

3 Bangladesh

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3.1 Introduction

The People's Republic of Bangladesh, republic of southern Asia, in the northeastern portion of the Indian subcontinent, bordered on the west, north, and east by India, on the southeast by Burma (Myanmar), and on the south by the Bay of Bengal. The area of the country is 147,570 sq km with a population of 126 million. It lies roughly between 20°34' and 26°36' North latitude and between 88°01' and 92°41' east longitude (Appendix-A1). The capital and largest city of Bangladesh is Dhaka.

Geographically, historically and culturally Bangladesh forms the larger and more populous part of the world. The plains of Bangladesh are watered by one of the most remarkable network of rivers in the world, the important rivers being Padma, Meghna, Brahmaputra and Jamuna. With thousand of years of history behind it, Bangladesh has a rich and varied existence. She made her debut centuries ago as a Greenland of prosperity where the fine Muslin cloth was woven. Turks, Mughals, Afghans, Armenians, Arabs, Portuguese had already visited Bengal, when the English finally established their suzerainty over her in 1757. After partition of the Indian subcontinent in 1947, when the area that now forms Bangladesh became a part of Pakistan, the people of Bangladesh were subjected to a system of economic exploitation, cultural and political subjugation forcing Bangladeshis to rise in rebellion which resulted in the emergence of the People's Republic of Bangladesh as a free and sovereign nation in 1971 after nine month-long war of liberation.

Demographic Features

The country's population is almost evenly distributed throughout its 64 districts except for the three Hill Tracts districts which are rather sparsely inhabited. Regionally, the eastern districts have a slightly higher density than the western ones. On average, a district has a population of about 1.8 million, a thana 230,000, a union 25,000 and a village 2,000. There are 490 thanas, 4,451 unions and 59,990 villages. The number of households is about 20 million. On average, a household consists of 5.6 persons. The tribal people, who lead a simple life, are generally self-reliant, producing their own food and drinks and weaving their own clothes. There are 4 metropolitan cities and 119 municipalities in the country. The level of urbanization is low at 20%. This leaves 80% of the country's total population of about 126 million to live in the rural areas which primarily depend on a poorly developed agriculture for livelihood. The capital city of Dhaka has an estimated population of 8.58 million. The annual growth rate of the population has come down to 1.75% with the acceptance of family planning practices rising to 48.7%. The crude birth rate per 1000 is 25.6 and the death rate is 8.1. Life expectancy at birth is 59.5 years. The rate of child mortality per 1000 has come down to 76.8 and that of maternal mortality to 4.5. About 96.3% families in the country have now access to safe drinking water. The sex ratio is 106 males for every 100 females. The density of population per square kilometer is 800. Some 44.3% of the people are literate with about 5 million having passed secondary school level and another 1.27 million being graduates.

The primary school enrollment rate has risen to 86% and the rate for secondary school enrollment to 33%. To intensify promotion of compulsory primary education, the food-for-education programme has been extended to over 16,000 schools.

Table 3.1 Demographic Indicators of Bangladesh

Total Population	1995	1990	1998
Total Populations (millions)	97.5	109.6	126.0
Annual population Growth Rate % (Change)	2.1	2.0	1.67
Life Expectancy at Birth (years)			
Female	56.0	55.7	58.1
Male	55.0	56.5	57.6
Population Below Poverty Line	49.0	47.5	47.5

Source: ADB Report, Dec 1999

Labor Force

Occupationally, 75 percent of the civilian labor force, which is currently estimated at 56 million, is directly or indirectly engaged in agriculture. Only 12 percent is engaged in industry. Unemployment is estimated at around 18.5 percent. In terms of age structure, it is more youthful than in the western countries. Heavy pressure of population on scarce land has no doubt created an extremely unfavorable land-man ratio. Coupled with this is the problem of unequal distribution and heavy fragmentation of land in the rural areas. This is expected to improve with more vigorous efforts at poverty alleviation and raising of educational and social consciousness. Sluggishness of the agricultural sector has resulted in its increasing dependence on the whims of nature and the per capita daily availability of food grains coming down to low level of 432 gram. Nearly 45% of the people live below the poverty line.

Financial Affairs

The financial affairs of the state are primarily regulated by the annual budget presented to the parliament, usually in June, for discussion and voting before the next financial year begins in July. A budget session is the occasion when the legislators get the best opportunity to scrutinize the activities of the government, especially in relation to development programs for their constituencies. The public accounts committee of the parliament and the independent Comptroller and Auditor General are charged with the responsibility of scrutinizing all state expenditures.

Bangladesh Bank is the central Bank. It regulates currency, banking and foreign exchange. Some of the leading banks and insurance companies operate in the public sector. A sizable number of banks and insurance companies including foreign companies operate in the private sector. The stock markets in Dhaka and Chittagong operate independently under the regulatory supervision of the Securities and Exchange Commission. The recent trend is to privatize as many government-owned industries and companies as possible as part of its policy to encourage the private sector and make the economy market-oriented and competitive.

The greatest challenge for the present government has been to accelerate growth in the economy by freeing it from the vicious circle of sluggishness and low growth and infusing new life into it. GDP grew only at 4.2 percent in 1993-94, at 4.4 percent in 1994-95 and at 4.7 percent in 1995-96. Poverty alleviation in the country is possible only along the accelerated growth path. The government's efforts succeeded in raising GDP growth to 5.7 percent in 1996-97 and it is hoped the rate will go up to 7 percent in the coming years. Agriculture sector registering a growth rate of 6 percent has been the main engine of the national growth. The rate of inflation has dropped to 3.34 percent compared to 4.07 percent a year ago. For higher GDP growth, investments in both public and private sectors will need to be accelerated. The prevailing political and economic stability has greatly encouraged investment in the private sector. The trend of foreign direct investment is very encouraging.

The government is committed to market economy and has been pursuing policies for supporting and encouraging private investment and eliminating unproductive expenditures in the public sector. A number of measures have been taken to strengthen the planning system and intensify reforms in the financial sector. The present government believe that wastage of

resources is a far greater obstacle to development than inadequacy of resources. It is common knowledge that many development efforts in the past years turned into exercises in futility because of inefficiency and corruption in high places. Terrorism was allowed to paralyze law and order. Administration was over centralized at the cost of local government institutions. The government has, therefore, decided to decentralize administration in the quickest possible time.

Foreign Aid

The government is aware of the fact that because of the existing international economic environment the amount of foreign aid so essential for developing countries like Bangladesh is fast dwindling. The conditions of aid are also becoming stringent. The government has, therefore, taken appropriate initiatives for proper utilization of foreign aid. The country's development partners at the same time, ought to acknowledge that Bangladesh not only needs more aid but also better aid. The government has given the highest priority to implementing with utmost efficiency the annual development programme (ADP) which allocates domestic and foreign resources to different sectors of the economy. The size of ADP for 1997-98 has been estimated at Tk 128 billion with the share of domestic resources rising to 47 percent. From the economic and social points of view, agriculture is the country's most important sector as it contributes 32.4 percent of GDP and about 75 percent of its 120 million people are directly or indirectly dependent on it for their livelihood. But because of declining growth in agriculture in the past the standard of life of the small and marginal farmers had been going down forcing the nation to become increasingly dependent on food imports. The government has, therefore, decided to increase allocation for agriculture substantially and offer a wide range of incentives to the farmers including liberal credit to raise production and generate on-farm and off-farm employment for the rural poor. An Agriculture Commission has also been set up to recommend long-term policy reforms to boost the sector.

A New Horizon for Investment

Bangladesh is now trying to establish itself as the next rising star in South Asia for foreign investment. The government has implemented a number of policy reforms designed to create a more open and competitive climate for private investment, both foreign and local. The country has a genuinely democratic system of government and enjoys political stability seen as a sine qua non for ensuring a favorable climate for investment and sustained development.

Bangladesh has been quick to undertake major restructuring for establishing a market economy, with the major thrust coming from the private sector. The country enjoys modest but steady economic growth. Its current development strategy is based on the premise that the creation and distribution of wealth occurs through the acceleration of growth driven by competitive market forces, with the government facilitating growth and making a clean break from the practices of a controlled economy where private investment is constrained. With this end in view, the government has been gradually withdrawing its involvement in this industrial and infrastructure sectors and promoting private sector participation. The government has moved speedily to translate its policy pronouncements into specific reforms. It has been consistently pursuing an open-door investment policy and playing a catalytic rather than a regulatory role.

Regulatory controls and constraints have been reduced to a minimum. The government has steadily liberalized its trade regime. Significant progress has been achieved in reducing non-tariff restrictions on trade, rationalizing tariff rates and improving export incentives. The introduction of VAT has helped rationalization of the import tariff and domestic tax structures. The tariff structure and the import policy are kept under constant review to identify areas where further improvements are called for. On the legal and administrative front, the government has initiated measures to give greater autonomy and independence to the judiciary - a pre-requisite as viewed by investors, for the restoration of confidence in the judicial system.

A permanent Law Reform Commission has already been set up to ensure greater transparency and predictability in the way rules and regulations are made and implemented. An Administrative

Reform Commission to rationalize existing rules, regulations and procedures has also been set up. The Company Law has been updated and modernized. The Securities and Exchange Commission has been established to oversee and regulate the operations of the stock market.

The financial services have been strengthened through enactment of the Banking Companies Act, 1991 and the Financial Institution Act, 1993. The Industrial Relations Act has been amended to enhance labor market efficiency. Motivated by the simple realization that state-owned enterprises are a drain on its scarce resources and that these are generally inefficient, very costly and slow in responding to changing markets and consumer desires, the country has embarked on a privatization programme, offering substantial opportunities for international investors.

In order to entice investors, the government has put in place an extensive programme of incentives, which include : no ceiling on investment; tax-exemption and duty-free importation of capital machinery and spare parts for 100% export-oriented industries; residency permits for foreign nationals; capital, profit and dividend repatriation facilities; hundred percent foreign equity allowed; exemption of income tax up to three years for expatriate employees; term loans and working capital loans from local banks allowed; reinvestment of repatriable dividends treated as new investment; double-taxation avoidance, as per bilateral agreements already concluded; tax exemption on the interest payable on foreign loans and on royalties and technical know-how fees; open exchange controls; multiple-entry visas for foreign investors; investors can take advantage of the generalized system of preference, which allows duty-free access to American, European and Japanese markets; Taka is convertible for current account transactions. The Country also offers : extremely competitive labor costs, perhaps the lowest in Asia, easily trainable workforce of 56 million; a large domestic market, with disposable income growing especially among the middle class; strategic location as the bridge between South and East Asian high-growth regions as well as links with other markets e.g. India, Pakistan, Malaysia, Singapore etc; low land and energy costs; good road/bridge/rail infrastructure, which are being improved; two sea-ports being further developed; enjoys Most Favored Nations status; legal protection to foreign investment against nationalization and expropriation; equitable treatment with local investors regarding indemnification, compensation etc.

All sectors of industry (except five) are open for private investment. The five sectors reserved for public investment only are defense and defense production, nuclear energy, extraction from reserved forests, security printing and mint and air transportation (some domestic routes and international air cargo already opened for private investment.) and railways. Some of the foreign private investment opportunities are: direct (100%) foreign investment or joint venture investment in the Export Processing Zones (EPZs) or outside EPZs (with the exception of the five industries mentioned earlier); portfolio investment by purchasing shares in publicly listed companies through the stock exchange; investment in infrastructure projects such as power generation (private power generation policy announced); oil, gas and mineral exploration, telecommunication, ports, roads and highways; outright purchase or purchase of shares of state-owned enterprises, which are under process of privatization; investment in private EPZ (Private EPZ Act recently passed). Foreign investment is particularly welcome in the export-oriented industries such as textiles, leather goods, electronic products and components, chemicals and petrochemicals, agro-based industries, green jute pulp, paper, rayon products, frozen foods (dominated by shrimp farming), tourism, agriculture, light industries, software and data processing. Foreign investment is also desired in high technology products that will help import substitution or industries that will be labor as well as technology intensive.

The country's drive for foreign investment is being spearheaded by the Board of Investment, which was created to facilitate the setting up of manufacturing and other industries in the private sector, both local and foreign. It is a promotional organization dedicated towards providing investment assistance to all investors. The country's Prime Minister heads the Board and it includes Ministers and Secretaries from the concerned ministries as well as representatives from the private sector. The Board has launched an investment promotion drive at home and abroad to

attract investors. The BOI has been assisting in the implementation of new projects as well as providing services. Bangladesh is on the verge of a significant breakthrough in terms both of international investor confidence and significant inflow of new investment funds.

3.2 Overview of Fiscal Position

3.2.1 A Brief review of Economic Activity

Fiscal Policy and Fiscal Management

The goal of country's fiscal management is to strike a balance between government revenue and expenditure. Another major goal is to keep down deficit in the current budget as far as practicable for higher investment in the public sector. As a result of prudent fiscal policy and strengthening of fiscal management, overall fiscal deficit during the current decade remained restrained. The budget estimate for 1998/99 fiscal year envisaged revenue receipts at Tk.20,776 crore of which Tk. 16,617 crore was estimated from tax and Tk.4,159 crore from non-tax sources. Compared to the revised budget of the previous year, this target was 10.64% higher for total revenue- 10.77% for tax revenue and 10.14% for non-tax receipts.

Following the tax reforms including strengthening of tax administration, tax-GDP ratio is estimated to move up to 11.9% in from 9.4% in 1990/91. Legal, procedural and administrative reform measures for both direct and indirect taxes continue in 1998/99. In the case of income tax, five-tier tax rates have been reduced to 4. Tax rates for banks, insurance companies, and financial institutions are to be 35% instead of 40% if they are publicly traded companies. The system of allowing depreciation for capital assets has been simplified. Maximum rate of import duty has been scaled down to 40% from 42.5%. The number of import duty rates has also been reduced to 5 from 6. On the other hand, 9 commodities have been brought under VAT at retail stage while for a few commodities, VAT has been imposed at production stage on the basis of retail price. Supplementary duty rates applicable to cars and jeeps and that on domestically produced cigarettes have been rationalized.

