3 Bangladesh

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I. Introduction

Bangladesh, officially the People's Republic of Bangladesh is a sovereign state located in South Asia. It is bordered by India on all sides except for a small border with Burma (Myanmar) to the far southeast and by the Bay of Bengal to the south. The capital (and largest city) is Dhaka; also it is the hub of all cultural, political and religious affairs. Together with the Indian state of West Bengal, it makes up the ethno-linguistic region of Bengal. The name Bangladesh means "Country of Bengal" in the official Bengali language. The borders of present-day Bangladesh were established with the partition of Bengal and India in 1947, when the region became East Pakistan, part of the newly formed nation of Pakistan. However, it was separated from the western wing by 1,600 km (994 mi) of Indian Territory. Due to political exclusion, ethnic and linguistic discrimination, and economic neglect by the politically-dominant West Pakistan, popular agitation grew against West Pakistan and led to the Bangladesh Liberation War in 1971, which succeeded after Pakistan surrendered to an invasion by an Indian Brigade in Dhaka . After independence, the new state endured famines, natural disasters and widespread poverty, as well as political turmoil and military coups. The restoration of democracy in 1991 has been followed by relative calm and economic progress.

History:

Remnants of civilization in the greater Bengal region date back four thousand years, when the region was settled by Dravidian, Tibeto-Burman, and Austro-Asiatic peoples. The exact origin of the word "Bangla" or "Bengal" is not known, though it is believed to be derived from *Bang*, the Dravidian-speaking tribe that settled in the area around the year 1000 BCE. The kingdom of Gangaridai was formed from at least the 7th century BCE, which later united with Bihar under the Magadha, Nanda, Mauryan and Sunga Empires. Bengal was later part of the Gupta Empire and Harsha Empire from the 3rd to the 6th centuries CE. Following its collapse, a dynamic Bengali named Shashanka founded an impressive short-lived kingdom. After a period of anarchy, the Bengali Buddhist Pala dynasty ruled the region for four hundred years, followed by a shorter reign of the Hindu Sena dynasty. Islam was introduced to the Bengal region in the 12th century by Arab Muslim merchants; Sufi missionaries, and subsequent Muslim conquests helped spread Islam throughout the region. Bakhtiar Khilji, a Turkic general, defeated Lakshman Sen of the Sena dynasty and conquered large parts of Bengal in the year 1204. The region was ruled by several sultans, Hindu states and land-lords-Baro-Bhuyans for the next few hundred years. By the 16th century, the Mughal Empire controlled Bengal, and Dhaka became an important provincial centre of Mughal administration.

European traders arrived late in the 15th century, and their influence grew until the British East India Company gained control of Bengal following the Battle of Plassey in 1757. The bloody rebellion of 1857 – known as the Sepoy Mutiny – resulted in transfer of authority to the crown with a British viceroy running the administration. During colonial rule, famine racked the Indian subcontinent many times, including the war-induced Great Bengal famine of 1943 that claimed 3 million lives. Between 1905 and 1911, an abortive attempt was made to divide the province of Bengal into two zones, with Dhaka being the capital of the eastern zone. When India was partitioned in 1947, Bengal was partitioned along religious lines, with the western part going to India and the eastern part (Muslims majority) joining Pakistan as a province called East Bengal (later renamed East Pakistan), with its capital at Dhaka.

Despite the economic and demographic weight of the east, however, Pakistan's government and military were largely dominated by the upper classes from the west. The Bengali Language Movement of 1952 was the first sign of friction between the two wings of Pakistan. After staging compromise talks with Mujib, President Yahya Khan and military officials arrested him in the early hours of 26 March 1971, and launched Operation Searchlight, a sustained military assault on East Pakistan. Yahya's methods were extremely bloody, and the violence of the war resulted in many civilian deaths . Chief targets included intellectuals and Hindus, and about ten million refugees fled to neighbouring India. Estimates of those massacred throughout the war range from three hundred thousand to 3 million. The Bangladesh Liberation War lasted for nine months. The Bangladesh Forces formed within 11 sectors led by General M.A.G. Osmani consisting of Bengali Regulars, and Mukti Bahini conducted a massive guerilla war against the Pakistan Forces with all out support from the Indian Armed Forces. Jointly, the Mitro Bahini achieved a decisive victory over Pakistan on 16 December 1971, with Indian Armed Forces taking over 90,000 prisoners of war.

Geography and climate

Bangladesh lies between latitudes 20° and 27°N, and longitudes 88° and 93°E. The country has an area of 147,570 square kilometers and extends 820 kilometers north to south and 600 kilometers east to west. Bangladesh is bordered on the west, north, and east by a 2,400-kilometer land frontier with India and in the southeast, by a short land and water frontier (193 kilometers) with Myanmar. Bangladesh is in the low-lying Ganges–Brahmaputra River Delta or Ganges Delta. This delta is formed by the confluence of the Ganges (local name Padma or *Pôdda*), Brahmaputra (Jamuna or *Jomuna* also known as "Yamuna"), and Meghna rivers and their respective tributaries. The Ganges unites with the Jamuna (main channel of the Brahmaputra) and later joins the Meghna to eventually empty into the Bay of Bengal. The alluvial soil deposited by these rivers has created some of the most fertile plains in the world. Bangladesh has 57 trans-boundary rivers, making water issues politically complicated to resolve – in most cases as the lower riparian state to India. Most parts of Bangladesh are less than 12 m (39.4 ft) above the sea level, and it is believed that about 10% of the land would be flooded if the sea level were to rise by 1 m (3.28 ft).

Straddling the Tropic of Cancer, Bangladeshi climate is tropical with a mild winter from October to March, a hot, humid summer from March to June. A warm and humid monsoon season lasts from June to October and supplies most of the country's rainfall. Natural calamities, such as floods, tropical cyclones, tornadoes, and tidal bores occur almost every year, combined with the effects of deforestation, soil degradation and erosion. The cyclones of 1970 and 1991 were particularly devastating. A cyclone that struck Bangladesh in 1991 killed some 140,000 people.

Bangladesh is now widely recognized to be one of the countries most vulnerable to climate change. Natural hazards that come from increased rainfall, rising sea levels, and tropical cyclones are expected to increase as climate change, each seriously affecting agriculture, water & food security, human health and shelter. It is believed that in the coming decades the rising sea level alone will create more than 20 million climate refugees. Bangladeshi water is contaminated with arsenic frequently because of the high arsenic contents in the soil. Up to 77 million people are exposed to toxic arsenic from drinking water. Bangladesh is among the countries most prone to natural floods, tornados and cyclones.

