampal power plant, a joint venture between Bangladesh and India, being built very close to Sundarban, the largest mangrove forest which has been protecting the coasts from natural disasters. Use of fossil fuels should be lessened massively and solar and wind based plants should be established extensively by regaining the control of the power sector through renegotiating the coal and LNG based power plants. Quick rental power plants have served its purpose of electricity generation at short period but with a price. Where most of the nations have been abandoning fossil fuels and nuclear power, dependence on such sources does not look future proof. Infrastructure still remains in issue as powers are lost in transmission due to obsolete transmission mechanisms. Bangladesh could not benefit from the recent plunge in the oil market due to lack of storage facilities in the country.

## SECTION VI: FINANCING

### *A plummeting revenue collection*

Covid-19 crisis has dealt a massive blow to the revenue collection of the government. Revenue collection may face a negative growth of six percent in the FY2020-21 due to the economic shutdown. Revenue collected by NBR in the first 10 months of FY2019-20 is BDT 62,000 crores less than the revised target due to economic halt and loss in real sectors as an impact of coronavirus. Tax collection was BDT 1, 73,797 crores in July-April of FY20 against a target of BDT 2, 35,796 set for the period (New Age, 2020). Revenue may fall short of BDT 80,500 crores by the end of FY20 against the revised target of BDT 3, 00,500 for the year. Losses faced by the businesses as well as income reduction due to the shutdown will result in downward tax collection in the FY2020-21 as well. VAT collection will also get shrink due to the low consumption spending. Revenue collection has been poor even for the last few years. Government expenditure has grown manifolds faster than the revenue collection resulting in higher fiscal deficit (IMF, 2020).

NBR collected BDT 2, 34,684 crores in the previous FY19. Revenue collection grew only by 0.64 percent in the July-April period of FY20 (New Age, 2020). The revenue target for FY2019-20 was BDT 325,600 crores in the original budget, which is being revised to BDT 300,500 crores. In total, the finance division has estimated a revenue of BDT 378,003 crores for the next fiscal year, including BDT 15, 000 crores from the taxable sector beyond the NBR and BDT 33,000 crores from the non-tax sector.

Table 4 : Revenue collection (in billion taka)

	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20
Budget	1674.6	1829.5	2084.4	2427.5	2879.9	3392.8	3778.1
Revised	1566.7	1633.7	1774	2185	2594.5	3166.12	-
Actual	1403.4	1459.6	1774	1912.9	2165.5	-	-

Source: Ministry of Finance, 2019

### *Curtailling of fiscal space*

The fiscal space of a government is determined by its ability to alter financing plans for a planned intervention in a manner that does not hinder the operations of the financial markets or long-term cope of public finance. Fiscal space may be measured by a framework of "the composition and trajectory of public debt; financing needs and ease of borrowing; assets that can be drawn upon; future spending commitments; the effectiveness of fiscal policy; and the strength of fiscal institutions."<sup>15</sup> Restoring the economy to pre-Covid scenario will require a concerted effort and mix of both monetary and fiscal policy measures. The goal is to create

<sup>15</sup> IMF Blog. Economic Preparedness: The Need for Fiscal Space. <https://blogs.imf.org/2018/06/27/economic-preparedness-the-need-for-fiscal-space/>. Accessed on June 18, 2020.

new employment and increase the earnings. The government will need to look for alternative sources for financing as revenue earnings from tax and VATs will face steep decline due to income losses and declining consumption spending. Around one and half billion dollars from undocumented foreign workers can be collected in Bangladesh, the activation of transfer pricing cell to reduce tax avoidance and re-examination of tax exemptions given to politically influential conglomerates.