Foreign Trade

Bangladesh has been pursuing a liberal trade policy in keeping with global market economy. To this end, Government in the light of limited productive policy to the extent possible for the sake of health, security and religious considerations adopted the policy for the further liberalizing the export and import regimes including reduction of tariff rates. A five-year (1997 through 2002) import policy became effective from June 14, 1998. In the new Import policy, BEPZA, BSCIC and Board of Investment have been treated as sponsors of the concerned industry. It will ensure smooth coordination between industrial and import policies and reduce administrative complexities relating to prior approval from different Ministries dealing with industry and commerce. In the new import policy, the system of quality control has been strengthened. In the of report-oriented industries enjoying bonded warehouse facilities, country of origin restriction has been withdrawn in the new policy for import of raw materials. As a result, import of raw materials for 100 percent export industries has been made easier which will help expansion of export industries. The maximum rate of import duty of 42.5% in 1997/98 has been reduced to 40% in 1998/99. Tariff slabs have also been reduced to 6 from 7 and integrated. In order to normalize and stabilize prices of essential commodities, steps have also been taken to withdraw/reduce duty on soybean oil, dry chilies and onion and rationalized tariff on different commodities and materials. In the perspective of this measures, average nominal rate of protection fell to 20.3% during the current year from 20.7% in the preceding year and the corresponding import weighted average nominal protection rate declined to 14.1% from 16.0%.

GDP: growth and composition

According to provisional estimate, GDP at current prices increased by 13% to Tk 174,926 crore in 1998/99 (approximately US \$ 36.06 billion) compared to increase of 10.4% to Tk. 154,833 crore in 1997/98. Per capita GDP in 1997/98 increased by 11.6% to Tk 13,655 compared to growth of 8.4% to Tk 12,240 in the preceding year. At constant prices (1984/85), GDP growth rate is estimated at 5.2% during the current year compared to 5.7% in 1997/98 and 5.9% in 1996/97. A look at the sectoral growth rate of GDP shows that during 1998/99, growth in agriculture sector was 5.0% compared to 2.9% and 6.4% in 1997/98 and 1996/97 respectively.

Table 3.2 Sectoral Share and Growth Rates of GDP FY 99-FY 2000
(%)

Industrial Original Sector	Sectoral Share(%)			Growth Rate(%)		
	FY 98	FY99	FY 2000	FY98	FY99	FY2000(p)
Agriculture Sector	25.34	25.28	25.47	3.19	4.77	6.43
1 Agriculture and Forestry	19.67	19.35	19.32	1.63	3.28	5.49
A) Crops & horticulture	14.59	14.33	14.40	1.05	3.16	6.13
B) Animal farming's	3.19	3.12	3.04	2.64	2.69	2.74
C) Forest and Related Service	1.89	1.90	1.89	4.51	5.16	5.16
2 Fishing	5.67	5.93	6.15	8.98	9.96	9.50
Industry Sector	25.71	25.69	25.67	8.32	4.92	5.55
3 Mining	1.03	1.00	1.00	5.76	1.32	6.46
4 Manufacturing	15.88	15.60	15.40	8.54	3.19	4.25
A) Large and Medium scale	11.29	11.20	11.06	9.28	4.19	4.35
B) Small Scale	4.59	4.41	4.34	6.77	0.75	4.00
5. Electricity, gas and water supply	1.41	1.42	1.43	2.01	6.00	6.03
6 Construction	7.39	7.67	7.84	9.48	8.92	8.00
Service Sector	48.95	49.03	48.86	4.77	4.91	4.98
7 Wholesale and retail trade	13.02	13.21	13.38	5.98	6.51	7.00
8. Hotel and restaurants	0.62	0.63	0.63	6.50	6.65	6.75
9 Transport	9.13	9.21	9.24	5.69	5.90	6.06
10 Financial intermediations	1.57	1.58	1.58	5.27	5.40	5.41
11 Real estate, renting	9.18	9.07	8.91	3.80	3.82	3.71
12 Public administration and defense	2.54	2.55	2.56	5.90	5.70	5.97
13 Education	2.12	2.17	2.17	8.10	7.70	5.70
14 Health and social work	2.23	2.23	2.21	4.59	4.60	4.73
15 Community, social and personal service	8.54	8.37	8.17	2.85	2.95	3.00
GDP at Constant prices	100	100	100	5.23	4.88	5.47

Source: Bangladesh Bureau of Statistics, 2000 Note: P= Projections; 1995-96 Constant price

Savings

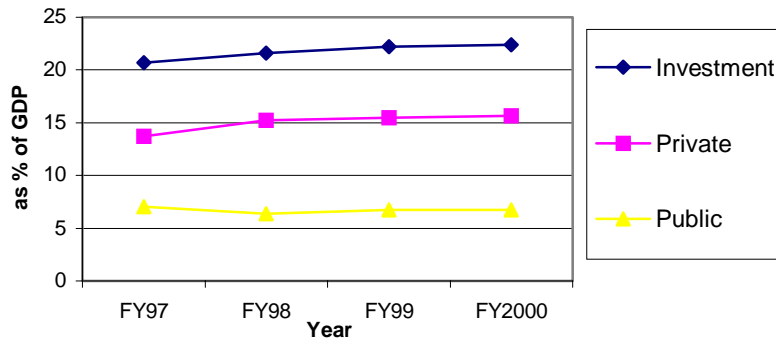
In 1990/91, domestic and national savings as percentage of GDP were 4.13% and 10.86%, which increased gradually to 8.6% and 14.83% respectively in 1997/98. Bangladesh's domestic and national savings rates are still much lower than many low income countries of the world. In order to attain the targets of domestic and national savings in line with the targets for remaining period of the fifth five year plan, and higher GDP growth rate at existing resources, pragmatic fiscal and monetary policies have to be pursued.

Investment

Investment/GDP ratio, which was 11.50% in 1990/91 (5.68% public and 5.82% private), increased gradually to reach 17.81% in 1997/98 (public 6.64% and private 11.17%). As emphasis is being given on privatization and local financing including direct foreign private investment have been increasing, investment in the private sector is gradually picking up. Because of massive losses by flood and lower GDP growth rate, investment in public and private sectors would not attained the

planned target. For attainment of higher growth rate in GDP and investment more effective policies are indispensable. The following Table shows public, private and total investment rate since 1990/91 through 1998/99.

Figure 3.1 Investment-GDP Ratio

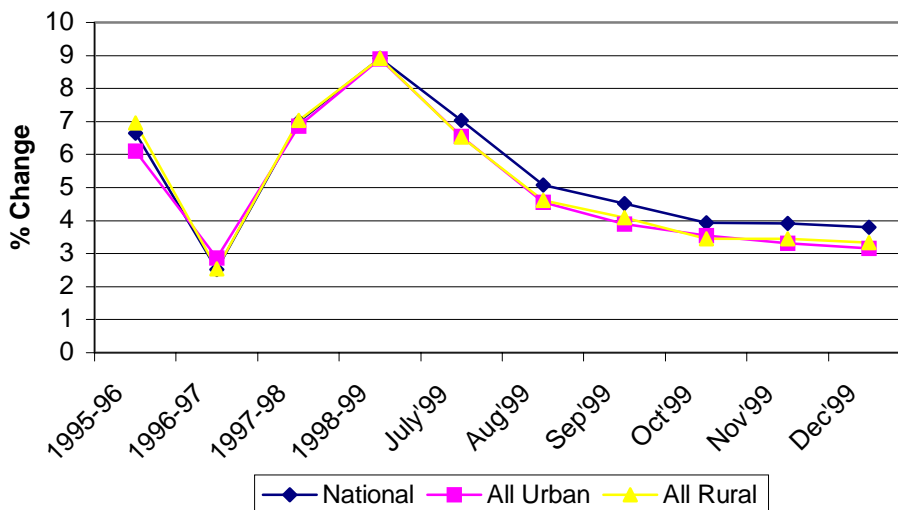


Source: Ministry of Planning, 2001

Inflation

The rate of inflation in FY 99 stood at 8.91 percent, up from 6.99 percent in FY98. Inflation rate measured by the all urban CPI and all rural CPI stood at 8.89 and 8.91 percent, respectively during FY99-an insignificant difference. Inflation though the first half of FY2000 has remained low at 3.8 percent, helped by still declining food inflation(3.9%) and non food inflation by 3.6%. The government has been partially accommodating the increasing fiscal deficit through monetary expansion. The international price increases combined with the lagged effects of monetary expansion imply that there is a need for greater prudence in monetary policy to avoid a resurgence of inflation in the near future.

Figure 3.2 Inflation Rate



Source: Ministry of Finance, 2000

Official Exchange rates of selected currencies

Frequent devaluations of local currency is a regular phenomena by for a long time and mainly done to facilitate manufacturing and agricultural sectors¹ and enhance export earnings. Government also keen to enhance inflow of money to be remitted by millions of Bangladeshi expatriates throughout the world.

Table 3.3 Official Exchange rates of Selected countries

Period	Taka per Pound starling	Taka per US Dollar	Taka Per Deutsche Mark	Taka per yen
1994-95	63.47	40.20	27.05	0.42
1995-96	62.96	40.72	27.93	0.40
1996-97	68.97	42.64	26.79	0.34
1997-98	74.66	45.32	25.24	0.33
1998-99	78.94	48.07	27.45	0.38
1999-2k	76.98	51.00	26.37	0.47
2000-01	77.45	54.00	24.51	0.48

Source: Bangladesh Bank, 2001

3.2.2 Fiscal Position

In recent years Bangladesh following a prudent monetary and credit policy while accommodating the need for a large flood rehabilitation program. The following Table shows the government budget indicators for the recent past financial years at a glance.

Table 3.4 Government Budget Indicators

Items	FY97	FY98	FY99	FY2000
In Billion Taka				
Revenue Receipt	171.45	187.77	197	241.51
a)Tax	140.74	150.01	158.55	186.35
b)Non-Tax	30.71	37.76	38.45	55.16
Total Expenditure	250.11	270.7	332.06	361.78
a)Revenue Expenditure	125.35	145	167.65	178
b)Development Expenditure	124.76	125.7	164.41	183.78
1)ADP	117	122	140.00	155
2)Non-ADP	7.76	3.7	24.41	28.78
Over all deficit	78.66	82.93	135.06	120.27
a) Net Foreign Financing	49.70	52.29	88.84	83.6
b)Net Domestic Financing	28.96	30.64	31.57	36.67
GDP at market Price	1807.01	2001.77	2196.95	2412.74
As % of GDP				
Revenue Receipt	9.49	9.38	8.97	10.01
a)Tax	7.79	7.49	7.22	7.72
b)Non-Tax	1.70	1.89	1.75	2.29
Total Expenditure	13.84	13.52	15.11	14.99
a)Revenue Expenditure	6.94	7.24	7.63	7.38
b)Development Expenditure	6.90	6.28	7.48	7.62
1)ADP	6.47	6.09	6.37	6.42
2)Non-ADP	0.43	0.18	1.11	1.19
Over all deficit	4.35	4.14	6.15	4.98
a) Net Foreign Financing	2.75	2.61	4.04	3.46
b)Net Domestic Financing	1.60	1.53	1.44	1.52

Source: Bangladesh Bureau of Statistics, 2000

The monetary policy of FY2000 was prepared with a view to ensuring rapid growth of the economy as well as channeling sufficient fund to the private sector for investment. Government

¹ Garments sector is the single largest source of export earning followed by Shrimps and frozen foods in Bangladesh

has been pursuing liberalization of the financial market. Interest rate band was withdrawn from small and cottage industry and agricultural sector in July 1999. The following chart shows the various ratios which says government earning is far away from its actual expenditure. Also domestic investment is not at par with Net Foreign Financing.