Demography

The population of Bangladesh at 15/03/2011 is 142.3 million (census 2011 results -this is a preliminary figure which has been disputed by the UN and now by Bangladeshis themselves), much less than recent (2007–2010) estimates of Bangladesh's population range from 158 to 170 million and it is the 8th most populous nation in the world. In 1951, the population was 44 million. It is also the most densely populated large country in the world, and it ranks 11th in population density, when very small countries and city-states are included. A striking contrast is offered by Russia which has a slightly smaller population spread over a land area that is 120 times larger than Bangladesh. Bangladesh's population growth was among the highest in the world in the 1960s and 1970s, when the country swelled from 65 to 110 million. With the promotion of birth control in the 1980s, the growth rate had slowed. The population is relatively young, with 60% being 25 or younger and 3% being 63 or older. Life expectancy is 66 years for both males and females.

The overwhelming majority of Bangladeshis are ethnic Bengali, comprising 98% of the population. The remainder is mostly Biharis and indigenous tribal groups. There is also a small but growing population of Rohingya refugees from Burma around Cox's Bazaar, which Bangladesh seeks to repatriate to Burma. The indigenous tribal peoples are concentrated in the Chittagong Hill Tracts in the southeast. There are 13 tribal groups located in this region, the largest being the Chakma. The Hill Tracts region has been a source of unrest and separatism since and before the inception of Bangladesh. Outside the Hill Tracts, the largest tribal groups are the Santhals and Garos (Achiks), while smaller groups include the Kaibartta, Meitei, Mundas, Oraons, and Zomi.

Nearly all Bangladeshis speak Bangla as their mother tongue and it is the official language. It is an Indo-Aryan language of Sanskrit origin with its own script. English is used as a second language among the middle and upper classes. English is also widely used in higher education and the legal system. Historically, laws were written in English and translated into Bengali until 1987 when the procedure was reversed. The Bihari population speaks Urdu, which was also the language associated with the government prior to separation from Pakistan.

Government, Politics and recent Political situation:

Politics of Bangladesh takes place in a framework of a parliamentary representative democratic republic, whereby the Prime Minister of Bangladesh is the head of government, and of a multi-party system. Executive power is exercised by the government. Legislative power is vested in both the government and parliament. The Constitution of Bangladesh was written in 1972 and has undergone fifteen amendments.

The President is the head of state, a largely ceremonial post. The real power is held by the Prime Minister, who is the head of government. The president is elected by the legislature every five years and has normally limited powers. The prime minister is ceremonially appointed by the president, commanding the confidence of the majority of the MPs. The cabinet is composed of ministers selected by the prime minister and appointed by the president.

The 300 members are elected by universal suffrage at least every 5 years. There is universal suffrage for all citizens at the age of 18. On 16 May 2004, the Jatiyo Sangshad (the National Parliament) passed the 14th constitutional amendment to reintroduce quotas for women (article 65). The number of seats in parliament is to be raised to 345, 45 (15%) of which will be reserved for women in the next parliament. The seats will be allocated to parties in proportion to their overall share of the vote.

The three major parties in Bangladesh are the Bangladesh Nationalist Party (BNP) and Bangladesh Awami League and Jatiya Party. BNP finds its allies among some secular Islamist parties like Jamaat-e-Islami Bangladesh while the Awami League aligns itself traditionally with leftist and secularist parties. Another important player is the Jatiya Party, headed by former military ruler Hossain Mohammad Ershad. The Awami League-BNP rivalry has been bitter and punctuated by protests, violence and murder. Student politics is particularly strong in Bangladesh, a legacy from the liberation movement era. Almost all parties have highly active student wings, and students have been elected to the Parliament.

Culture:

Reflecting the long history of the region, Bangladesh has a culture that encompasses elements both old and new. The Bengali language boasts a rich literary heritage, which Bangladesh shares with the Indian state of West Bengal. The earliest literary text in Bengali is the 8th century Charyapada. Medieval Bengali literature was often either religious (for example, Chandidas), or adapted from other languages (for example, Alaol). Bengali literature reached its full expression in the 19th century, with its greatest icons being poets Rabindranath Tagore, Michael Madhusudan Dutt and Kazi Nazrul Islam. Bangladesh also has a long tradition in folk literature, for example *Maimansingha Gitika*, *Thakurmar Jhuli* and stories related to *Gopal Bhar*, *Birbal* and *Molla Nasiruddin*.

The musical tradition of Bangladesh is lyrics-based (*Baniprodhan*), with minimal instrumental accompaniment. The Baul tradition is a distinctive element of Bengali folk music. Numerous other musical traditions exist including Gombhira, Bhatiali and Bhawaiya, varying from one region to the next. Folk music is often accompanied by the ektara, an instrument with only one string. Other instruments include the dotara, dhol, flute and tabla. Bangladesh also has an active heritage in North Indian classical music. Similarly, Bangladeshi dance forms draw from folk traditions, especially those of the tribal groups, as well as the broader Indian dance tradition.

Bangladesh produces about 80 films a year. Around 200 daily newspapers are published in Bangladesh, along with more than 500 periodicals. However, regular readership is low at just under 15% of the population. Bangladeshis listen to a variety of local and national radio programs like Bangladesh Betar.. International Bengali language broadcasts include BBC Bangla and Voice of America. The dominant television channel is the state-owned Bangladesh Television, but in the last few years, privately owned channels have developed considerably.

Eid ul-Fitr and Eid ul-Adha, being the most important holidays in the Islamic calendar, are the subject of major festivals. Major Hindu festivals are Durga Puja, Kali Puja and Saraswati Puja. Buddha Purnima, which marks the birth of Gautama Buddha, and Christmas, called *Bôŗodin* (Great day), are both national holidays. The most important secular festival is Pohela Baishakh or Bengali New Year, the beginning of the Bengali calendar. Other festivities include Nobanno, *Poush parbon* (festival of Poush) and observance of national days like Shohid Dibosh and Victory Day.

Education:

The educational system in Bangladesh is three-tiered and highly subsidized. The government of Bangladesh operates many schools in the primary, secondary, and higher secondary levels. It also subsidizes parts of the funding for many private schools. In the tertiary education sector, the government also funds more than 15 state universities through the University Grants Commission. Primary (from grades 1 to 5), Secondary (from grades 6 to 10), Higher Secondary (from grades 11 to 12) and tertiary.. Education is mainly offered in Bangla, but English is also commonly taught and used. Bangladesh conforms fully to the Education For All (EFA) objectives, the Millennium Development Goals (MDG) and international declarations. Article 17 of the Bangladesh Constitution provides that all children between the ages of six and ten years receive a basic education free of charge.