Fiscal gap according to IMF looks to widen in the next fiscal year to 0.6 percent of the GDP as revenue collection will go down significantly. The size of the national budget has increased by 8.6 percent from the previous fiscal year, followed by a strikingly less than 0.1 percent increase in revenue; however, estimates show that revenue mobilization efforts are required to be 49.5 percent<sup>16</sup> higher in the FY2020-21. The budget remains at 17.9 percent of GDP, whilst revenue target has slightly decreased from 13.2 percent to 12 percent for the next fiscal year. NBR calculation casts doubt on the targeted revenue collection of 3, 30,000 crores BDT for next fiscal year amidst the ongoing crisis. NBR projects tax collection of 2, 50,000 crores BDT in the next fiscal year looking at the current scenario. Such low tax collection will raise the deficit to 8.5 percent of the GDP. In addition, foreign grants have constituted only 0.1 percent of the GDP at current prices in FY2019-20. More efficient debt management could have been brought about by a streamlining and downscaling of the ADP allocation significantly more than the 9800 crores BDT<sup>17</sup> that has been debited, in order to allow for a freer fiscal space. Government borrowing from banks is at all-time high as in the last fiscal year government borrowed 138 percent more than the previous year. Government projection of 25.3 percent private investment will require an additional 4, 65,781 crores BDT. Government borrowing from banks to finance the deficit will cast doubt on achieving the investment target. Vacuuming funds from the banking sector for deficit financing amidst an excess liquidity position may leave the private sector credit growth in peril as private investment is crowded out, reflected in the lowest growth of eight percent in March and April. Borrowing from external sources for financing will raise the debt to GDP ratio. Thinning fiscal space will require government to cut expenditure. Widespread corruption in ADP has to be kept in check, as the insignificant reduction in ADP allocation despite revenue concerns indicates the existence of possible clientelist expectations and self-interest<sup>18</sup>.

### ***A financial market crisis and lapse in private investment in the making***

The banking sector is acting as the main source of finance for the stimulus packages provided by the government for loss-inflicted strategic industries. Furthermore, the dependence on the banking sector to assist in 44.72 percent of the borrowing target of BDT 84,000 crores in deficit

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<sup>15</sup> IMF Blog. Economic Preparedness: The Need for Fiscal Space. <https://blogs.imf.org/2018/06/27/economic-preparedness-the-need-for-fiscal-space/>. Accessed on June 18, 2020.

<sup>16</sup> Centre for Policy Dialogue, 2020

<sup>17</sup> Ministry of Finance, 2020. Budget at a Glance. [https://mof.gov.bd/sites/default/files/files/mof.portal.gov.bd/budget\\_mof/020ecd9a\\_fcbc\\_4ae4\\_962a\\_c1700f92e6f3/BB\\_01\\_At\\_a\\_Galance\\_Eng.pdf](https://mof.gov.bd/sites/default/files/files/mof.portal.gov.bd/budget_mof/020ecd9a_fcbc_4ae4_962a_c1700f92e6f3/BB_01_At_a_Galance_Eng.pdf). Accessed on June 18, 2020

<sup>18</sup> During the Covid-19 crisis, medical supplies were issued with 5 to 10 times higher prices according to TIB study.

financing in the budget for FY2020-21 is likely to aggravate the woes<sup>19</sup>. Although the liquidity position of banks have been improved by easing of regulatory requirements from the central bank and creation of new money, standing at 6.5 percent of GDP, an increase in the excise duty on deposits higher than BDT 1 million is likely to curb saving propensities which may prove to be harmful in the face of withdrawal pressures on banks<sup>20</sup>. On the other hand, the budget projects a surge in private investment from 12.7 percent in the current fiscal year to 25.3 percent, implying that an investment of BDT 446,000 crores will be required for such an unrealistic leap in a post-Covid fiscal year.

One of the striking strategies for the financial and capital market proposed in the budget has been the offered opportunity of sanctioning undisclosed money into the capital market. There is expressed concerns regarding the effectiveness of this particular initiative as the government lock-in on capital market investment is likely to deter investment into safer options such as bank deposits, savings certificates and real estates<sup>21</sup>.

### ***A worsening of national debt***

There will also be a big gap due to the over estimation of GDP by the government. Government projection of 8.2 percent GDP growth is based on the current GDP. Due to the advent of the pandemic, the Unnayan Onneshan (2020) estimate that, the growth rate will instead be at 4.4 percent. Holding the revenue percentage of GDP with the same level, the estimated revenue might come down to BDT 3, 63,035.4 crores. In reality, the collection will be even lower. In the 10 month of the fiscal year there is already a gap of BDT 62,000 crores in the revenue earning from the target according to last budget. The gap widens to BDT 82,000 crores when compared to the revised budget of 2018-19. In this scenario, overestimation of GDP growth rate by the government will widen the gap even more, by around BDT 14,000 crores.