Figure 3.3 Government Expenditure-GDP and Revenue-GDP Ratio

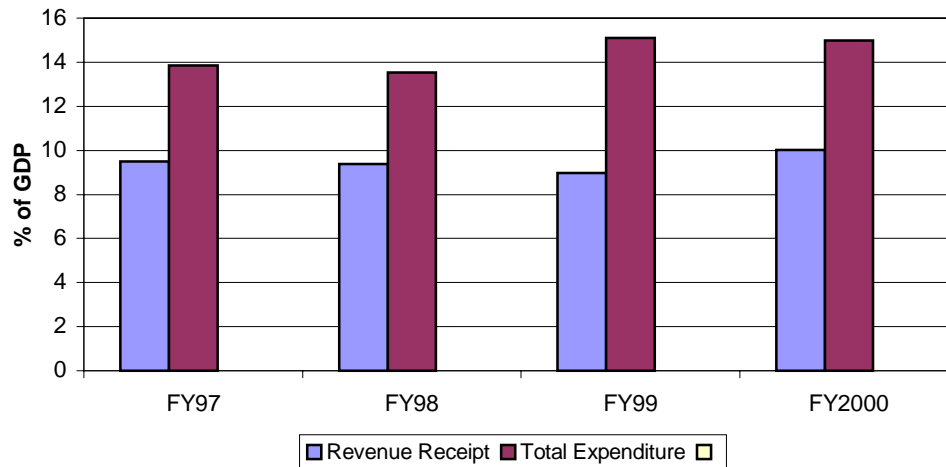
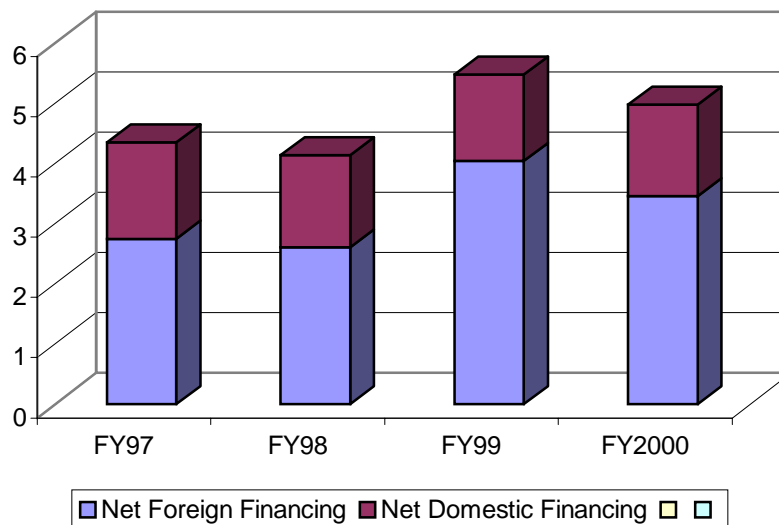


Figure 3.4 Net-Foreign Financing and Net-Domestic Financing



Source: Ministry of Finance, 1999

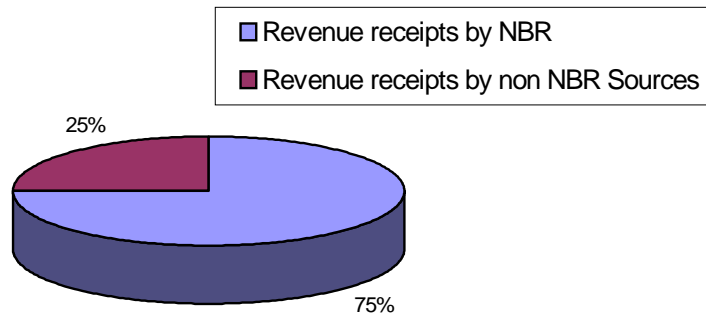
To induce internal investment several attempts have been taken so far on behalf of the government. Bank rate has been reduced to 7 percent from 8 percent in August 1999 and the minimum cash reserve ratio on demand and time deposits of the scheduled banks was reduced from 5 percent to 4 percent in October 1999. These are steps in the direction of liberalization of financial market. Very recently in October 2001 the bank rate has been reduced to 6 percent. It depicts that the government encouraging internal investment to manifold industrial production and growth.

The National Board of Revenue (NBR)

The National Board of Revenue (NBR) is the central authority for tax administration in Bangladesh. It was established by President's Order No. 76 of 1972. Administratively, it is under the Internal Resources Division (IRD) of the Ministry of Finance (MoF). MoF has 3 Divisions, headed by 3 permanent Secretaries to the Government, namely, the Finance Division the Internal Resources Division (IRD) and the Economic Relations Division (ERD). The Secretary, IRD is the ex-officio Chairman of NBR. NBR is responsible for formulation and continuous re-appraisal of tax-policies and tax-laws, negotiating tax treaties with foreign governments and participating in inter-ministerial deliberations on economic issues having a bearing on fiscal policies and tax administration.

The main responsibility of NBR is to collect domestic revenue (primarily, Import Duties and Taxes , VAT and Income Tax) for the government. Other responsibilities include administration of all matters related to taxes, duties and other tax producing fees. Under the overall control of IRD, NBR administers the Excise, VAT, Customs and Income-Tax services consisting of 3434 officers of various grades and 10195 supporting staff positions (Approved set up as on 09 Feb., 2000 AD).

Figure 3.5 NBR and non NBR Revenue Receipts



Source: National Board of Revenue, 1999

Tax Share

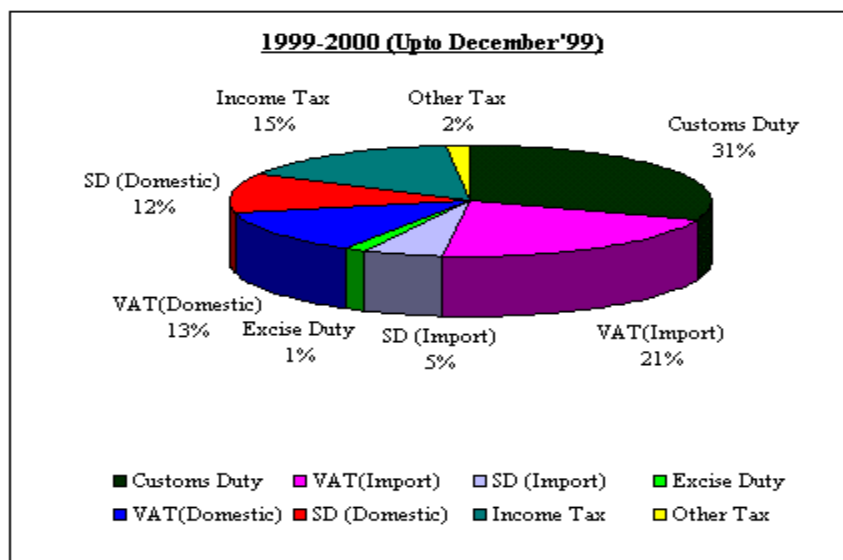
The following Table and Chart shows the tax structure and contribution of different sectors of the total revenue.

Table 3.5 Revenue Collection Position upto Dec.1997, Dec.1998 and Dec. 1999

Heads	(Fig: Taka in Crore)		
	1997-97 (Upto Dec'97)	1998-99 (Upto Dec'98)	1999-2000 (Upto Dec'99)
Customs Duty	2164.34	2219.72	2026.23
VAT(Import)	1374.98	1404.31	1433.65
SD (Import)	254.24	348.45	354.02
Excise Duty	74.11	74.03	91.26
VAT(Domestic)	756.98	756.10	861.04
SD (Domestic)	790.19	790.82	779.58
Income Tax	740.97	866.36	1013.65
Other Tax	97.44	95.42	110.00
Total	6253.25	6555.21	6669.43

Source: National Board of Revenue, 1999

Figure 3.6 Government Revenue Collection Scenario



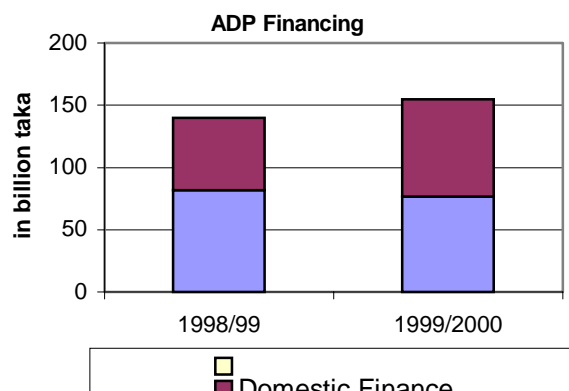
Source: National Board of Revenue, 2000

Annual Development Program(ADP)

The original allocation of ADP 1998/99 was Tk 136.00 billion(Tk 73.82 billion external finance and Tk 62.18 billion local finance). Revised ADP 1998/99, was 140.00 billion of which Tk 81.88 billion was from foreign sources and Tk 58.12 was from domestic sources. The size of ADP of FY2000 is Tk 155.00 billion. Out of the total, Tk 76.67 billion(49.46%) and Tk 78.33(50.54%) are projected to come from foreign and domestic sources respectively.

The social sectors got the highest allocation (40 percent of total sectoral outlay). Among the different sub-sectors included in the social sector, the education sector received the highest allocation (14 % of the total allocation). Poverty alleviation is the priority of ADP FY2000. Sectors and sub-sectors directly related with poverty alleviation (agriculture, rural development, primary and mass communication, health and family welfare, social welfare, women and youth development, labor and manpower) were allocated Tk. 53 billion in the current ADP(34% of the total).

Figure 3.7 Foreign and Domestic Financing in the ADP



Source: Ministry of Planning, 2001

Private Sector Development

The government has been pursuing a private sector-led growth strategy through continuing reform and liberalization program coupled with limiting its primary role as a facilitator. Public sector undertaking is now mainly focused on necessity infrastructure development and human resource development.

The New Industrial Policy 1999 (NIP 1999) opened up all sectors for private and foreign investment except four². Foreign investors can own upto 100 percent equity share without prior approval of the government and there is no discrimination between foreign and local investors in regard to fiscal incentives and duty exemptions. Protection against nationalization and expropriation to foreign investors are guaranteed. The Board of Investment (BOI) is meant primarily to facilitate foreign investors in matters relating to legal and regulatory compliance which, however, is rather simple.

The incentive package includes tax holiday up to a maximum of seven years (10 years for units located inside the EPZs), borrowing from foreign sources by foreign enterprises in the Export Processing Zones (EPZs) without prior permission and free remittances towards repayment of principal and interest on foreign borrowing.

Private Investment Trend during FY97 to FY99, 4669 projects, with an estimated investment of US\$ 9.8 billion were registered with the Board of Investment, including 439 foreign projects with investment of US\$ 6.4 billion. Bulk of the investment proposed is in gas sector. There are also interests in manufacturing, infrastructure and utility e.g. cement, ports, telecommunications. Domestic private investment increased from US\$ 2.65 billion during the five years of FY92 to FY96 to US\$ 3.43 billion during the three years of FY97 to FY99. Foreign Investment rose from US\$ 3.13 billion to US\$ 6.42 billion over the corresponding period.

Foreign Direct Investment

There has been a significant spurt in foreign direct investment (FDI) in the last few years. Between FY97 and FY99, FDI increased from US\$ 281 million to US\$ 807 million. Gas (39.40%) and power (25.83%) attracted the largest proportion of FDI, followed by telecommunications, cement and other industries. Adoption of BOO (Built Own and Operate)/BOT (Built Own and Transfer) models has facilitated foreign direct investment. Two issues may be noticed in regard to FDI: first, it is attracted if there is appropriate policy and the sector is opened up; second, the future outflow needs to be taken into account. To deal with these, a sound and sustained long term macro economic policy is imperative.

Foreign Debt

The foreign debt of Bangladesh is almost entirely public or publicly guaranteed, with private debt estimated at around 5 percent of the total debt (table-). As of mid-1998, most

² Following are the reserved sectors: (a) manufacturing arms, ammunitions and other defense equipment, (b) forest plantation and mechanized extraction within reserved forest, (c) Production of nuclear energy and (d) printing currency notes.

Table 3.6 Bangladesh External Debt, 1994/95-1998/99

	(In millions of US \$, end of period)				
	1994/95	1995/96	1996/97	1997/98	1998/99
Outstanding Debt(end-June)	16,766.5	15,170.4	15,024.7	14,033.4	15,145.0
Medium and long-term debt 1/	15,970.1	14,524.4	14,399.1	13,432.6	14,540.6
Food Credits	0.0	0.0	0.0	0.0	0.0
Aircraft loans	89.7	153.1	148.3	270.0	251.7
Petroleum loans	0.0	0.0	0.0	0.0	0.0
IMF/2	687.5	568.1	440.8	319.6	353.5
Other	19.2	-75.2	36.6	11.0	-0.8
Debt Service Payments	-594.0	-582.5	-602.9	-611.9	-597.6
IMF/2	-66.5	-71.5	-116.6	-108.4	-116.3
Other	-527.5	-511.0	-486.4	-503.5	-481.3
Principal payments	-417.2	-402.0	-447.8	-464.7	-442.8
IMF/2	-60.0	-66.0	-114.0	-107.0	-111.0
Other	-357.2	-336.0	-333.8	-357.7	-331.8
Interest Payments	-176.8	-180.5	-155.1	-147.2	-154.8
IMF/2	-6.5	-5.5	-2.6	-1.4	-5.3
Other	-170.3	-175.0	-152.5	-145.8	-149.5
Debt indicators					
Outstanding Debt					
In percent of GDP	44.6	37.6	36.6	33.2	35.0
In percent of current receipts	293.2	246.0	216.7	181.8	186.6
Outstanding IMF credit/2					
In percent of GDP	1.8	1.4	1.1	0.8	0.8
In percent of total debt	4.1	3.7	2.9	2.3	2.3
Debt Service					
In Percent of GDP	1.6	1.4	1.5	1.4	1.5
In percent of current receipts	10.4	9.4	8.7	7.9	7.8
Debt service to the IMF/2					
In percent of GDP	0.2	0.2	0.3	0.3	0.3
In Percent of current receipts 1/	1.2	1.2	1.7	1.4	1.4
In Percent of total debt service	11.2	12.3	19.3	17.7	18.3

Source: Economic Relations Divisions, Ministry of Finance; the World Bank, and staff estimates

1/ Debt recorded by the Economic Relations Division of the Ministry of Finance

2/ Excludes the IMF Trust Fund

of the existing debt stock carried long maturities and concessional interest rates, with more than two-thirds of the debt owed to multilateral institutions, including the World Bank and the Asian Development Bank, which accounted for 43 percent and 25 percent of the total debt, respectively. The bulk of the remaining debt was from official bilateral donors, mainly Japan.

Bangladesh: External Debt Management

Bangladesh has consistently remained current on its external debt obligations. The following Table shows the Outstanding External Debt scenario up to 1997/98.