Universities in Bangladesh are mainly categorized into three different types: Public university (government owned and subsidized), Private University (private sector owned universities), and International University (operated and funded by international organizations). Bangladesh has some thirty public and forty-five private universities. National University has the largest enrollment amongst them and University of Dhaka *(estd.1921)* is the oldest university of the country. Bangladesh University of Engineering and Technology is oldest and prominent engineering university in Bangladesh and well known in south Asia.

II. Overview of Macroeconomic Activity and Fiscal Position

The economy of Bangladesh continued to demonstrate satisfactory growth performance along with maintaining macroeconomic stability during FY2010-11 despite the global economic recession. The economy was provisionally estimated to have grown at a rate of 6.66percent, slightly higher than the growth rate (6.07 percent) of FY2008-09. The key feature of the economic performance during FY2010-11 was the sustained growth in agriculture sector coupled with moderate growth in industry and service sector. Bangladesh was affected less by the slowdown in international trade than other emerging Asian Economies and has maintained strong economic fundamentals, including a sound fiscal stance. Revenue earnings grew at a satisfactory rate, remittances inflow started maintaining their steady growth. Agricultural and industrial term loans disbursement increased due to the implementation of various short, medium and long-term policies and strategies by the Government to boost up investment. Along with the increase of private sector credit flow, increase in import of industrial raw materials and capital machinery indicates that the economy is moving towards a positive direction.

II.1 Macroeconomic Activity

II.1.1 International Environment

A. Balance of Payments

During July-February of FY 2010-2011Trade deficit stands at US$ 4855 million whereas in the same time of FY 2009-2010 that deficit was US$ 3315million. Though import and export growth is near the same during this time (40.42% for import and 41.92% for export) but huge import trade volume contributes to increase trade deficit. During this discussed time current account balance surplus stands at US$602 million whereas in the same time of FY 2009-2010 that surplus was US$ 2554 million. Though remittance flow increases by 1.02% during that time but surplus in current account decreases significantly as deficit increases in service, trade and income. During this discussed time overall balance deficit stands at US$ 490 million whereas in the same time of FY 2009-2010 that overall balance was US$ 2391million. The balance of payments from FY2005-06 to FY2010-11 and trade balance and current account balance are shown in Table-1and Figure-1.

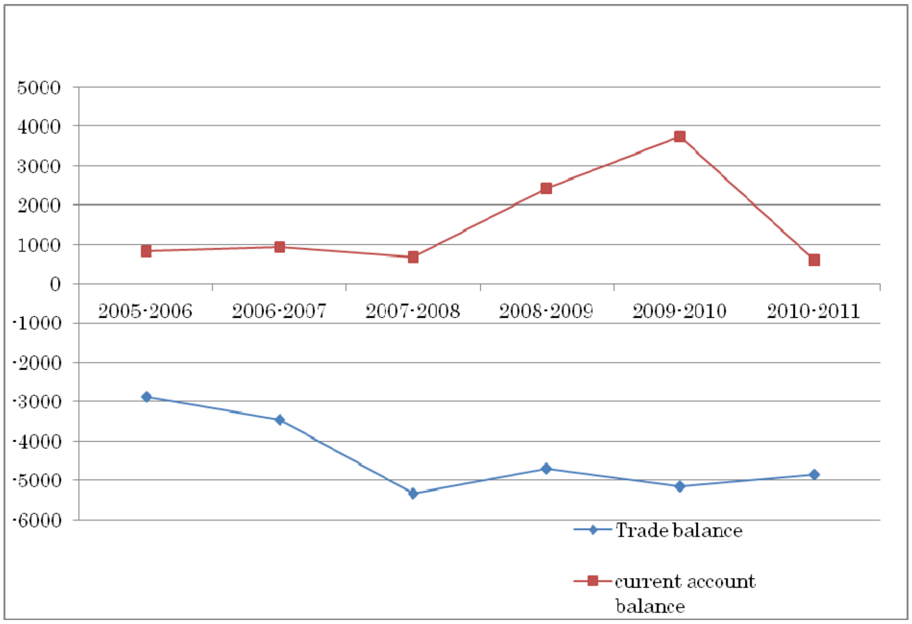
Table 1: Balance of payment

(In million US $)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*
Trade Balance	-2889	-3458	-5330	-4710	-5152	-4855
Export f.o.b.(including EPZ)	10412	12053	14151	15581	16236	14111
Import f.o.b.(including EPZ)	-13301	-15515	-19481	-20291	-21388	-18966
Services	-1023	-1255	-1525	-1616	-1240	-1558
Receipts	1340	1484	1891	1832	2471	1702
Payments	-2363	-2739	-3416	-3448	-3711	-3260
Income	-702	-905	-994	-1484	-1484	-854
Receipts	136	244	217	95	52	72
Payments	-838	-1149	-1211	-1579	-1536	-926
Of which official interest payment	-204	-212	-234	-238	-215	-155
Current account balance	824	936	680	2416	3737	602
Capital account	375	490	576	451	488	211
Capital transfers	375	490	576	451	488	211
Financial account	-141	762	-457	-825	-638	-1243
Direct foreign investment (net)	743	793	748	961	913	508
Portfolio investment	32	106	47	-159	-117	-35
Other investment	-916	-137	-1252	-1627	-1434	-1716
Medium & long term loans(MLT)	1023	1037	1338	1204	1604	678
MLT amortization payment	-488	-525	-580	-641	-687	-472
Other long term loans	-37	-24	-6	-70	-156	-103
Other short term loans	-256	493	-160	-169	67	126
Other assets	-495	-535	-603	-650	-902	-546
Trade credit	-898	-481	-1108	-1277	-1045	-1209
Commercial Bank	235	-102	-133	-24	-315	-190
Assets	31	-86	-144	-129	-410	-453
Liabilities	204	-16	13	105	95	263
Errors & omission	-720	-695	-468	16	-772	-60
Overall balance	338	1493	331	2058	2865	-490
Reserve assets	-338	-1493	-331	-2058	-2865	490
Bangladesh Bank	-338	-1493	-331	-2058	-2865	490
Assets	-554	-1593	-799	-1883	-3616	68
Liabilities	216	100	468	-175	751	422

Source: Bangladesh Bank.
* July - February

Figure 1: Trade balance and current account balance (in million USD)