The waning revenue has forced the government to resort to heavy borrowing from banks and crowding out private investments and subsequent liquidity crisis. Private sector credit growth has dwindled to 8.86 percent in March, the lowest since December, 2008. Domestic borrowing from banking sector has increased to BDT 84,980 crores in 2020-21 budget from BDT 82,421 crores in 2019-20. Government has opportunity to borrow many from foreign countries and organizations at lower interest rate than that of domestic sector but subverting foreign borrowing is jeopardizing the private investment making the banking sector drowned in multiplied crisis.

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<sup>19</sup>The Business Standard. Government rides on banks to source deficit financing. <https://tbsnews.net/economy/budget/government-rides-banks-source-deficit-financing-92173?fbclid=IwAR0sRS9gIzVMLF0LnjxFtT33t3FA1iUdDgQPkkVke6oy6LqIKrRvNwVgqbl>. Accessed on June 18, 2020

<sup>20</sup>The Business Standard. No love for banking sector in FY21 budget. [https://tbsnews.net/economy/budget/no-love-banking-sector-fy21-budget-.92119?fbclid=IwAR167JHvAGDbs4UDbhgR7\\_jA8ct23C4KsP43SI85nnp8xuYCMzYLG38mAA](https://tbsnews.net/economy/budget/no-love-banking-sector-fy21-budget-.92119?fbclid=IwAR167JHvAGDbs4UDbhgR7_jA8ct23C4KsP43SI85nnp8xuYCMzYLG38mAA). Accessed on June 18, 2020

<sup>21</sup>[https://tbsnews.net/economy/budget/equity-analysts-takeaway-budget-93244?fbclid=IwAR0ChV2HUXtJU6UeY5QtE23Wf\\_5gJidf0G8lc0q2k6xuPH9KOe5mRurp3eE](https://tbsnews.net/economy/budget/equity-analysts-takeaway-budget-93244?fbclid=IwAR0ChV2HUXtJU6UeY5QtE23Wf_5gJidf0G8lc0q2k6xuPH9KOe5mRurp3eE)

Table 5 : Financing (crore taka)

	Budget 2020-21 (Pre-proposed)	Revised 2019-20	Budget 2019-20	Actual 2019-20
Foreign Borrowing-Net	76,004	52,709	63,848	31,289
Foreign Borrowing	88,824	63,659	75,390	44,790
Foreign Debt Repayment	-12,820	-10,950	-11,542	-13,501
Domestic Borrowing	1,09,980	97,345	77,363	1,06,845
Borrowing from Banking System	84,980	82,421	47,364	34,587
Long-Term Debt (Net)	53,654	59,986	28,094	21,129
Short-Term Debt (Net)	31,326	22,435	19,270	13,459

Source: Ministry of Finance, 2020

### ***Need for a coherent, well-oiled strategy in debt financing***

Under such circumstances, the government is required to launch a well-coordinated strategy. First, cutting down unnecessary expenditures such as government largesse and cost over runs without resorting to austerity measures will save the government a lot. Still now, unnecessary expenditure covers a large portion in the national budget. High allocation in the public administration sector is a burning example of this. This sector occupies 19.9 percent allocation of total budget. Operating budget in this sector has increased to 12.5 percent in 2020-21 from 9.8 percent in 2019-20. In the government civil service, designated posts have become full to the brim. The problem is often deepened further through promotion of personnel to higher level. Recently, 123 government bureaucrats have been promoted to "Joint Secretary" which is questionable indeed in terms of necessity.<sup>22</sup> Apart from this, many officers are kept idle by making Officer on Special Duty (OSD) which is basically a punishment. Through this indirect punishment, officers cannot conduce their incumbent duties but get salaries. This practice reduces possibilities of getting sufficient service from the government. Government needs to take stern actions to shift the cost from this malpractice to real sectors or universal basic needs. Second, new sources of revenue should be searched like of taxing undocumented foreign workers in Bangladesh, reducing tax avoidance and re-examining tax exemptions given to politically influential conglomerates. Tax exemptions of multinational companies (MNCs) should be reviewed whether these business entities need waiver or not. Third, increased foreign aid from bilateral and multilateral sources may reduce the burden on private banks. At the same time obtaining multilateral and bilateral loans with low rate of interest, longer repayment and grace period through negotiations shall be the priority to ease debt servicing, as well as seeking relief, writing off and deferrals of debts. Bangladesh in this regard has failed to take advantages as government is yet to take the debt relief opportunity declared by the G-20 nations due to the pandemic (TBS, 2020). Finally, the government has to primarily source from the central bank even if this requires printing of the currency as banks are already in liquidity crisis and treasury bills and savings certificates are costly.