Table 3.7 External Debt Outstanding

(in million US \$)

year	Disbursement	Debt service payment*			Debt outstanding at the End of each FY
		Principal	Interest	Total	
1971/72	26	-	-	-	26
1972/73	65	-	-	-	65
1773/74	243	9	9	18	501
1974/75	526	58	13	71	974
1975/76	567	36	20	56	1577
1976/77	279	22	28	50	1828
1977/78	442	34	31	65	2783
1978/79	528	50	39	89	3193
1979/80	573	66	42	108	3400
1980/81	554	44	41	85	4383
1981/82	586	45	47	92	4959
1982/83	590	85	51	136	5452
1983/84	535	71	58	129	5941
1984/85	569	106	64	170	6281
1985/86	760	111	73	184	7438
1986/87	934	152	81	233	8364
1987/88	817	166	123	289	9473
1988/89	996	170	124	294	9879
1989/90	1044	186	116	302	10609
1990/91	901	197	120	317	12714
1991/92	794	210	127	337	13330
1992/93	857	239	135	374	13615
1993/94	849	263	139	402	15373
1994/95	849	314	154	468	16767
1995/96	766	316	153	469	15166
1996/97	745	316	147	463	15025
1997/98	748	307	137	444	14033
Total	17143	3573	2072	5645	-

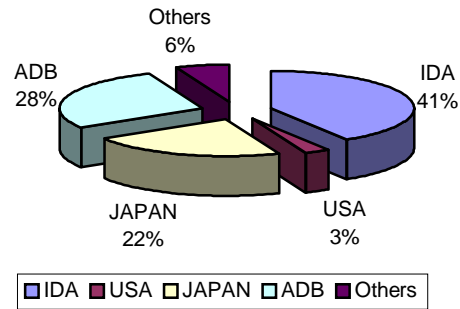
Source: Economic Relation Division, Ministry of Finance, 1999

* Excluding short-term loans like IMF borrowing, food loan, Biman, import of oil.

The economic relations department (ERD) under the Ministry of Finance has managed the external public debt of Bangladesh (both direct and publicly guaranteed) for a number of years within a framework of an internationally used debt management software provided by UNCTAD. Private external debt has not been monitored as closely as public debt in the past, largely because there was no significant amount of borrowing abroad by Bangladeshi enterprises. However, the ongoing boom in FDI and related inflows, together with associated future servicing obligations, have recently highlighted the need to improve the availability and quality of data on private external debt. Technical Assistance to help improve the compilation and monitoring of private sector external debt is being provided by the Asian Development Bank.

Debt Liabilities to Donors

Figure 3.8 Debt Liabilities to Donors (as of June 30,2000)



Source: Economic Relations Division, Ministry of Finance, Government of Bangladesh

3.3 Technical Assistance in Fiscal Affairs

Bangladesh is currently going through a major public sector financial management reform process. This is viewed as a very important and successful component of the overall public sector reforms in Bangladesh. Many international organizations providing technical assistance in fiscal affairs like World Bank, IMF, and DFID. There are also some country specific technical assistance especially from Government of UK Norway and other countries. Since independence in 1971 and till FY 1999/2000 the total foreign aid to Bangladesh is around 36,344 million dollar (Appendix-A2). Project aid is always at the top and occupies almost 50 percent and is basically used for infrastructure and human resource development. The following table shows the projects that are for the technical assistance in fiscal affairs;

Overall Technical Assistance in Bangladesh (At a Glance)

Table 3.8 Commitment and Disbursement of Grants to Bangladesh (in Fiscal Affairs)

(Million)

Donor/Category /Description/user agency/Agreement Date	Allocation	Pipeline On 1/7/99	Cancel & Adjust	Fresh aid Commit.	Total Avaiaable	Disbursement	Pipeline on 1/7/00
1) ADB(G01) Project Aid	US\$						
1.TA for Insurance, pension and provident fund reforms 05.08.1998	0.5	0.5	0.0	0.0	0.5	0.1	0.4
2.TA for the efficiency enhancement in fiscal management 10.09.98	0.7	0.7	0.0	0.0	0.7	0.3	0.4
3.TA for capacity building for Security and Exchange commission(SEC) 18.08.98	1.1	1.0	0.00	0.0	1.0	0.5	0.5
4.TA for est. of a framework for sustaining micro-finance 05.11.98	0.8	0.8	0.0	0.0	0.8	0.25	0.55
5.TA for institutional streng. Of privatization board 18.11.98	0.44	0.44	0.0	0.0	0.44	0.04	0.4
2) IDA(G33)							
1. TA for commercial banking restructuring project (10.03.97)	US\$ 0.93	0.43	0.0	0.0	0.43	0.23	0.20
2. TA for private sector infrastructure dev project (20.11.95) (Japanese Fund)	Yen 53.800	153.800	0.0	0.0	153.800	0.153	153.647
3) Norway(G59)	NKR	0.0	0.0	9.4	9.4	3.911	5.489
1. Capacity building for mgt of foreign aid in BGD 15.11.99	9.4						
4) U.K.(G91)	STG						
1. Reforms in budgeting & expenditure control project (phase II)(13.11.94)	9.814	2.882	0.0	0.0	2.882	1.487	1.395
2.Enhancement training facility of Financial mgt academy 15.06.99	2.92	2.920	0.0	0.0	2.92	1.328	1.592
3.Reforms in Govt Auditing Project (TA) 7.12.99	0.865	0.0	0.0	0.865	0.865	0.523	0.342
4.Strengthening and modernization of VAT administration (NBR) 14.11.99	1.02	0.0	0.0	1.02	1.02	0.221	0.799
5.Trade Policy Capacity building project (Ministry of Commerce) 30.03.2000	0.56	0.0	0.0	0.56	0.56	0.0	0.560
5) UNDP(G86)							
1. Support for Monitoring sustainable human development in Bangladesh 24.11.94	US\$ 1.660	0.146	0.77	0.0	0.84	0.0	0.84
2.support to public administration reforms 30.10.97	1.304	1.044	0.0	0.0	1.044	0.27	0.774

Source: Economic Relations Division, Ministry of Finance, Government of Bangladesh

Details of some of the TA programs are given below:

ETAC(Excise, Tax and Customs) Project: This was a data computerization project started in 1990 funded by the World Bank and continued till June 1999. As per the TAPP the total project expenditure was 245.11 million taka which finally reduced to 195.21 million taka. The major of the share was project grant of about 173.83 million and rest 21.37 million shared by GOB. Budget allocation was done as 15.92%for consultants(international), machinery 27.75%,

manpower 17.83%, foreign training 12.49%, local training 8.17%, local consultants 2.02% and other costs 15.82%. In 1998 the project was revised and some other activities included for data base management of VAT with the name of ASYCUDA(Automated System for Customs Data).

The main outcome of the projects are;

- a) Establishing VIS(VAT Information System) cell, CIS(Customs Information System)cell and R&S(Research and Statistics)Cell for the National Board of Revenue(NBR);
- b) Establishment of TIN(Tax Identification Number) cell to allocate TIN for each taxpayer;
- c) Establishment of IT IS(Income Tax Information System) for income tax purpose and to efficient management of information, return processing and monitoring;
- d) Computerization of R&S cell etc

Shortcomings of the Project;

- a) as per TAPP(Technical Assistance Project Proposal), VAT Revenue Mapping was not successful;
- b) Establishing valuation cell and a computer network among the tax offices has not done;

Reasons behind the shortcomings identified are;

- a) Unwanted delay for getting concurrence from World Bank which obstacles the purchasing of computers and accessories;
- b) Insufficient manpower to run such a project;
- c) Lack of coordination among different wings and subdivisions and weakness of project activities; and
- d) Administrative failure to coordinate the activities of related Ministries/ Divisions.

CAM-1 (Customs Administration Modernization-1): The project is under the ministry of Industry of Bangladesh Government and funded by IDA. The project is one of the main component of Bangladesh Export Diversification (BDXDP) and simultaneously the first step of the Revenue Administration Modernization Program (RAMP). CAM-1 project started its operation in August 1999 with a budget of 9.61 Million US\$.

Main objective of the project are;

- a) reform and simplification of customs procedures regarding export;
- b) shift to post entry audit for bonded warehouse imports;
- c) bring the private sector (trader) as the true partner of export reform through awareness programs such as training, seminar and publication;
- d) adoption of a system approach to facilitate the diversification of exports by having electronic information to support speedy processing, effective post event audits, risk management and policy decisions.

RIBEC (Reforms in Budgeting and Expenditure Control): RIBEC is the core project of the financial reforms funded by the DFID and has been operational in it's present form since 1995. It is now viewed as being one of the most successful projects in the better governance area in Bangladesh, with a growing international reputation.

Achievements to date;

- a) National Budget Produced by computer;
- b) All chief accounts offices computerized and accounts consolidation system implemented;
- c) New classification of national budget in line with Government of Bangladesh and IMF requirements developed and implemented;
- d) Financial Management Academy (FIMA) for training of Senior and mid level officers across the government in financial areas created and operational;

- e) Core financial rules and regulations updated; and
- f) 7000 GoB officers of various levels received orientation on the need for reforms, training in accounting and budgeting in new classification, with a further 500 trained in IT skills

FIMA(Financial Management Academy) Project: FIMA is created to the auditing and accounting needs of officials of the Audit and Accounting Department.

FIMA project achievements are;

- a) About 170 senior GoB officers of different Cadres and Ministries received financial management training through 6 MAAB (Management, Auditing, accounting and Budgeting) course;
- b) 22(Male and female) complemented post-graduate diploma in Government Management from University of Ulster, Northern Ireland; and
- c) Number of other courses like BEST (Building Essential Skills for Trainers), TIBAS (Training in Budgeting and Accounting System), TASK (Training for Accountability Skills and Knowledge) and TEAM (Training for Excellence in Accountable Management).

RIGA(Reforms in Government Audit Project) The project commenced in April 1999 as to update the government audit system and its improvement.

Tasks for RIGA

- a) Update the Audit Code of the Government of Bangladesh;
- b) Update audit manuals in Local Government Audit, revenue audit, and civil audit;
- c) Introduce performance or value for money audits;
- d) Implementation of improved audit techniques; and
- e) Skills improvement for auditors at all levels.

Further areas of financial Sectoral reforms

The key stakeholders in GoB have on many occasions identified the following further areas of reforms;

- a) Improvement in the quality of Government Commercial accounts;
- b) Macro Level Finance/ GFS;
- c) Food accounts, railway accounts and defense accounts;
- d) Simplification and computerization of Civil Service payroll
- e) Pension and Provident Funds;
- f) Updating financial rules and regulations of other departments;
- g) Improvement of other departmentalized accounts; and
- h) Reforms in banking.

Country Specific Technical Assistance: Japan

Japan's ODA to Bangladesh

Japan acknowledged the independence of Bangladesh in 1972, well ahead of other western countries, and has consistently maintained friendly relations with it since that time. The two countries share common values and systems such as freedom, democracy and a market economy, and have been cooperating on global issues such as world peace, development and human rights at the United Nations and other international organizations

Objectives of Japanese aid to Bangladesh

Japan and Bangladesh enjoy consistently friendly relations centered on economic and technical cooperation. Bangladesh has pro-Japanese sentiment and great expectation for Japanese cooperation. Bangladesh is engaged in vigorous diplomatic activities in UN, NAM, etc,

recognizes itself as a representative of the developing countries, and exerting efforts to strengthen cooperative ties among South Asian countries. Japan's strengthened relations with Bangladesh will contribute to its relations with other developing countries, and to the political stability in South Asia. However, in implementing aid, full cognizance of the enormous demand for aid in the country and its capacity to service its debts is necessary.

Bangladesh's Position in Japan's ODA

Japan is providing assistance to Bangladesh, taking into account the following factors.

- 1) Bangladesh maintains traditionally friendly relations with Japan.
- 2) Bangladesh has the largest population (about 120 million) of the Least among Less Developed Countries (LLDCs) and has a large demand for aid.
- 3) Bangladesh is often hit by floods, cyclones and other natural disasters.
- 4) Bangladesh has been moving ahead with structural adjustments, including democratization and economic liberalization since 1991.

Bangladesh is the sixth largest recipient of Japanese bilateral aid (based on cumulative net disbursements up to 1998) and Japan was the largest provider of bilateral aid to Bangladesh in 1997.

Priority Areas for Japan's ODA

Based on studies and research concerning development conditions and tasks in Bangladesh and its development plans, as well as policy dialogues between Japan and Bangladesh, including the High-Level Mission on Economic and Technical Cooperation sent to Bangladesh in April 1990 and subsequent policy dialogues, Japan has given priority to assistance in the following areas.

- 1) Agricultural and rural development and improvement of agricultural productivity
- 2) Improvement of the social sector
- 3) Improvement of the base for promoting investment and exports
- 4) Disaster prevention and management

As related tasks cutting across these four priority areas, Japan will also strengthen its efforts to address environmental issues, human resources development and institutional building.

Matters for Consideration

- Bangladesh must step up its self-help efforts, including efforts to improve its capacity to absorb aid by strengthening aid implementation systems.
- There is room for greater utilization of Japanese grant aid for debt relief and collateral funds.
- Consideration should be given to greater use of grant aid and to the repayment status of yen loan debts, which have not been covered by grant aid for debt relief since 1998.

The Current Economic Situation in Bangladesh and Tasks to Be Addressed

(1) Current Situation

Agriculture is the major industry in Bangladesh, which is very susceptible to weather and fluctuations, and it is not self-sufficient in food. The country depends on foreign aid for more than 50% of its annual development plan budget (ADP). The present administration is moving ahead with economic reforms while it is working to restore the country's production capacity, which was slowed by a general strike, to attract foreign investment and control inflation. For two months from July 1998, Bangladesh was devastated by what was said to be the worst flood damage of the century (amounting to 10% of the country's GDP), and it is believed that the country's 1998-99 GDP growth rate will be only in the 3-4% range. Following this, the mid-term tasks of the Bangladesh government will be to restore infrastructure and increase food production.