B. Export Position and Composition of Export Commodities

The export earnings of Bangladesh is now stable due to overcome from recession. As a Result in first 9 months of current FY (July-March 2011) export earnings stands at US$16,207.07 million, which is 40.31 percent higher than the export earnings (US$ 11550.53 million) of same time in FY2009-10. The growth of export earnings is mainly attributable to the increases of export of raw jute, jute goods, knit wear, garments, frozen foods, leather products, and agricultural products during the year under report. An analysis of composition of exports of 2010-11 by major categories reveals that the export earnings over the discussed time increased mainly for increases of raw jute (72.16 percent), frozen foods (57.43 percent), footwear (50.17 percent), knitwear (44.36 percent), woven garments (37.76 percent), leather (37.16 percent), jute goods (37.09 percent), handicrafts (41.15 percent), ceramic tableware (19.87 percent), agricultural products (15.75 percent), and others (58.58 percent). On the other hand, export earnings decreased in chemical products (56.62 percent), tea (56.08 percent), petroleum by products (8.05 percent), Engineering products (1.80 percent). Table- 2 shows the export growth and composition by commodities.

Table 2: Export earnings, Composition and Growth of Export Earnings

Commodity classification	Total export earnings(million USD)			% of total export earnings			Growth rate (%)		
	2008-09	2009-10	2010-11*	2007-08	2008-09	2009-10*	2007-08	2008-09	2009-10*
Raw jute	148.17	196.27	267.89	0.95	1.21	1.65	12.17	32.46	71.26
Tea	12.29	5.65	2.31	0.08	0.03	0.01	-17.46	-54.03	-56.08
Frozen food	454.51	437.40	470.53	2.93	2.70	2.90	-14.89	-3.96	57.43
Agricultural product s	247.41	242.34	241.27	0.79	1.50	1.49	1.8	-9.37	15.75
Jute goods	269.25	540.17	569.31	1.73	3.33	3.51	-15.42	100.62	37.09
Leather	177.32	230.52	210.27	1.14	1.42	1.30	-37.65	30.00	37.16
Petroleum products	142.03	301.15	195.56	0.91	1.86	1.21	-23.27	112.03	-8.05
Woven garments	5918.51	6013.43	5961.82	34.02	37.11	36.79	14.54	1.60	37.76
Knitwear	6429.26	6483.29	6605.48	41.31	40.01	40.76	16.21	0.84	44.36
Chemical products	237.11	102.87	67.97	1.80	0.6	0.42	29.55	-56.62	-13.23
Footwear	186.93	204.09	221.87	1.20	1.26	1.37	10.22	9.18	50.17
Handicrafts	6.44	3.79	3.18	0.04	0.02	0.02	17.30	41.15	23.26
Engineering products	181.34	311.09	221.61	1.22	1.92	1.37	-13.75	71.55	-1.80
Ceramic products	31.70	30.78	28.42	0.20	0.19	0.18	-17.25	-2.90	19.87
Others	1102.92	1101.80	1139.58	7.69	6.80	7.03	7.90	-0.10	58.58
Total export	15565.19	16204.65	16207.07	100	100	100	10.31	4.11	40.31

Source: Export Promotion Bureau. * July-March 2010-2011

Country-wise Export earnings

An analysis of country-wise export earnings shows that USA is the main destination of our export. USA is the main importing country of Bangladeshi products in first nine months of FY 2010-11 (July-March 2011). During the period under report, goods valued at US$ 3776.3 million were exported to USA, which was 23.3 percent of the total export earnings of the country. The major commodities exported to USA are woven garments, knitwear, frozen food, cap, home textile etc. USA secured the top position in respect of importing commodities from Bangladesh in FY2010-11 (July-March) followed by Germany (14.37 percent), UK (8.91 percent) and France (6.27 percent). The country-wise export earnings are shown in Table-3:

Table 3: Country-wise Export Income

(In Million USD)

FY	USA	Germany	UK	France	Belgium	Italy	Netherlands	Canada	Japan	Others	Total
2000-01	2500.42	789.88	598.18	365.99	253.91	295.73	327.96	125.66	107.58	1101.69	6467.00
2001-02	2218.79	681.44	647.96	413.69	211.39	262.31	283.36	109.85	96.13	1061.08	5986.00
2002-03	2155.00	820.72	778.25	418.51	289.48	258.99	277.95	170.26	108.03	1270.81	6548.00
2003-04	1966.58	1298.54	647.96	413.69	211.39	262.31	283.36	109.85	96.13	1061.08	5986.00
2004-05	2412.05	1353.80	778.25	418.51	289.48	258.99	277.95	170.26	108.03	1270.81	6548.00
2005-06	3030.20	1764.11	898.21	552.96	326.95	315.93	290.44	284.33	118.16	1550.90	7603.00
2006-07	3441.02	1955.38	943.17	626.17	325.43	369.18	291.94	335.25	122.41	1875.12	8654.52
2007-08	3590.56	2174.81	1048.62	677.50	359.20	425.75	327.40	406.15	137.78	2349.45	10526.16
2008-09	4052.00	2269.70	1173.95	731.76	435.82	515.66	459.01	457.21	147.47	2860.58	12177.86
2009-10	3950.47	2187.35	1374.03	953.13	488.39	579.23	653.88	532.90	172.56	3591.31	14110.80
2010-11*	3776.30	2329.63	1501.20	1031.05	409.80	615.51	970.80	663.20	202.60	3849.33	15565.19

Source: Export Promotion Bureau (EPB). * July-March 2010-2011

Export target and performance of Bangladesh during FY2000-01 to FY2010-11 are shown in Table 4.

Table 4: Export performance during FY 2000-01 to 2010-11

(In million US$)

FY	Export target	Actual export	Growth compare to target
2000-2001	6314	6467.3	102.43
2001-2002	5950	5986.09	100.61
2002-2003	6405	6548.44	102.24
2003-2004	7439	7602.99	102.2
2004-2005	8566	8654.52	101.03
2005-2006	10159	10526.16	103.61
2006-2007	12500	12177.86	97.42
2007-2008	14500	14110.8	97.32
2008-2009	16298	15565.1	97.5
2009-2010	17600	16204.65	92.07
2010-2011	13370	16207.07	121.22

Source: Export Promotion Bureau.
* July-March 2010-2011

It is evident from the above table that despite global recession, export target in the last two fiscal years is about to be achieved. Export earnings exceed the target in first 9 months of current FY (July-March 2011) Export from Bangladesh to SAARC member countries is shown below:

Table 5: Export from Bangladesh to SAARC countries

Country	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*
Afghanistan	6.07	0.51	0.88	0.75	2.77	3.68	2.74	2.21
Bhutan	3.99	3.35	1.65	1.40	1.35	0.61	2.24	1.84
India	101.16	186.95	279.14	289.41	358.08	276.58	304.63	359.82
Maldives	-	0.48	0.26	0.27	0.08	0.14	0.74	0.72
Nepal	1.27	0.47	0.83	0.85	6.71	8.06	8.79	6.55
Pakistan	34.78	84.14	50.26	61.06	71.01	76.22	77.67	67.04
Sri Lanka	10.15	12.16	14.39	14.82	19.32	18.67	23.74	22.27
Total	42	288.06	347.41	368.56	459.32	383.96	420.55	460.45

Source: Export Promotion Bureau.
* July-March 2010-2011

C. Import Scenario:

During July-February of FY 2010-2011 total Import expenditure increases by 41.79 percent compare to that of in the same time of FY 2009-2010. Imports in Bangladesh have increased in FY2010-11 due mainly to three reasons: first, rise in food price in International market due fall in food production in India and other countries due to bad weather, second, rise in due to unstable political condition in Middle East and North Africa oil and food commodities; and third, increase in import volume of machinery for establishing new power plant. During the discussed time import volume increases in capital machinery and industrial raw materials which is positive for economy. The import cost over the discussed time increased mainly for increases of rice (2361.11 percent), capital machinery (288.36 percent), cotton (143.27 percent), yarn (86.77 percent), fertilizer (56.94 percent), unrefined petroleum (47.30 percent), clinker (43.17 percent), petroleum products (38.86 percent), etc. Import expenditure is given below in table-6.

Table 6: comparative statement of import expenditure

(Million USD)

Commodity	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*
Main primary commodity	1676	1858	2069	3455	2916	2940	3584
Rice	262	117	180	874	239	75	443
Wheat	312	301	401	537	643	761	597
Oil seeds	86	90	106	136	159	130	65
Crude petroleum	350	604	524	695	584	535	545
Cotton	666	742	858	1213	1291	1439	1934
Main industrial products	2662	3002	3568	4844	5035	4957	4526
Edible oil	440	473	583	1006	865	1050	699
Petroleum products	1252	1400	1709	2058	1997	2021	1651
Fertilizer	332	342	357	632	955	717	973
Clinker	170	210	240	347	314	333	262
Staple fiber	75	76	97	110	112	118	108
Thread	393	501	582	691	792	718	833
Capital machinery	1211	1458	1929	1664	1420	1595	4070
Other (including EPZ)	7598	8432	9591	11666	13136	14246	8858
Total (CIF)	13147	14746	17157	21629	22507	23738	21038
% change**	2006	12.12	16.4	26.1	4.1	5,5	41.8

Source Bangladesh Bank. *July-February, ** % change in same time of previous year

Country-wise Import:

In terms of the value of total imported commodities, China secured the top position in FY 2010-11. During this period, 18.49 percent of the total imported commodities came from China. India was the second largest source of import (14.34 percent of total import) while Malaysia (4.76 percent) and Singapore (4.01 percent to total import) held the third position and fourth position respectively. In FY2010-11 (July-February), the total import payment rose to US$ 21,038 million from US$ 14,837 in the same time of previous year. Table-7 shows the country-wise import payments during FY 2000-01 to FY2010-11.

Table 7: Country wise import expenditure

(Million USD)

FY	China	India	Singapore	Japan	Hongkong	Taiwan	S. Koria	USA	Malaysia	others
2000-2001	709	1184	824	846	478	412	411	248	148	4075
2001-2002	878	1019	871	655	441	312	346	261	145	3612
2002-2003	938	1358	1000	605	433	328	333	223	169	4271
2003-2004	1198	1602	911	552	433	377	420	226	255	4929
2004-2005	1642	2030	888	559	565	439	426	329	276	5993
2005-2006	2079	1868	849	651	626	473	489	345	302	7064
2006-2007	2571	2268	1035	690	747	473	553	380	334	8106
2007-2008	3137	3393	1273	832	821	478	620	490	451	10134
2008-2009	3452	2864	1768	1015	851	498	864	461	703	10031
2009-2010	3819	3214	1550	1046	788	542	839	469	1232	10239

Source: Bangladesh Bank. * July-February 2010-2011

Table 8: Trade Openness

Fiscal year	GDP at current price	Foreign Trade			Trade openness
		Export	Import	Total	%
1999-00	2370.9	288.2	421.3	709.5	29.9
2000-01	2535.46	348.95	503.71	852.66	33.63
2001-02	2732.01	343.8	490.49	834.3	30.54
2002-03	3005.8	379.15	559.2	938.35	31.22
2003-04	3329.73	448.09	642.57	1090.66	32.76
2004-05	3707.07	531.36	807.15	1338.51	36.11
2005-06	4157.28	626.08	991.3	1617.38	38.9
2006-07	4674.97	789.18	1184.78	1973.96	42.22
2007-08	5419.19	862.83	1483.7	2346.53	43.3
2008-09	6149.43	974.45	1548.21	2522.66	41.02
2009-10	6943.2	1123.3	1479.7	2603	37.5

Source: calculation is done by author on the basis of data from MOF

Figure 2: Trend of trade openness (%)