<sup>22</sup> <https://bdnews24.com/bangladesh/2020/06/05/government-promotes-123-officers-to-joint-secretaries>

The central bank has to provide more financial packages to the vulnerable groups like micro-finance borrowers. Given that some banks' overexposure in advance-deposit ratio and deposit to banks may not increase in near future, the central bank can opt for a working capital taka loan window and need-based statutory liquidity ratio and cash reserve ratio requirements for a short-term. Another objective would be to ensure stability in the exchange rate to avoid disruption in trade flows. A selective capital control measures to discourage speculative trading can also be introduced. For maintenance of adequate supply of foreign exchange, negotiations should be initiated with the IMF and other multilateral organizations for relief and suspension from debt servicing and additional grants for budgetary support.

Table 6 : Revenue and expenditure (crore taka)

	Budget 2020-21 (Pre-proposed)	Revised 2019-20	Budget 2019-20	Actual 2019-20
<b>Revenue and Foreign Grants</b>				
Revenues	3,78,003	3,48,069	3,77,810	2,51,879
Tax Revenue	3,45,000	3,13,068	3,40,100	2,25,957
NBR Tax Revenue	3,30,000	3,00,500	3,25,600	2,18,616
Non-NBR Tax Revenue	15,000	12,567	14,500	7,342
Non-Tax Revenue	33,000	35,002	37,710	25,921
Foreign Grants	4,013	3,454	4,168	1,677
<b>Expenditure</b>				
Operating Expenditure	3,48,180	2,95,280	3,10,262	2,38,110
Recurrent Expenditure	3,11,190	2,74,907	2,77,934	2,17,807
Domestic Interest	58,253	52,796	52,797	46,015
Foreign Interest	5,548	4,868	4,273	3,446
Capital Expenditure	36,990	20,373	32,328	20,302
Total Expenditure	5,68,000	5,01,577	5,23,190	3,91,690
Overall Deficit (Including Grants)	-1,85,987	-1,50,054	-1,41,212	-1,38,134
Overall Deficit (Excluding Grants)	-1,90,000	-1,53,508	-1,45,380	-1,39,811

Source: Ministry of Finance, 2020

Every year there remains huge discrepancies between the actual budget and the revised budget. The absence of parliamentary scrutiny on revised budget, the ineffective role of auditor and comptroller general on monitoring and the lack of oversight power of the parliament on budget proposal give birth to those discrepancies. In addition, it is important to improve the efficiency of budget allocation as well as the ability to use the allocated funds properly. A significant amount of budgetary allocation remains unutilized or underutilized at the end of each fiscal year. The efficiency, accountability, transparency and representation when forming as well as implementing budgetary measures is prerequisite to get the expected results from the provisions.

### ***Why recovery will be delayed***

The myriad economic fallouts from the recession are at risk of being left unaddressed when a recovery plan is formulated. Recovery is often deemed to be following either a U, V or W shape – optimists project a rapid and quick recovery in markets as the economy will simply bounce back to its previous growth path, resembling a V-shaped curve. The rapid rise from a 5.2 percent to 8.2 percent growth rate in one fiscal year reverberates this line of thinking. However, recovery may in reality be slow and delayed representing a more U-shaped curve, for several underlying shortcomings in the assumptions and strategies made.

Firstly, concerns may be expressed regarding the aspect of inclusion in the budgetary framework. Poverty and inequality no longer remain under the auspices of a straightforward headcount ratio during such unprecedented times of peril, signifying the importance of inclusion of groups without entitlements – of the new poor, of small businesses, of female-headed enterprises – in formulating social security, and a possible basic income grant.

Secondly, it is very likely that the emergence of a new poor population will remain unnoticed. As discussed earlier, the number of migrant workers who may face income erosion from loss of jobs and existing debt, and a large cohort of urban informal sector workers facing job losses and minimal savings, who are otherwise considered as being vulnerable to poverty, are at risk of falling back under the poverty line. This situation is expected to worsen the further the economic slowdown prolongs into the future, leading to more and more people falling into poverty. As a result, this might lead to a widespread surge in unemployment in both rural and urban areas, heralding the need for creation of employment opportunities and re-skilling initiatives for a large new poor population.