(2) Tasks to Be Addressed

- Eliminating the budget deficit and freeing the country from its dependence on foreign aid
- Boosting agricultural productivity to raise the food self-sufficiency rate and diversify agricultural production
- Implementing measures to further alleviate poverty and control the country's high population growth (which averaged 1.75% annually in 1996/97)
- Promoting private investment
- Promoting privatization of state-owned enterprises, trade liberalization, financial reforms, other structural adjustment measures and cultivating export industries
- Maximizing administrative efficiency and simplifying procedures

(3) Orientation for Japanese aid(over the next 5 years)

- Strengthening of the linkage between technical cooperation and economic cooperation will continue;
- Yen loan request for infrastructure building projects of appropriate size will be considered individually in light of the country's debt service capacity and economic effects of each project.
- Aid will basically be grant aid and technical cooperation, as it is an LLDC;
- Alleviation of poverty is the highest priority. A greater emphasis to be put on quality of aid. Aid will be provided to encourage self-help efforts so that Bangladesh does not develop an excessive dependence of foreign aid, with the consideration of (i) the demand for resource in the country, (ii) its ability to absorb aid, and (iii) its ability to service debt.

Partnership

The partnership and cooperation between the Government of Bangladesh, donors and NGOs is of crucial importance. The coordinated development approach is intended to maximize the impact of cooperation and bilateral partnerships. For example, Japan-US Common Agenda cooperation and Japan-UNICEF cooperation for Bangladesh is one of the world's most successful partnership and cooperation.

Past record Japan's ODA loan and Grant Aid to Bangladesh

Table 3.9 Japan's ODA loan and Grant aid to Bangladesh

(in billion yen)		
Year(JFY)	Loan	Grant Aid
1993	22.967	---
1994	21.079	---
1995	---	20.495
1996	---	20.736
1997	15.252	23.804
1998	16.412	21.327
1999	---	27.219

Source: Ministry of Finance, Government of Japan,2000

Japanese Aid and Bangladesh

Donor wise details of aid flows in Bangladesh show that Japan's position is always at the top. However the aid pattern and other assistance are heavily composed of food aids, commodity aids and grants (Appendix-A3). A summary of the commitment and disbursement of Japanese grants to Bangladesh shows that most of the sanctions are as debt relief grant and infrastructure

development (Appendix-A4). However, the issue of human resource development and other IT related technical assistance are ignored which can hopefully satisfy to countries own capability of resource generation and maintenance. There is real scope of criticism on these aspect. Hopefully Japan can take initiatives to restoring imbalance of human resource development of Bangladesh as a timely policy alternatives.

ADB (Asian Development Bank) Technical Assistance

An ADB financed project launched in 2000 named as Long-term Financial Markets Development under the finance sector. The executing agency is the central bank of Bangladesh (Bangladesh Bank). Ministry of Finance, Securities and Exchange Commission, and Investment Corporation of Bangladesh will be consulted during TA processing.

Rationale of the Project: The banking sector is basically insolvent and estimates of the outstanding loan portfolio in default range from 30 to 50 percent. This is attributable mainly to the financial status of the four nationalized commercial banks(NCBs) and 8 development finance institutions(DFI)s, which holds about two-thirds of the total loans outstanding. At this moment there remains a robust demand for term local currency lending, which is essential for the development of private commercial activities. The primary beneficiary will be the industries and commercial undertakings, which are currently facing great difficulty assessing term local currency funds. The secondary beneficiaries will be the Private Commercial Banks (PCBs), which will develop in-house capability at term credit analysis.

The Bank will lend OCR funds to Bangladesh Bank(BB) and BB will relend local currency for a period upto 10 years. The unique feature of this project is the emphasis on the transfer of practical term credit analysis skills and practices from the well-established FCBs to the domestic PCBs. The technical assistant and other lending(in pipeline) for FY 2000-2002 for the Finance and Industry sector in Bangladesh is about 12 00,000 US\$.

ADB's operational program also includes the Insurance and Pension Funds Development project in 2001. The proposed project will (i) strengthen market regulation and supervision in insurance and pension/provident funds; (ii) strengthen and unbundled the Sadharan Bima Corporation (general insurance) and Jiban Bima Corporation (life insurance); (iii) diversity insurance products; (iv) Computerize data records of the public sector pension schemes; and (v) adopt policies and promulgate laws for development of a private sector provident fund, among others.

ADB will also provide TAs to assist the Government to speed up financial market reforms. The Capacity Building for SEC(Securities and Exchange Commission) and Stock Exchanges of Bangladesh II TA in 2000 will supplement and bring to closure some of the key elements that will not be completed under the ongoing TA. These include operationalization of the central depository system and investor protection fund.

Overall External Assistance

The following table show the overall external assistance in Bangladesh for the recent years. Among the multilateral organization ADB's contribution is the highest, however Japan leads among the bilateral assistance program.

Table 3.10 Overall External Assistance

(\$ million)

External Source	Past 3-5 years		1998 Approvals	
	Loan/Credit	TA	Loan/ Credit	TA
A. Multilateral Assistance				
ADB	284.0		325.0	
EU	65.0		40.0	
UN	83.0		107.0	
WB	307.0		575.0	
Subtotal	739.0		1,047.0	
B. Bilateral Assistance				
Canada	32.0		24.0	
Denmark	22.0		19.0	
Germany	58.0		40.0	
Japan	304.0		299.0	
Netherlands	36.0		40.0	
Norway	27.0		18.0	
Sweden	17.0		50.0	
United Kingdom	36.0		26.0	
United States	67.0		107.0	
Others	78.0		200.0	
Subtotal	677.0		823.0	
Total	1,416.0		1,870.0	
Memo Items:				
External Assistance as % of Current Expenditure	50%		57%	
External Assistance as % of Capital Expenditure	57%		67%	

Source: Ministry of Finance, 2000

The following table shows that attaining economic growth has got utmost attention from the lending program however by sector it's share is only 16.7% for the recent financial year.

Table 3.11 Lending program by Type and Sector, 2000-2002

Classification	2000 (Firm)		2001-2002	
	No.	%	No.	%
I. By Type				
a) Economic Growth	3	50.0	2	15.4
b) Projects Directly Aimed at Social Concerns	1	16.7	4	30.8
c) Projects Directly Aimed at Environmental Concerns	1	16.7	3	23.1
d) Economic Growth-oriented Projects with Social and/or Environmental Concerns	1	16.7	4	30.8
Total	6	100.0	13	100.0
II. By Sector				
a) Agriculture and Natural Resources	2	33.3	4	30.8
b) Energy	1	16.7	1	7.7
c) Finance and Industry	1	16.7	1	7.7
d) Transport and Communications	1	16.7	2	15.4
e) Social Infrastructure	1	16.7	5	38.5
Total	6	100.0	13	100.0

Source: Ministry of Finance, 2000

3.3.1 Tax Policy

The most significant feature of the Bangladesh tax scenario is its heavy dependence on indirect taxes. Nearly 80% of all revenue of the government comes from the indirect taxes while the balance is from direct taxes. The tax-GDP ratio in Bangladesh is less than 10%. However for the mobilization of internal resources a strong and efficient tax system is necessary. There are a

number of laws relating to both direct and indirect taxes. The major direct tax is income tax. The main indirect taxes are customs duty, Value Added Tax, and excise duty. The other minor taxes are Travel tax, gift tax etc.

Lion's share of the indirect taxes comes from customs duty at the import stage. The collection of tax in this case depends on the volume of import. This again depends, in the case of Bangladesh, on the flow of foreign aid to a great extent. Bangladesh has signed WTO agreement. This entails scaling down and/or abolition of duties and taxes on a wide range of items. This will severely affect the present tax structure of Bangladesh.

Bangladesh now have to generate more revenue from direct taxes. Failure to do so will severely affect the attainment of various national priorities like poverty alleviation, industrialization, human resource development etc. Economic vulnerability will increase social unrest jeopardizing national security. Paucity of funds will also reduce her national defense capability and efforts and also make the country more amenable to outside pressure.

Bangladesh now seriously trying to reform her taxation policies. The main objective is thus to facilitate new investment through both in and external sources.

Recent tax measures taken in the 1999/2000 Budget;

The recent budgets included a number of revenue measures to streamline the tax and tariff structure, extend the VAT net, and strengthen tax and customs administration. The highlights of these measures are as follows:

Income Tax

- i) Personal income tax rates were restructured and the general basic exemption limit from Tk 75,000 to Tk 100,000
- ii) The exemption on interest earnings from high yielding government savings certificates was eliminated and the base of the withholding tax expanded.
- iii) A presumptive tax on automobiles was introduced and existing rates on trucks and lorries increased.
- iv) The 0.25 % tax at source on exports was eliminated.

Customs Duties

- i) the tariff structure has been simplified and the top rate(including a 2.5% import duty surcharge) reduced from 42.5% to 40%.
- ii) Customs duty was harmonized at the lower rates on commodities falling under the same H.S. Code.
- iii) New exemptions to import tariffs were granted in a number of areas, and tariffs on raw materials and intermediate goods were reduced.

VAT, supplementary duties and excises

- i) The coverage of the VAT was extended to 31 new retail items and a few professional services.
- ii) The electricity duty was replaced with VAT applied on a truncated basis.
- iii) The exemption on the turnover tax was increased from Tk 1.5 million to Tk 2 million
- iv) A 2.5% supplementary duty was introduced on imported finished goods (without domestic substitute) subject to the top customs duty rate.
- v) A 10% supplementary duty on 272 items(subject to a customs duty rate of over 5%) is to be introduced on the date of introduction of mandatory pre-shipment inspection(PSI).

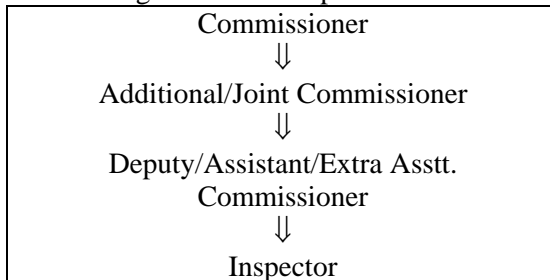
3.3.2 Tax and Customs administration

Taxation System in Bangladesh

a. Income Tax Department

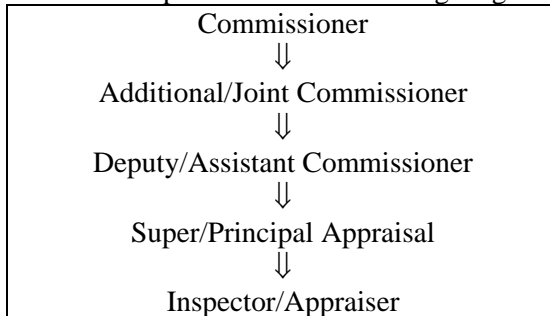
The income tax department under the National Board of Revenue (NBR) is responsible for the administration of the direct taxes like Income Tax, Advertisement Tax etc. A commissioner of Taxes heads a zone. There are 14 taxes zones. Three more new zones have been created this year.

A zonal organization set up is shown below:



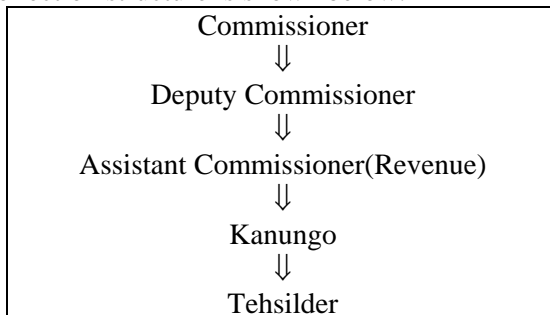
b. Customs and Excise Department

The Customs and Excise department under the NBR is the administrating authority of the indirect taxes. These include the Value Added Tax(VAT), Turnover Tax, Customs Duty, excise duty, supplementary duty etc. The department is divided into nine commissionerates. Three new have been set up in 1999-2000. The organogram of a commissionerate is shown below:



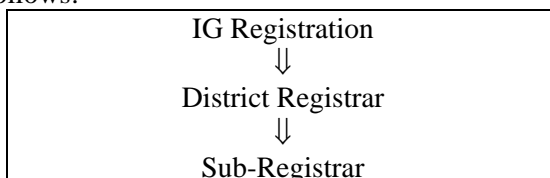
c. Land Revenue Collection structure

The Ministry of Land administers the collection of land(LDT) revenue. The land revenue collection structure is shown below:

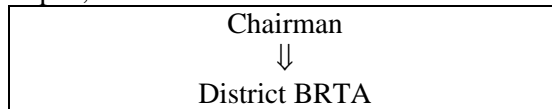


d. Department of Registration

Department of Registration administers the stamp duty and registration fee. This set up is as follows:



e. Bangladesh Road Transport Authority(BRTA) collects the road tax, vehicle license fee etc. The set up is;



f. Local Government (City Corporation, Municipalities, Union Parisads)

Holding tax, revenues of public utility(power, gas, phones, water), Chowkidari tax etc. This does not go to the national exchequer but is spent in meeting their own expenses. The local government bodies however can meet only 40% of their requirement while the rest is subsidized by the government (Zafrulla, Taslim and Chowdhury, 1995). There are also other sources revenues of public utility like power, gas, phones, water etc.

Recent reforms of Tax and Customs Administration

- i) Assessment procedures were simplified and measures were taken to improve accountability and organizational structure in customs administration.
- ii) Introduction of unique tax payer identification number(TIN) .
- iii) The establishment of Large Taxpayer Unit(LTU) .
- iv) Placement of voluntary PSI system by mandatory PSI(pre-shipment Inspection).

3.3.3 Budget and Public Expenditure Management

To strengthen budget planning and preparation, budget execution, auditing, classifying government accounts and data reporting, establishing treasury systems, harmonization regional budget practices, and assessing transparency of fiscal systems.

Budgetary practice in Bangladesh is included in its Constitutional framework. The constitution (Article 80-92) and the parliamentary procedure (Chapter XVI) lay down the basic constitutional and legislative aspects of the budget.