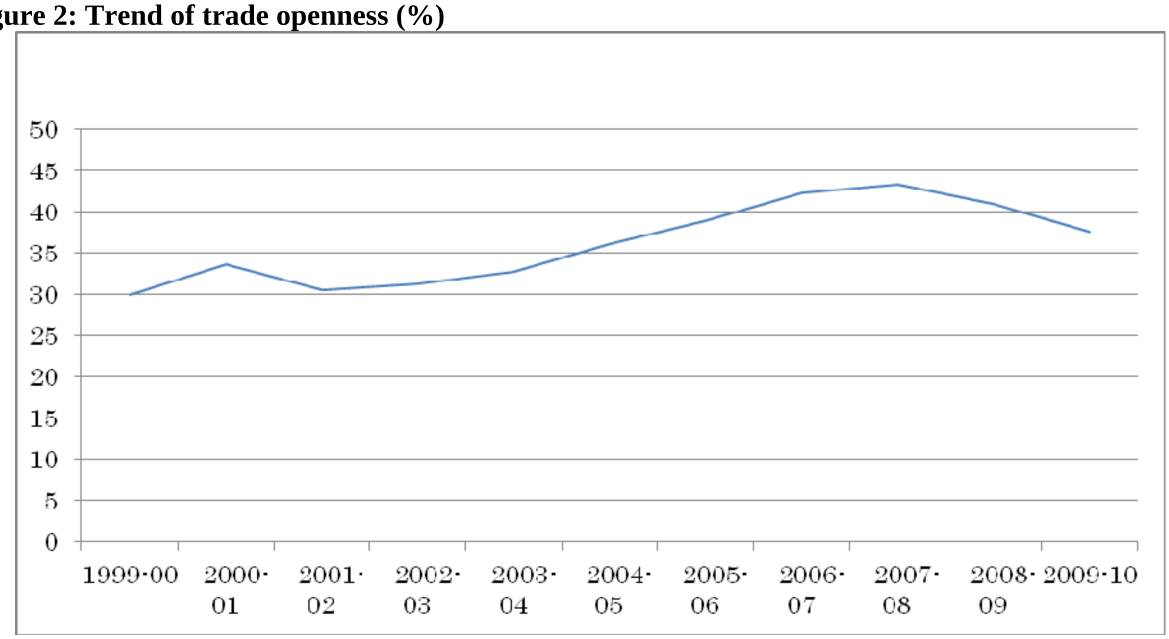
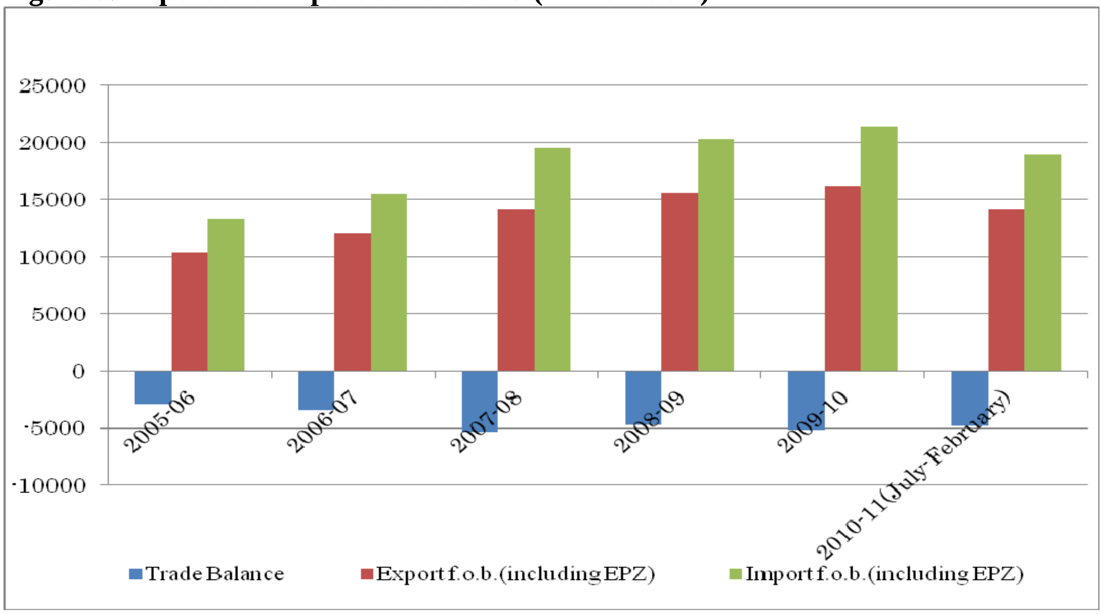


Table 9: Export-Import deficit trend

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*
Trade Balance	-2889	-3458	-5330	-4710	-5152	-4855
Export f.o.b.(incld EPZ)	10412	12053	14151	15581	16236	14111
Import f.o.b.(incld EPZ)	13301	15515	19481	20291	21388	18966

Source: Bangladesh Bank. * July-February 2010-2011

Figure 3: Export and Import deficit trend (Million USD)



D. Exchange Rate Policy

Bangladesh moved to floating exchange rate regime on May 31, 2003. Under this system, Bangladesh Bank doesn't participate in the foreign exchange market rather it participates time to time in the monetary management to stabilize exchange rate.

Despite global financial meltdown, there has been adequate supply of liquidity in the foreign exchange market in FY 2010-11. Receipts of foreign inward remittance and moderate growth in import payment contributed to the foreign exchange market remaining calm despite stumpy growth in export in the wake of global recession.

Besides, the effective use of growth supportive monetary policy (REPO, reverse Repo etc.) helped stabilizing the exchange rate. It is expected that stability of forex would be maintained in future if there is no adverse effect of World recession on foreign inward remittance and demand of forex remains normal.

The weighted average exchange rate stood at Taka 70.32 per Dollar in FY2010-11(July-March), which was Taka 69.18 per Dollar in FY2009-10. The weighted average exchange rate during FY2001-02 to FY2010-11 is shown in Table-10 below.

Table 10: Average exchange rate (Tk per USD)

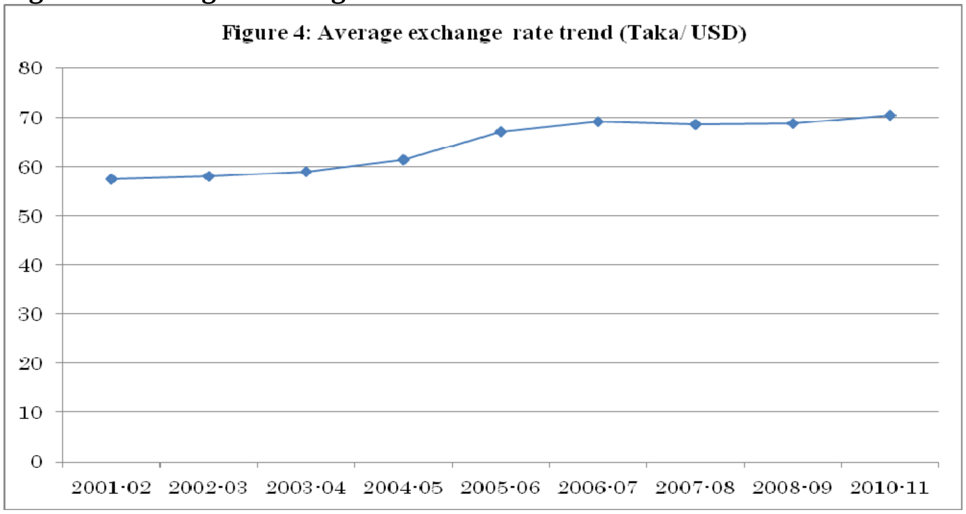
FY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Avg exc rate	57.4337	57.9	58.9353	61.3939	67.0797	69.0318	68.6019	68.8012	69.18	70.3213

Source: National Board of Revenue.