Thirdly, derived from the lack of inclusivity, several labor intensive, small-medium-cottage industries are often out of the bounds of the mainstream financial sector i.e. the 'unbanked' population. As a result, these firms lack access to credit to keep their business afloat, which is more crucial during a recession. The negligence of a credit guarantee for the self-employed, small business owners and vendors is reflected in the budgetary framework, which may be a deterrent in bouncing back to previous growth rates.

Fourthly, recovery does not equate to a cash transfer. Money changing hands at random does not ensure that it reaches where it is needed the most. An expansionary monetary policy of flushing in more liquidity into the economy therefore may fail to ensure economic recovery, lest a rapid one. Henceforth, recovery may not take place unless a strong, discretionary fiscal policy is put in place and effectively implemented. Fiscal policy has the capacity to be directed and driven towards specific groups that eases the process of targeted interventions.

Fifthly, a large part of the economic recovery may be delayed due to an age-old deficit in governance. Albeit a crash may be staved off by the financing packages announced in the budget, it will be to no avail if shortcomings in management are not addressed.

Finally, a stench of short-sightedness wafts off the direction of budgetary allocations and increments. This is particularly noticeable in the case of budget allocations for the apparel

industry that previously received a stimulus package during shutdown. The focus on an exporting industry that is encountering cancellation of orders and the global scenario of a pandemic that showcases bleak potential for exports of apparel to take off in the near future given that export destination countries are badly infected as well, expresses a lack of forward thinking in terms of government investment in industries.

### ***Oversight becomes crucial***

There are certain gaps in the constitutional provisions relating to budget— including the lack of sufficient information, the limited scope for participation, the lack of incentive for participation, the over-centralization problem etc. The flow of information is controlled by the Finance Minister and is not required by law to furnish all relevant information for consideration of budget. On the other hand, the parliament may accept or reject the budget as a whole, but cannot alter it. The legislators cannot vote against party line. The approval of the budget is automatically guaranteed. Again the MPs cannot include the projects from their constituencies. There is a lack of enthusiasm among the members to discuss on the budget. This has resulted from the exclusion of MPs from the process of allocation of resources. In many cases, the budget sessions became irrelevant as the major opposition party boycotted the budget session. As a result, the oversight power of the parliament does not hold.

### ***Need for a monitoring and results framework in place***

The efficiency in allocating and distributing budget requires strong monitoring. The role of the auditor and comptroller general is very much crucial in this regard. The proper use of technology, the ability to make quick decisions and work together with development partners can bring significant positive results through reducing waste, speeding up cost management and bringing real benefits to the citizens. Strong monitoring can ensure the accountability of the budgetary provisions.

### ***A debt management strategy that is efficient, effective***

Unsustainable public debts have possibility to negatively affect the poverty alleviation and economic growth through repressing the public spending. The economic reality stemmed from COVID-19 unquestionably vindicates an efficient and effective debt management strategy. The optimization of debt portfolio and revealing the government's borrowing plan through proper debt management strategy can significantly result in positive outcome in allocation and distribution of budget and help the growth of capital market. In this regard, it is, however, necessary to provide adequate training and skill development programs for the bureaucrats and other authorities concerned.

## SECTION VIII: CONCLUSIONS

In the wake of a global pandemic that has overturned the historical legacy of trends in economic indicators, the budget of FY 2020-21 is endowed with much expectation from the people of all walks of life in terms of adequate stimulus, especially in increasing social security status, employment opportunities and access to health and education. Ironically enough, the budget still remains in the spectrum of exclusion and in favor of clientelistic networks. The current pandemic, at one hand has created a great fiasco in terms of collapse in health sector and the ongoing economic depression, on the other side, has created bunch of opportunities to envisage about the basic needs of people. Besides, importance of natural harmony and environment has got a new dimension that without the well-being of nature, people cannot live well.

Universal provision of education and health was a crying need in this budget, so was investment in agriculture. It has also become visible that health sector is in a debacle. COVID-19 has not wrecked the health care system, rather it has unveiled the existing complications and challenges in the health sector. Education sector was expected to acquire higher allocation having 5-6 percent share of total GDP. Allocation in research and development is still very low which indicates that innovation is not being encouraged from the policy level. Inadequate allocations coupled with shortcomings in management of public service delivery due to weak institutions, with an added blow of a pandemic calls for a well-planned medium term framework.