Characteristics of Budget in Bangladesh

- i) It is effective during a financial year starting from July 1 and ending on June 30, next year;
- ii) Budget is divided into revenue Budget, Capital Budget and Development Budget;
- iii) The government budgeting is done on a cash basis. Both receipts and expenditures are shown in cash terms;
- iv) Foreign loans are reflected on a gross receipt basis showing total disbursement;
- v) Budget is prepared on incremental basis, on the basis of upward adjustment of expenditure as against performance budgeting;
- vi) Allocation lapsing and surrendering of budgetary allocations on unspent balances.

The Budget Structure

The provisions laid down in Article 84 to 88 of the constitution of the country and subsequent adoption of the UN system of classification of government transactions in 1983 provide for the structure of budget in Bangladesh.

In Article 87 of the constitution the budget has been referred to as “ Annual Financial Statement” which is a statement of estimated receipts and expenditure of the government for a particular financial year. In accordance with the constitutional provision, the budget has been divided into;

- a) The Consolidated Fund, and
- b) The Public Account of the Republic

According to article 84(1) of the constitution all receipts of the government on account of taxes, income from assets, borrowing, repayment of loan etc. are credited to the consolidated fund. No money can be withdrawn from the consolidated fund except on the expenditure voted by the parliament and the Appropriation act.

According to Article 84(2), the public accounts of the republic is that part of the annual financial statement or budget which comprises all receipts and expenditures other than those of the consolidated fund. The government does not have any automatic claim on the money in the public account of the republic but can borrow from it to meet expenditure.

Budgetary processes in Bangladesh

The Budgetary process have three stages in Bangladesh.

- i) Preparation ii) Legislation and iii) Execution

Budget Preparation and Budget Cycle

The Finance Division of the Ministry of Finance is responsible for preparation of the national budget and its submission to the parliament. The Finance Division receives estimates of expenditure from all the spending agencies (Ministries and Divisions) of the government and estimates of receipts. These estimates and receipts and expenditures reflect the following figures

(i) actual expenditure of the previous year; (ii) last year's budget; (iii) three months actuals for the last two years; (iv) Last year's revised budget and (v) current year's budget along with original proposals.

These estimates are discussed, finalized and consolidated into the budget presented to the Parliament. A typical budget calendar or budget cycle is shown below

- | | |
|---|-------------------------------|
| a) printing and distribution of budget estimation forms to estimating/controlling authorities | end-August |
| b) Distribution of forms to the Controller General of Accounts for obtaining reports of actual expenditure For three months and estimates | end-September |
| c) Receipt of forms incorporating information from estimation/controlling authorities by Finance Division | end-October |
| d) Receipt of information from C.G.A by Finance Division | end-January |
| f) Distribution of first edition of budget to other Ministries by Finance Division | mid-February |
| g) Budget discussions with Ministries/Divisions etc | March through early/mid April |
| h) Finalization of Budget | Mid/Late April |

Legislation of Budget

The budget is the most important tool of legislative control over the public purse and through the purse over the executive. No tax can be collected without its prior authorization and no expenditure incurred without its prior approval. General discussion on the budget takes place before its approval or disapproval by the members of the Parliament. The following enactments are involved in the legislation of budget by the parliament:

- a. Demand for grants; Proposed expenditure from the consolidated fund outside the category of charged expenditure is submitted to the parliament in the form of demand for grants for approval by vote and the expenditure so approved is known as voted expenditure as distinct from charged expenditure which is not subject to vote of Parliament.
- b. After the parliament approves the demand for grants, the government places before the parliament an appropriation bill seeking its approval to withdraw money from the consolidated fund to meet the expenditure already approved.

- c. Finance Act, In order to finance the expenditure contained in the approved budget, the government may need to impose new taxes, or raise the rates of existing taxes. This is done through the Finance Act (Article 81). The taxation proposals become effective on their introduction in the parliament in accordance with the Provisional Collection of Taxes Act, 1931.
- d. The Vote on Account, The procedure allows the parliament to debate the budget proposals and the policies of the government without interrupting normal operations. Traditionally in Bangladesh, the government seeks votes on account for one fourth of the proposed budget. A separate appropriation act is passed for the amount of vote on account.
- e. Supplementary Grant and Excess Grant; The constitutional provisions for supplementary grant and excess grant (Article 91) allow the government to incur expenditure in excess of the provision. The budgetary practice in Bangladesh does not make any distinction between supplementary grant and excess grant; both are treated as excess expenditure.
- f. Unexpected Expenditure, Under Article 92(b) of the constitution, there is a provision for making a demand for grants named “ Unexpected Expenditure to the Parliament”. It is a lump grant, the details of the demand are not specified.

Budget Execution

After the budget along with the finance bill is passed by the parliament, its implementation rests with the executive ministries, their attached and subordinate offices. The Secretary of the concerned ministry/division in the capacity of principal accounting officer is responsible for ensuring budgetary and financial discipline within his jurisdiction. The overall responsibility however lies with the Finance division under the ministry of Finance.

In the task of ensuring the observance of budgetary limits, audit department also plays a very crucial role. The Auditor General examines and verifies the accounts after the transactions are completed in order to discover and report to the legislature any unauthorized, illegal and irregular payments, any financial practices which are unsound and any shady transactions and seeks to enforce accountability to parliament.

Concluding Remarks:

The budgetary arrangements in Bangladesh are disorganized and unable to ensure operational efficiency of the system. The main reasons are;

Budgeting is incremental, not performance based. As a result, the budgetary system lacks flexibility, transparency and accountability, legitimacy and predictability. In addition, there is no periodic review system; no spending review and no pre-budget report is done.

The World Bank's Public Expenditure Management handbook (1998) suggests that each country should try to understand how its particular institutional arrangements might have any impact on budgetary outcomes. The institutional arrangements in Bangladesh are basically the product of British colonial legacy, which, at present is unable to generate the essential dynamism and flexibility in its budgetary system to make its functions in line with international best principles and practices. As long as the institutional arrangements are not fundamentally changed, the short run solution lies in “getting the basics right”. Bangladesh should *inter alia* foster an environment that supports performance before introducing performance budgeting, control inputs before seeking to control outputs, and properly account for cash before introducing and budgeting. Steps should be taken to establish external controls before introducing internal control and a reliable accounting system is to be operated before installing an integrated financial management system. It would be useful to have effective financial auditing before moving to performance auditing.

5.3.4 Expenditure Policy

The role of public expenditure is quite important for development of socio-economic and physical infrastructure and human resource development through higher public investment. The trend of current and development expenditure and expenditure/GDP ratio since 1991/92 to 2000/01 are presented in the following table.

Table 3.12 Public Expenditure

	(In crore Taka)									
	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01
Public Expenditure(a+b)	13924	15060	18133	20603	21830	23576	25537	29274	33915	37133
a) Revenue expenditure	7900	8510	9150	10300	11814	12535	14500	16765	18444	19633
b) Development Expenditure (ADP)	6024	6550	8983	10303	10016	11041	11037	12509	15471	17500
% of GDP										
Public Expenditure (a+b)	11.6	12.0	13.4	13.5	13.1	13.0	12.7	13.3	14.4	14.5
a) Revenue expenditure	6.6	6.8	6.8	6.7	7.1	6.9	7.2	7.6	7.8	7.7
b) Development expenditure (ADP)	5.0	5.2	6.6	6.8	6.0	6.1	5.5	5.7	6.6	6.8

Source: IMED and Finance Division, Ministry of Finance, 2000

Expenditure of Local Government

There are four tier government in Bangladesh. Those are Zilla Parisad(District level), Upa-Zilla Parisad(Thana Level), Union Parisad, and Gram Parisad(Village level). The development activities are centralized and the government itself control the expenditure. The organizations are accountable to the Ministry of Local Government and Rural Development(LGRD). The government still in the way to formulate social safety net schemes. The local government only responsible to collect some fees, charges and utilities. They can meet only 40% of their requirement while the rest is subsidized by the government. However their earning does not go to the national exchequer but is spent in meeting their own expenses.

The finance division under the Ministry of Finance allocate the budget on their demands and audit the expenditure incurred by the local governments. External Resources Division(ERD) is responsible to formulate expenditure policy of foreign aid and grants including the allocation of Technical Assistants(TA). There is an Executive Committee of National Economic Council (ECNEC) chaired by the Prime Minister that approves large scale expenditures for the medium and long term development projects.

Revenue Expenditure on Social Sectors

A major share of revenue expenditure is used to pay the salary and allowances for the government employees which accounts more than 32% in recent years. However social sectors has been accorded increasing priority in revenue expenditure in current years. Current expenditure in social sectors since 1991/92 through 2000/01 is presented in the following table.

Table 3.13 Revenue Expenditure on Social Sectors

	(In crore Taka)									
	91/92	92/93	93/94	94/95	95/96	96/97	97/98	98/99	99/00	00/01
a. Education and Religion	1393	1688	1770	2023	2169	2310	2706	2988	3279	3368
b. Health and population	431	516	607	685	730	769	813	887	972	1112
c. Youth, Sports and Culture	23	38	43	38	42	41	64	55	73	59
d. Social services	51	54	61	73	79	89	99	141	177	186
Total	1898	2296	2481	2819	3020	3209	3682	4071	4501	4725

Source: Finance Division, Ministry of Finance (Based on revised budget 2000/01)

3.3.5 Fiscal Federalism

Local Government

Bangladesh is a small country thus there is no such intergovernmental tax assignment problem. National Board of Revenue is the sole authority working under the Ministry of Finance for collecting both the direct and Indirect taxes. The two wings assigned for this task are the Income Tax department and Department of Customs, Excise and VAT. The board centrally directs the taxes zones to collect revenue as per the pre-determined budget. The recent scenario is very satisfactory for the income tax after introducing self-assessment system and adopting large-scale withholding tax system for all kinds of taxpayers. However the situation is not satisfactory for the Indirect taxes especially at export and import level.

The government has recently trying to establish strong local level administration as a step of possible decentralization process. However it is noteworthy to mention that all their activities heavily depends upon the allocation from central government. It would be recommended to strengthen the local bodies by truly decentralizing power that they can gradually attain self-sufficiency and can meet own development funds.

Private Sector

In tune with the current global trend, the government has committed itself to the market economy and has been pursuing policies through which the private sector will play the dominant role in the country's development efforts. In all cases where public ownership is retained, efficiency must be increased through improving management, decentralizing the decision making process, ensuring commercially viable operations and following economic pricing of all goods and services. Success in management is to be rewarded through appropriate incentives while inefficiency and poor performance will bring punitive strategy. Public sector monopolies should be progressively brought into the competitive areas that private sector can be well suited to perform efficiently.

While social direction of private enterprise in certain fields may be necessary to safeguard the people's interest, private enterprise will continue to be the main lever for development in all areas where they have demonstrated satisfactory performance or are likely to be more efficient. In particular entrepreneurship should be encouraged through training, extension services, input supply, credit and market facilities. Emphasis should be given on strengthening the financial and capital markets through appropriate policy measures so that there can be a better mobilization of resources, in particular private resources from abroad, for productive investments.

Banking & Insurance

At the moment financial sector reform programs are underway. Private banks and insurance companies with few exceptions are functioning creditably. Uttara, Pubali and Rupali Banks which were formally owned by the GOB were privatized. Shadaran Bima Corporation's (General Insurance) 49% shares are contemplated to be off loaded in the local stock markets soon.

Opportunities for the Foreigners

The Industrial Policy 1991 and its recently announced amendments, the associated reforms in trade policies and fiscal and taxation policies now augur well for investment by the foreign nationals and companies and also non-resident Bangladeshi nationals. No approval is required for any investment by the foreign investors in any sectors of the economy except for a few areas (strategic ones) which are still reserved for public investment only. The foreign investment (promotion & protection) Act, 1980 guarantees protection to foreign investment against nationalization and also guarantees equitable treatment. Bangladesh is a signatory of Multilateral Investment Guarantee Agency (MIGA) of the World Bank group, Overseas Private Investment Corporation (OPIC) and International Center for Settlement of Investment Disputes (ISCID) and

therefore, also guarantees investors protection against political and other risks. Following facilities are also available for foreigners and non-resident Bangladeshis.

- i) Foreign investment with 100% foreign equity holding;
- ii) Repatriation of all post tax dividends, capital, and capital gains is permitted fully;
- iii) Employment of expatriate technical and professional personnel is allowed;
- iv) Remittances of 50% of the salary of foreign nationals employed in local companies is allowed;
- v) Remittances of savings from earnings, retirement benefits, personal assets of individuals employed in recognized industries on retirement/termination of service is allowed;
- vi) Foreigners employed in recognized industries are exempted from income taxes for first 3 years;
- vii) Multiple entry visas are allowed;
- viii) Relief is given from double taxation;
- ix) Re-investment of reportable dividends is treated as new investment;
- x) Foreign investors have unhindered access to local banks and financial institutions for obtaining long term loans and working capital loans;
- xi) Enterprises with foreign ownership may remain private limited companies. In the case of public limited companies, the public offering of shares is optional;
- xii) Foreigners are allowed to invest in shares and securities through stock exchange etc

Privatization Board:

The Privatization Board which came into being in March, 1993 is entrusted with the overall responsibility of privatizing State-Owned Enterprises identified for privatization, whether small, large, profitable or non-profitable. The Board is now headed by a chairman with the rank and status of a State Minister to the Government. The Board consists of two full-time members and twelve part time members including six Members of Parliament. The Board has been placed under the administrative jurisdiction of the Cabinet Division which is headed by the Hon'ble Prime Minister. The Board reports directly to the Cabinet Committee on Economic Affairs which is chaired by the Hon'ble Minister of Finance. Ministries having SOEs under their control have either set up or in the process of setting up Privatization Cells for assisting the Privatization Board in identifying, preparing, processing, implementing and monitoring SOEs for privatization.