Both the Nominal Effective Exchange Rate (NEER) and Real Effective Exchange Rate (REER) indices depreciated during July-February in FY2010-11 from 67.64 to 63.48 and 96.93 to 94.18 respectively. During that time exchange rate based on REER depreciated from 67.29 percent to 67.17

percent (0.18 percent). AS nominal exchange rate is still higher than REER based exchange rate, so Bangladesh still enjoys some export competitiveness.

Figure 4: Average Exchange Rate Trend



E. Foreign Exchange Reserve

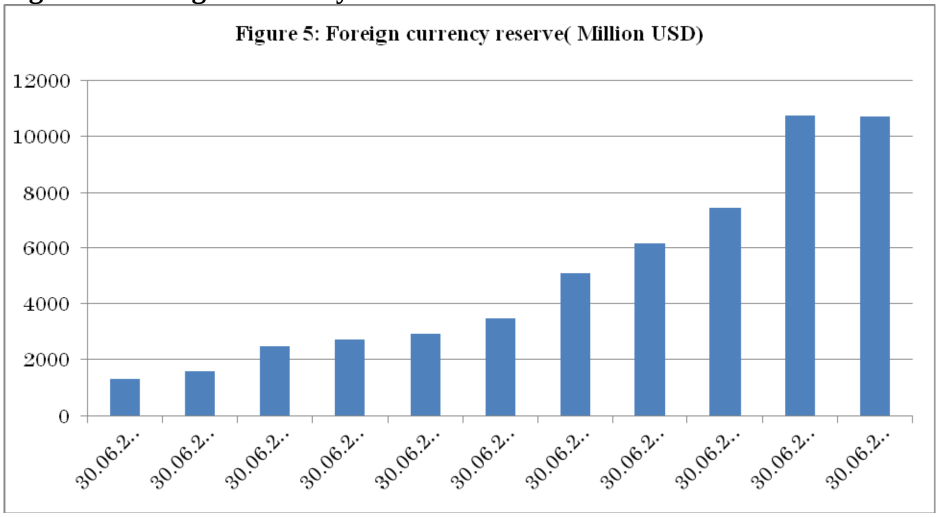
Substantial foreign loan received (amounting to Tk. 4,490 crore) from Asian Development Bank for budgetary support and receipts of ever wage earners' remittances from abroad contributed to exceed 10 billion foreign exchange reserve during FY2009-10. Foreign exchange reserve stands at US$ 10,731 million as on March 31, 2011. Table 11 and Figure 4 show the foreign exchange Reserve position during June 30, 2001 to March 31, 2011.

Table 11: Foreign exchange reserves

FY	2001-01	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011*
Foreign Exchange Reserve	1307	1583	2470	2705	2930	3484	5077	6149	7471	10750	10731

Source: Bangladesh Banks.
* July-February 2010-2011

Figure 5: Foreign Currency Reserve



F. FDI

With the most liberal investment policy and Incentive regime in South Asia, Bangladesh has been promoting FDI for decades. There is no denial of economic benefits of FDI at the national policy level. Policy reviews, amendments and initiations are being conducted on a regular basis. There is a general concern about the recent inflows of FDI in Bangladesh which is mainly due to "lagged effect" of the recent global recession. Investors are moving cautiously.

It is envisioned that the unique opportunities in energy and power, infrastructures, manufacturing and knowledge based sectors will attract substantial investment. With an abundant and low-cost labor force, Bangladesh has become a least cost producer in the world. However, labor intensive development has limits of its own and we have to move up the value chain to the cutting edge sectors.

Despites the pressure from other competitive economies Bangladesh remains, in the eyes of many investors, the most competitive and profitable location to set up a foreign subsidiary company. According to World Investment report, FDI 2011 Bangladesh received US$ 913.million in 2010 which is 30.5% higher than 2009.

Board of Investment of Bangladesh (BOI) is the principal investment promotion agency engaged mainly in investment promotion, facilitation and policy advocacy support for the policy makers. BOI has endeavored in to portray a brief on Foreign Investment registered from 1977 to 2010 for joint venture investment and from 1990-2010 for the 100% foreign investments projects. FDI in Bangladesh mainly comprise 100% foreign owned investment and joint venture between a Bangladeshi investor and a foreign investor. The investment comes in the form of equity, borrowings and reinvested earnings of the existing projects. The FDI registered with BOI (till June, 2010) can be summarized as under table 12 and table 13:

Table 12: FDI registered with BOI

Sl no	Particulars	No of units registered	Investment in (million USD)	Employment opportunities (person)
A	100% Foreign Investment	418	7,012.768	141957
B	Joint venture Investment	1179	10,172.470	259207
Total		1597	17185.238	401164

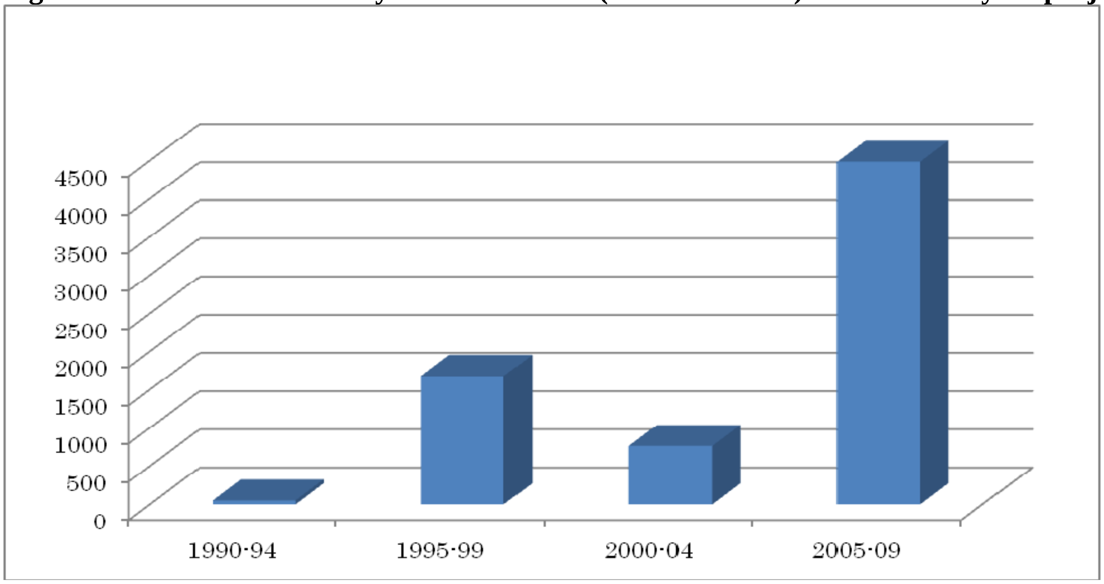
Source: Board of Investment (BOI).