Apart from urgent need of formulating a new monetary and fiscal policy framework, the current pandemic has reminded human beings of the vital significance of natural balance and clean environment. It has been also conceived that the recent emergence of epidemics and pandemics is a consequence of constant destruction of nature, biodiversity and its flora, fauna, biotic and abiotic resources. This budget has not allotted adequate amount of money to resist climate change, pollution of air, water and soil and destruction of forest lands. The continued vicious network of clientelist group is still rampant in an aggressive manner. The budget of FY2020-21 has not been able to make a clear vision to move towards the pathway of sustainability and public society.

## Appendix

Table 1: Budget Analysis

Sectors	Budget 20-21	Revised Budget 2019-20	Budget 19-20	Inflation adjusted 19-20	Change	Change (inflation adjusted)	% of GDP 2020-21	% of Budget 2020-21	% of GDP 2019-20	% of Budget 2019-20
Expenditure										
Public Services	180715	140138	154009	162325.5	17.3	11.3	5.7	31.8	5.3	29.4
LGRD	39573	40473	37884	39929.74	4.5	-0.9	1.2	7.0	1.3	7.2
Defence Services	34882	33106	32558	34316.13	7.1	1.6	1.1	6.1	1.1	6.2
Public Order and Safety	28668	27437	27636	29128.34	3.7	-1.6	0.9	5.0	1.0	5.3
Education and Technology	85760	77039	79486	83778.24	7.9	2.4	2.7	15.1	2.8	15.2
Health	29246	23692	25732	27121.53	13.7	7.8	0.9	5.1	0.9	4.9
Social Security	32166	31100	29769	31376.53	8.1	2.5	1.0	5.7	1.0	5.7
Housing	6936	7446	6603	6959.562	5.0	-0.3	0.2	1.2	0.2	1.3
Recreation, cultural & religious	4786	4735	4388	4624.952	9.1	3.5	0.2	0.8	0.2	0.8
Fuel and Energy	26758	26154	28050	29564.7	-4.6	-9.5	0.8	4.7	1.0	5.4
Agriculture	29983	27023	28355	29886.17	5.7	0.3	0.9	5.3	1.0	5.4
Industrial and Economic Services	3940	4738	3891	4101.114	1.3	-3.9	0.1	0.7	0.1	0.7
Transport and communication	64587	58496	64829	68329.77	-0.4	-5.5	2.0	11.4	2.2	12.4
Total	568000	501577	523190	551442.3	78.4	7.8	17.9	100	18.1	100.0
Revenue										
Tax Revenue (NBR)	330000	300500	325600	343182.4	1.4	-3.8	10.4	58.1	11.3	62.2
Tax Revenue (Non-NBR)	15000	12567	14500	15283	3.4	-1.9	0.5	2.6	0.5	2.8
Non Tax Revenue	33000	35002	37710	39746.3	-12.5	-17.0	1.0	5.8	1.3	7.2
Foreign Grants	4013	3454	4168	4393.1	-3.7	-8.7	0.1	0.7	0.1	0.8
Total	382013		381978	398211.7	-7.7	-22.7	11.9	66.5	13.2	73.0
Deficit	185987	150054	141212	148837.4			-5.8	26.99	5.3	-4.8
GDP	3171800	2805700	2885872							

Source: Ministry of Finance, 2020

Table 2: Sector-wise resource distribution (%)

Sector	Operating & development budget (2020-21)	Operating & development budget (2020-21)	Operating budget (2020-21)	Operating budget (2019-20)	Development budget (2020-21)	Development budget (2019-20)
Health	5.1	4.9	4.7	4.3	5.8	5.8
Education & technology	15.1	15.2	12.5	13.2	19.4	18.1
Social security & welfare	5.6	5.6	5.7	6.5	3.1	2.7
Agriculture	5.3	5.4	2.4	2.6	5.5	5.4
Public administration	19.9	18.5	12.5	9.8	5.8	6.1
Interest	11.2	10.9	18.1	18.3	-	-
Transport & communication	11.4	12.4	2.6	2.7	25.2	26.1
Local govt. & rural development	7	7.2	1.7	1.7	15.7	15.4
Public order & security	5	5.3	6.8	7.2	-	-
Defence	6.1	6.1	8.2	8.7	-	-
Energy & power	4.7	5.4	-	-	12.4	13.2

Source: Ministry of Finance, 2020

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