3.3.6 Other Special Assistance

Communication Computerization and Filing System

Throughout the world, the pace of changes in computerization and electronic communications are occurring so fast that any nation unable to adjust with these swift changes will miserably lag behind and fail to compete with others. Tax administration must, therefore, adjust itself to these changes and help the country to move forward and attain the capability to collect revenue for the country.

The age-old filing system in tax offices needs to be replaced by computerized filing system. The system of records and accounts keeping and reference making needs to be changed. FAX and E-mail should be introduced in all tax offices and thus necessary training should be provided. To achieve this target, a program should be taken for computer training and procurement of hardware and software. This is the very area for that can be improved with the help of any bilateral or multilateral financial aid and technical assistance.

Development of National Statistical Activities

A sound and comprehensive statistical system with adequate organizational structure and network is a functionally essential ingredient of the country's tax administration planning and development process. Currently the institutional structure of the national statistical system of

Bangladesh comprises the National Statistical Council as the apex body. Bangladesh Bureau of Statistics (BBS) is mainly in charge of the collection, collation and dissemination of official statistics.

A small sub-division is working so far under the National Board of Revenue (NBR) for the research and development of tax related data. It must be strengthened to meet the various current needs. It would be a good approach to have such an organization under the Ministry of Finance for this purpose. It must include the tax wings, Banking and insurance sector, Securities and Exchange Commission etc.

At this moment it is an urgent need to formulate a database on the taxpayers with all their required information as income, wealth, business and corporations. A good cooperation is also needed among all the sectors to update the database, which will play important role to check tax evasion.

Timely data dissemination will be an essential part of data generation process of Statistics and Research (S&R) wing. Innovative and newly evolving methods of data dissemination such as development of web site for dissemination and exchange participation in GDDS (General Data Dissemination System) of IMF should be progressively adopted.

3.4 Country Specific Technical Assistance Requirements

Technical Assistance for both macro-planning and sectoral investment program is very crucial. Flow of technical assistance can play a major role in strengthening the development process by way of transferring technology and skill. Technical assistance should be demand-oriented rather than supply-based and it should aim at the gradual up gradation of skill-base of the recipient country. Technical Assistance should be united as far as possible and promote technical cooperation among developing countries. One of the most difficult problems associated with technical assistance in the synthesis between donor preference and the priority of the recipient country. The problem of divergent priorities, time frames, attitudes and preferences on many occasions may turn out to be of critical significance and cause delay. The following area can be pinpointed where technical assistance is needed.

I. Tax Reform Planning

In the process of economic and social development, the governments in a majority of developing countries has to take the prime responsibility. Bangladesh is no exception but the so far improvement it has been achieved even after thirty years of independence is not good enough to attain her sustainable economic development. The prevailing Tax-GDP ratio is only below 10% and much of its share comes from indirect taxes. There are certainly no remedies except broadening its tax base. The entire agriculture sector is out of income tax net. Revenues from import as well export duties in future must be reduced to cope with world trends and treaties. Thus the only way in front of the country is to expand its tax base relying on direct taxes.

Taxation can not only help to bridge the gap between savings and investment but can also be used as one of the instruments for resource allocation, income redistribution, and economic stabilization. Thus a long term tax reform planning and formulation of a development-oriented tax structure is a timely concern as an integral and forward-looking process of decision making. Such continuous and long-term tax planning will need a framework, a methodology, and an organization. It must function within the framework of a development plan and evolve a methodology for tax structure evaluation and change so as to contribute to the stand objectives and strategy of a development plan. In doing so, tax planning must also recognize the feedback generated by the tax administration and annual budgetary process.

The country now needs technical assistance in tax reform planning which must be based on the country's actual need. In the past the so far assistance received are mostly designed by the donor

agencies and International organizations. However it is noteworthy to infer that to become successful in revenue management and administration the changes should coincide with the needs and aspiration of the nation as a whole.

II. Financial and Budgetary Management

Bangladesh now needs to reform the public sector financial management system as an obvious part of her overall public administration reforms. There is a lack of adequate and accurate financial information systems and procedures of accounting and bank reconciliation (Khan et al, 2000). The budgetary system is cumbersome, repetitive and overlapping which seems to perform inefficiently.

The role of government is obvious in maintaining a well-balanced financial and budgetary management. Political harmony also plays crucial role for the maintenance of government activities. The financial information system should be updated in all the sectors. Thus it is now very urgent to establish a modern database establishment.

III. Financial Rules and Regulations

There is lack of updated, comprehensive and easy to use financial rules and regulations. The tax laws, regulations and ordinances are not compiled and circulated to the expected users in time. The tax law for the income tax enacting is a government ordinance of 1984. The Customs Act prevailing is also commenced in 1969 and before the country's independence. Necessary amendments follows almost every year which needs to be updated strictly and regularly that can help by guiding the tax officials towards better tax administration and examination. It is also helpful for the individual taxpayers and corporations for better tax planning. Thus technical assistance is needed to update the financial rules and regulations that can help attaining better earning of internal resources.

IV. Human Resource Development

A strategy of human resources development is a precondition for gainful employment generation and sustainable development. Planning for sustainable development, in turn, requires an emphasis on an integrated approach. In Bangladesh, with two primary resources, man and land, the former overwhelming the latter, existing inequality in the distribution of land can be mitigated by equitable development of human resources and equitable access of all to the benefits of development.

There is an acute inadequacy of trained manpower and a training system to meet the tax management needs across the government. Training itself is a continuous process. Maintenance of the trainees thus is also important now a days to keep updated their knowledge. The frequent changes of both domestic and international laws and regulations demands the government to execute its officials into a recurring training program to be 'knowledge workers'. Through this process self-sufficiency can be attained to sustain better manpower in this sector. The limitation of government for both financial and technical impedes the process. Thus donor agencies should come forward with various assistance to achieve this goal.

V. Good Governance

Accountability to the people, transparency, efficiency and incorruptibility in conducting the business of government and, above all, non-discriminatory application of the laws are major features of a good government. In case of taxation it is more urgent. However an action plan is needed to design a legal framework for strengthening the mechanism for law enforcement and speedy delivery of justice, tax administration reform and downsizing of the government. It will also require redefining the role of the state and reorienting the mind-set of the bureaucracy.

There is also considerable scope for improvement in administration that is presently characterized by shortage of properly trained manpower in many key-fields with surpluses in

other fields. Anomalies and inadequacies also exist in personnel policies and career administration and planning. With a view to improving the personnel management and administration in the country, the personnel management information system is urgently needed. Computerized record keeping and data processing system is also crucial for storage and retrieval of personnel job training and other records. A rationalized and codified personnel manual will reduce the time and manpower now utilized to oversee procedural compliance.

VI. Micro credit

Empowerment of the poor is contingent on their access to resources, which in turn, enhances the productive capacity of the poor and helps alleviate poverty. This is the vision on which Grameen bank launched its innovative micro credit banking system to reach the poor, who have nothing to offer as collateral for borrowing from the conventional banking system. The success of Grameen Bank has created optimism about the viability and validity of the innovative approach of reaching the poor with credit they desperately need. The delivery of micro credit need to be assisted by appropriate training and motivation, formation of associations, arrangements for supply of inputs and provision of market outlets for the sale of products produced by the medium and small entrepreneurs. Tax measurements should be taken that will help to extend the micro credit and related activities in future.

The Fifth Five year Plan (1997~2002) recognized that the poor are assets rather than liabilities, and if ensured access to vital inputs like credit, they can contribute substantially to the growth process. As such, there is a necessity for implementing the philosophy of micro credit concept. Government's role should be reinforcing its efforts to generate employment opportunities and self-employment at the grass root level. The plan should envisage to develop a productive micro-enterprise sub-sector to provide profitable self-employment to the rural people supported by both public and private sector institutions. The following steps can be taken as to;

- a) establish viable micro enterprises through rural family entrepreneurs by providing counseling and other advisory services from the relevant government and non government institutions and organizations;
- b) undertake programs for skill development through training and dissemination of technologies at grass root level;
- c) establish a separate credit line in the banks and financial institutions for the micro enterprises and entrepreneurs and to develop sustainable program of services to meet the credit needs of micro entrepreneurs and to facilitate their access to financial resources for investment in micro enterprises; and
- d) establish private sector financial intermediation services to develop the market for credit to micro entrepreneurs.

The donor agencies can help to achieve this goal through guidelines and necessary technical assistance.

VII. Resource Mobilization

Currently, Bangladesh is dependent on foreign aid for around 50 per cent of its development outlay. Exports pay for less than half of its imports. This dependence on foreign aid has had several undesirable consequences. Heavy dependence on aid prevents realistic annual programming of development activities. It has also serious effects on the choice of technology. For all these reasons, reducing dependence on aid by mobilization of a greater amount of domestic resources and increasing export earnings should be an important element of the country's development strategy.

Economical use of resources can also be achieved by holding down the expenditure on public administration with improvement in the quality of services. So there is a considerable scope of mobilizing more resources out of existing taxes through overhaul and improvement of the tax collecting machinery as well as through widening of the tax-net.

VIII. Macro Policy Reforms

Institutionalizing an economic and dynamic macroeconomic policy is needed to implement to attain macroeconomic stability. Such a macro policy regime will increase savings and will channel savings into productive uses and eliminate growth-retarding distortions in the tax system and other distortions in the relative prices of factors of production due to public policies, and at the same time maintain overall macroeconomic stability.

The basic resource mobilization strategy should be to limit the size of the budget deficits by stronger revenue initiatives and restraints on revenue expenditure. If these measures are implemented effectively, they will, in the medium term, achieve three things- first, the attainment of macroeconomic stability; second, improvement of public savings; and third, lessening the burden of public debt.

Experiences of developing countries show that the performance of the private sector is significantly depended on macroeconomic stability. Thus prudent fiscal and monetary management is an essential instrument for bringing about this change. The future need are as follows;

- a) Financial Sector Reform Program(FSRP):A sound financial system is crucial for the functioning of a dynamic private sector and with this end in view, the FSRP was initiated in 1990. Bangladesh Bank(BB), as the central bank of the country, monitor the observance of rules and regulations in order to ensure monetary stability. A bankruptcy law has been enacted recently to deal with the problem of recovery of overdue loans and to bring bank discipline in the banking sector. Such steps are expected to increase the volume of bank finance as well as to ensure greater efficiency in the allocation of bank resources to the private sector, particularly to increase export.
- b) Trade Policy Reforms: Trade is an engine of rapid growth and development. Until recently, the trade policy in Bangladesh has been characterized by import restrictions, insufficient export incentives and wide array of regulations constricting private investment. Both tariff and non-tariff barriers contributed to the high effective rate of protection of the domestic industries and created an anti-export bias in the system. The government has been steadily liberalizing the foreign trade regime by reducing direct controls and tariffs. The custom duty has largely been rationalized and duty on import of capital machinery for export-oriented industries has been withdrawn to make such industries more competitive. The growth of exports in recent years has largely been due to factors such as liberalization of the economy, supply of inputs at world prices, GSP(Generalized System of Preference) facilities and simpler administrative requirements and credit supports.
- c) Privatization: The policy of privatization, if properly conceived and implemented, can ensure substantial benefits including higher productivity, growth of output and employment, besides, lesser stress on governmental resources. Such a policy also enables the government to focus more on policy making to create an enabling environment. The government is committed to the process of privatization, and with this end in view, the privatization board has been established in 1993 which finally strengthened by forming a privatization commission headed by highly powered bureaucrats. So far thirteen sectors have been identified for this process including the banking and insurance sector followed by tele communication and others. However the progress is still not satisfactory and the many State Owned Industries (SOEs) are running as burden to the government.

IX. Monitoring research and Evaluation

Monitoring implementation of development projects is a relatively new idea but an integral part of development projects specially for fiscal affairs. Bangladesh experiencing monitoring problem that is needed to evaluate goals of the development projects. A well organized unit for

the monitoring of projects under fiscal affairs is needed to be equipped with trained personnel. The current Management Information System(MIS) suffers from a number of limitations having poor linkage with supervision, monitoring and local level planning. The system is not tailored to suit different levels of program managers. There exists need for improvement in the area of electronic data processing capability, data validation, data sharing and dissemination. Moreover, the sector-wide program approach will require re-organization of the systems so as to improve management capabilities. Operational research is an important tool for monitoring and evaluating the program performance and results. The current allocation in this sector is highly inadequate for conducting research. Institutes that are involved in research are also not suitably developed. For fiscal policy research and continuous monitoring and evaluation new technical assistance is needed.

3.5 Conclusion: Where We Stand and Where We Go

In the process of economic and social development, the government in a majority of developing countries has assumed the principal responsibility. Consequently public expenditures have grown rapidly. Taxation is the main source of finance. So if capital formation and higher growth rate is to be achieved, it is essential to step up the tax efforts.

Ever since liberation in 1971, Bangladesh has been striving to achieve economic emancipation of her people. One of the main cornerstones of this goal has been to attain self-sufficiency in providing for her various socio-economic objectives from her own resources. This needs as maximum mobilization of available internal revenue and gradually diminish and do away with the dependence on foreign assistance.

Direct Taxes:

At present the main problem areas of the Income tax system in Bangladesh can be categorized as;

- a) Narrow Tax Base
- b) Tax Evasion
- c) Inadequacies of Law and
- d) Inadequacies of Administration

Narrow Tax Base:

Tax base in Bangladesh is one of the lowest in the world. In the population of 128 million there are only about 700 thousand or about 0.54% of the population is in the tax net. Of these registered tax payers only about 300 thousand actually file any return and pay any tax. To expand the tax base urgent steps are needed.

- i) The concept of income in the law needs to be broadened;
- ii) Rebates and exemptions need to be reduced;
- iii) Extensive survey work need to be undertaken and
- iv) Taxpayer education/ assistance has to be extended.

Tax Evasion:

Tax evasion in Bangladesh has been taken a threatening proportion. The immediate victim is revenue. Tax evasion also defeats the principle of equity. This leads to a parallel black economy the size of which in Bangladesh is said to be to the tune of US\$ 1.2 to 1.5 billion. The reasons for this situation are many, leading those are complex tax law, lack of social security, coordination gap among different government agencies and financial institution followed by inefficiency and corruption. To curb evasion:

- i) The law and procedures need to be simplified;
- ii) Collection and cross checking of data and information to be ensured;

- iii) Taxpayer education and motivation has to be increased;
- iv) Banking and accounting practices has to be changed;
- v) Tax evaders must be punished.

Legal Inadequacies:

The current Income Tax Ordinance came into existence in 1984. Since then it has undergone so many changes that the laws needs to be rewritten. To make the act more upto date and effective the following measures to be undertaken;

- i) Simplicity and clarity, not legal jargon, should be the guiding principle;
- ii) Rebates and exemptions should be minimized to come straight to a taxable threshold income;
- iii) Tax holiday and exemption from tax of newly established industrial undertakings should be restricted for limited timeframe;
- iv) All taxpayers should be brought under Self Assessment System(SAS) and post audit should be strengthened;
- v) Tax evasion should be made a criminal offence;
- vi) Litigation aspect to safeguard revenue has to be improved;
- vii) A central Withholding taxes zone should be created and
- viii) VAT should be administered by Income Tax authorities.

Administrative Inadequacies:

Simplicity is an important element in any successful administrative reform. The administration must be provided with simpler and hence potentially enforceable laws to administer. To attain this goal the current structure of administration needs to be completely overhauled. The following steps will help this process;

- i) Recruitment, Training and pay need to be re-examined. “Fast Track” career planning should be offered;
- ii) Demand creation work should be separated from collection work;
- iii) Logistical support of the tax department has to be increased;
- iv) Internal audit system has to be strengthened;
- v) Computerization and creation of data bank should be quickened;
- vi) Incentives should be provided to the revenue officer as to encourage efficient collection of revenue (Like in Japan, revenue officers receive 10% more salary than others)

To attain expected improvement in this sector, the inadequacies should be mitigated. Like many other developing countries Bangladesh Tax system is plagued with various built-in socio-political and structural weakness. Bangladesh is in a crossroad today. Crucial steps are to be taken to gear up and update the tax policy and administration. Successive governments have taken some tentative steps, at times on the urgings of World Bank and IMF, in the desired direction. But more vigorous efforts are needed. Some urgent and crucial decisions may have to be made and ways need to be found to make Bangladesh a thriving and self-respecting nation.

Indirect Taxes:

In the wing of indirect taxes some recent reforms have been carried out. The Customs Valuation department has been upgraded in order to augment revenue earning through appropriate valuation of imposed goods by developing modern valuation database. Mandatory Pre Shipment Inspection (PSI) system has been introduces in fiscal years 2000-2001 for valuation and inspection of imported goods for a period of three years on a temporary basis. The main objective of PSI was to assist the customs authority to ensure quick clearance of imported goods by bringing down the percentage of physical examination to a minimum level and increase government revenue earning by reducing misdeclaration about description, value, classification and quantity of the imported goods.

Future Needs:

The various steps for NBR (National Board of Revenue) and the Government of Bangladesh are:

- 1) Plan for a well organized and structured course to formulate the reform profile of each of its components (Customs, VAT, Income Tax and NBR);
- 2) Select a team of experts from NBR, private sector, external experts and the funding agencies to develop short, mid and long term strategies covering the following areas:
 - ◆ Organizational and Administrative reform;
 - ◆ Jurisdictional and Policy reform;
 - ◆ Institutional Development (Infrastructure and Logistics);
 - ◆ Enhancement of VAT and Income tax nets and Progressive reduction of dependence on import duties;
 - ◆ Initiate Private sector Tax education program;
 - ◆ More than 100% pre-assessment to risk management and selected post event audit environment;
 - ◆ Develop IT infrastructure to support the changes across all wings;
 - ◆ Set up computer and communication system for electronic submission, processing and posting of tax return and bill of entry; and
 - ◆ Use of Internet and web page to bring NBR to the frontier of today's information technology.

Appendix –A1



Appendix –A2

Foreign Aid to Bangladesh at a Glance³ (1971/72-1999/2000)

(US\$ Million)

Purpose	Commitment			Disbursement			Pipeline: 1 July,2000 ⁴
	Grant	Loan	Total	Grant	Loan	Total	
1	2	3	4	5	6	7	8
Food Aid	5279098	762557	6041655	5210912	726557	5973469	55100
Commodity Aid	5185220	5376018	10561238	5154197	5217848	10372045	40126
Project Aid	9195601	18221054	27416655	7115293	12883887	19999180	5657042
Total	19659919	24359629	44019548	17480402	18864292	36344694	5752268

Source: Ministry of Planning, Government of Bangladesh

³ Does not Include IMF credits and some special borrowings by Ministry of Food, Bangladesh Shipping Corporation, Bangladesh Biman, Bangladesh Petroleum Corporation and assistance for Defence, and to NGOs and Private Sector.

⁴ Pipeline amount does not equal to commitment minus disbursement because of cancellation/ transfer and exchange rate adjustments.

Appendix-A3

Commitment and Disbursement of Grants (from Japan to Bangladesh)

(million)

Category /Description/user agency/ Agreement Date	Allocation	Pipeline on 1/7/99	Cancel & Adjust	Fresh aid Commit.	Total Avaialable	Disburse- ment	Pipeline on 1/7/00
Food Aid							
1. G4620000309a KR Food Wheat 34,000 MT Date 09.03.2000	Yen 850.0	0.0	0.0	850.0	850.0	0.0	850.0
Subtotal- Food Aid	Yen 850.0	0.0	0.0	850.0	850.0	0.0	850.0
Subtotal- Food Aid	US\$			7.927			7.927
Commodity Aid							
2. G4619990622a 22 nd Debt Relief Grant DT 22.06.1999	Yen 12629.2	12629.2	-	-	12629.2	12629.2	-
3. G4619991108a 22 nd Debt Relief Grant DT 08.11.1999	Yen 4823.6	-	-	4823.6	4823.6	4823.6	-
4. G4619991228a 22 nd Debt Relief Grant DT 28.12.1999	Yen 4592.5	-	-	4592.5	4592.5	4592.5	-
5. G4620000327a 22 nd Debt Relief Grant DT 27.03.2000	Yen 2464.7	-	-	2464.7	2464.7	2464.7	-
6. G4620000612a 23 rd Debt Relief Grant DT 12.06.2000	Yen 6902.3	-	-	6902.2	6902.2	6902.2	-
Subtotal- Commodity Aid	Yen 31412.3	12629.2	0.0	18783.0	31412.3	31412.3	0.0
Subtotal- Commodity Aid	US\$	104.3	-	174.27	278.58	278.58	0.0
Project Aid							
7. G4619970406a Poultry Research Mgt project date 06.04.97	Yen 679.0	679.0	0.0	0.0	679.0	0.0	679.0
8. G4619960111a Const. of Multipurpose Shelter date 11.01.96	Yen 566.0	3.9	0.0	0.0	3.9	3.9	0.0
9. G4619930802a Const. of Multipurpose Cyclone Shelter date 06.04.97	Yen 495.0	295.4	0.0	0.0	295.4	262.7	32.7
10. G4619961125a Study for N Dhaka Sewerage project date 25.11.96	Yen 143.6	143.6	0.0	0.0	143.6	143.6	0.0
11. G4619960904a Poultry Research Mgt project date 06.04.97	Yen 446.0	96.0	0.0	0.0	96.0	96.0	0.0
12. G4619970827a National Immunization day date 04.09.96	Yen 1473.0	20.7	0.0	0.0	20.7	20.7	0.0
13. G4619980505a Weather Warning Services date 22.08.97	Yen 1965.0	611.3	0.0	0.0	611.3	609.0	2.3
14. G4619970827a Reconst. of small and Med Bridges date 05.05.1998	Yen 338.0	70.0	0.0	0.0	70.0	70.0	0.0
15. G4619980505a Eradication of Poliomyelitis date 27.08.97	Yen 1177.0	1059.7	0.0	0.0	1059.7	748.7	311.0
16. G4619981228a Improvement of Maternal and Child Health Institute date 05.05.98	Yen 341.0	341.0	0.0	0.0	341.0	337.7	3.3
17. G4619990824a Multipurpose Cyclone Shelter date 24.08.1999	Yen 852.0	0.0	0.0	852.0	852.0	346.9	505.0
18. G4620000618a Proc. Of Portable Steel Bridge date 24.08.99	Yen 892.0	0.0	0.0	892.0	892.0	0.0	892.0
19. G4620000314a Expanded Immunization Plan date 14.03.2000	Yen 89.0	0.0	0.0	89.0	89.0	0.0	89.0
20. G4619990812a Cultural Grant to BTV date 22.08.99	Yen 39.5	0.0	0.0	39.5	39.5	39.5	0.0
Subtotal Project Aid	Yen 9496.2	3320.6	0.0	1872.5	5193.1	2678.7	2514.4
Subtotal Project Aid	US\$	27.4	0.00	17.203	44.63	24.997	19.633

Source: Ministry of Planning, Government of Bangladesh

Appendix-A4

Commitment and Disbursement of Foreign Aid in Bangladesh (from Japan)

(1971/72~1999/2000) (US\$ Million)

Year	Commitment						Disbursement					
	Food	Commodity		Project		Total	Food	Commodity		Project		Total
	Grant (Loan)	Grant	Loan	Grant	Loan	2+3+4+5	Grant (Loan)	Grant	Loan	Grant	Loan	8+9+10+11+12
1	2	3	4	5	6	7	8	9	10	11	12	13
1971/71	-	10.600	-	-	-	10.600	-	-	-	-	-	00
1972/73	1.924 28.000 L ⁵	1.400	-	-	-	31.324	1.924	12.000	-	-	-	14.824
1973/74	-	-	31.901	-	-	31.901	23.539 L	-	-	-	-	23.539
1974/75	9.500	6.400	40.081	-	-	55.981	3410 3.561 L	1.110	22.210	-	-	30.291
1975/76	1300	-	43333	2333	-	46999	7390	5290	31864	-	-	44526
1976/77	6.700	-	43.333	11.307	17.648	81.988	6.700	-	29.729	1.765	0.900	39.094
1977/78	4.000	-	75.000	6.950	41.678	127.628	4.000	-	90.122	17.475	1.466	113.063
1978/79	5.000 40.900 L	16.750	71.000	9.470	67.632	210.752	5.000	14.500	80.412	8.670	20.060	128.642
1979/80	7.900 15.000 L	18.206	63.382	18.860	13.418	136.766	7.900 55.900 L	15.006	62.475	14.296	74.034	229.611
1980/81	8.772 31.500 L	20.402	77.300	28.500	61.362	227.836	8.772 31.500 L	6.332	57.336	16.909	32.973	153.822
1981/82	9.000 34.400 L	3.68	78.80	17.56	42.10	185.54	9.000	21.69	97.72	20.80	43.63	192.85
1982/83	13.000	19.76	72.00	9.19	22.60	136.55	13.000 34.000 L	4.00	74.28	10.00	15.11	150.79
1983/84	21.684 13.410 L	22.44	74.75	35.18	42.72	210.38	12.08 13.410 L	18.885	45.39	19.82	4.99	114.58
1984/85	5.836	17.34	65.59	27.93	69.36	186.07	10.000	20.55	58.10	22.47	15.11	126.25
1985/86	16.064	42.22	-	4.58	-	62.87	6.28	16.82	59.45	22.85	34.11	139.54
1986/87	12.408	30.47	105.60	84.11	100.93	333.53	18.35	39.39	143.88	22.47	108.73	332.85
1987/88	17.015	37.69	107.73	27.168	55.69	245.21	25.67	30.41	135.92	54.60	67.97	314.59
1988/89	14.993	48.66	163.40	25.28	210.79	463.14	12.57	40.97	136.70	6.99	142.88	340.14
1989/90	9.138	65.98	60.84	48.25	129.35	313.56	8.06	20.11	86.34	91.17	129.63	335.29
1990/91	19.802	78.14	55.17	12.211	160.29	325.62	11.44	155.75	29.17	22.04	126.69	345.11
1991/92	-	88.01	94.19	59.61	-	241.82	10.81	101.77	-	19.92	20.49	153.00
1992/93	11.22	177.42	-	54.61	-	242.88	8.66	110.26	58.78	64.08	22.20	264.00
1993/94	11.456	66.24	-	34.60	448.51	560.66	12.44	137.64	46.64	52.93	44.05	293.71
1994/95	8.664	264.211	-	71.68	246.10	590.66	9.62	172.74	-	31.74	142.41	356.53
1995/96	8.339	153.404	-	8.3	-	170.12	9.68	169.02	10.49	33.49	108.41	331.11
1996/97	7.622	159.57	-	10.83	133.88	311.91	7.91	238.25	11.42	29.03	81.57	368.19
1997/98	6.601	140.43	-	57.29	-	204.32	-	73.18	3.24	11.51	83.96	171.91
1998/99	-	152.73	-	2.92	-	155.66	6.6	116.02	2.77	37.75	71.86	235.03
1999/00	7.927	174.27	-	17.20	136.03	335.43	-	278.58	3.01	24.99	84.08	390.68
Total	245.865 163.210 L	1816.472	1323.43	688.88	2000.04	6237.91	237.338 163.210 L	1820.35	1377.46	657.85	1477.41	5733.64

Source: Ministry of Planning, Government of Bangladesh

⁵ L= Loan

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