Table 13: Year wise 100% FDI proposals registered with BOI

Year	Investment in (US$ million)	Employment opportunities (person)
1990	0.623	100
1991	2.841	344
1992	18.919	206
1993	0.200	150
1994	28.037	2521
1995	10.318	252
1996	22.257	4125
1997	191.242	3998
1998	1018.871	3887
1999	436.907	13116
2000	406.695	1012
2001	11.258	1761
2002	35.963	9709
2003	83.516	8042
2004	224.806	20775
2005	3197.623	14439
2006	1120.820	11688
2007	55.163	23779
2008	65.854	6208
2009	44.688	11050
2010	36.437	4795
Total	7012.768	141957

Source: BOI

Figure 6: The time series analysis of 100% FDI (in million USD) based on five year projection



G. Investment Climate:

Bangladesh is being considered as the most liberal and business friendly economy in this region. It is attractive destination for business and investment. Its investment climate offer generous and attractive packages of incentives to investors. There is no discrimination between the local and foreign investors. Prevailing laws and practices fully guarantee the safety of the investment and their returns.

Bangladesh has vibrant young working force with flexibility to match in job demands. New opportunities are emerging for foreign direct investment (FDI) in the traditional and emerging sectors. It is projected that Bangladesh will post at 7.2% growth rate in the fiscal year 2011-12, despite the world wide meltdown, can be the top destination for FDI in the years to come.

The fiscal, commercial, monetary and other sectoral policies of the government are supportive of private sector growth on scales not before. Bangladesh offers a strong local market, easier global market access and proven export competitiveness. Its middle class consumers are larger in numbers than the total population of Malaysia, Singapore and Thailand.

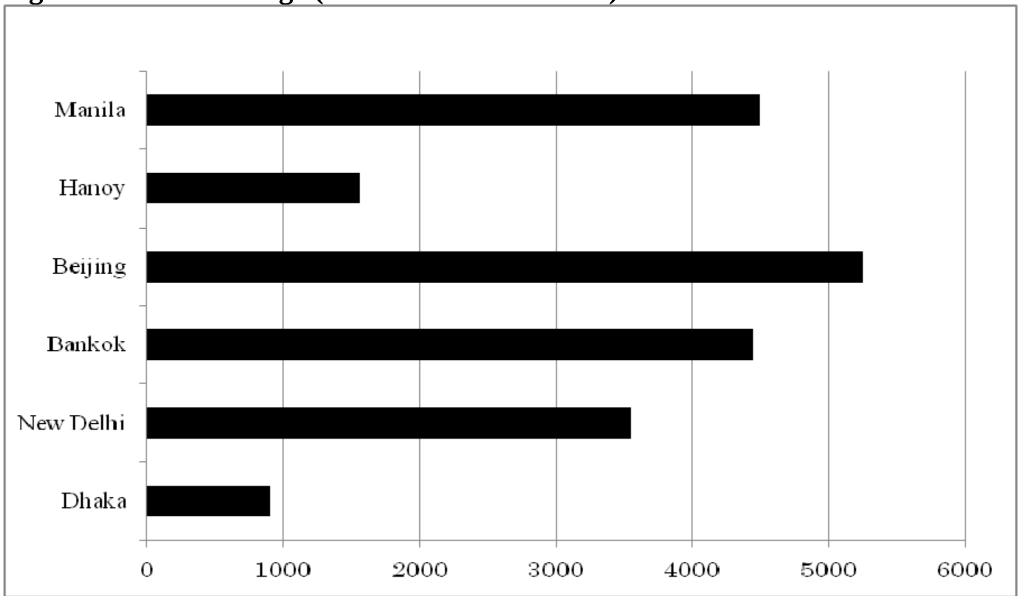
Why Bangladesh?

Bangladesh is a winning combination with its competitive market, business-friendly environment and cost structure that can give you the best returns.

- Industrious Low-Cost Workforce
- Strategic Location, Regional Connectivity and Worldwide Access
- Strong Local Market and Growth
- Low Cost of Energy
- Proven Export Competitiveness
- Competitive Incentives
- Export Processing Zones

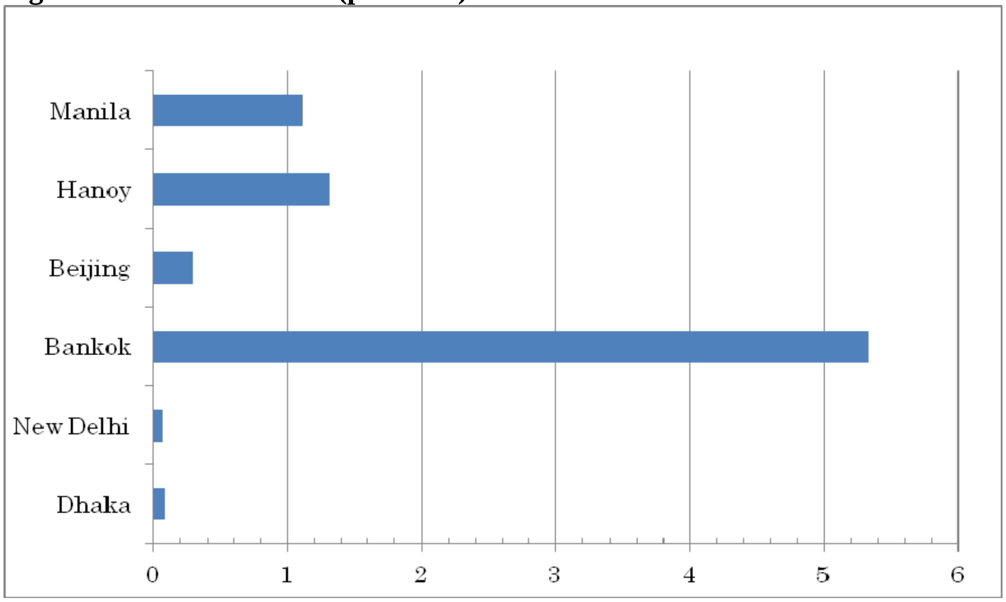
A survey conducted by JETRO on the major cities of Asia on various components of trade and investment reveals the following-

Figure 7: Workers wage (Actual Annual Burden) in USD



Source: JETRO April 2010

Figure 7: Gas for business (per cu.m) in USD



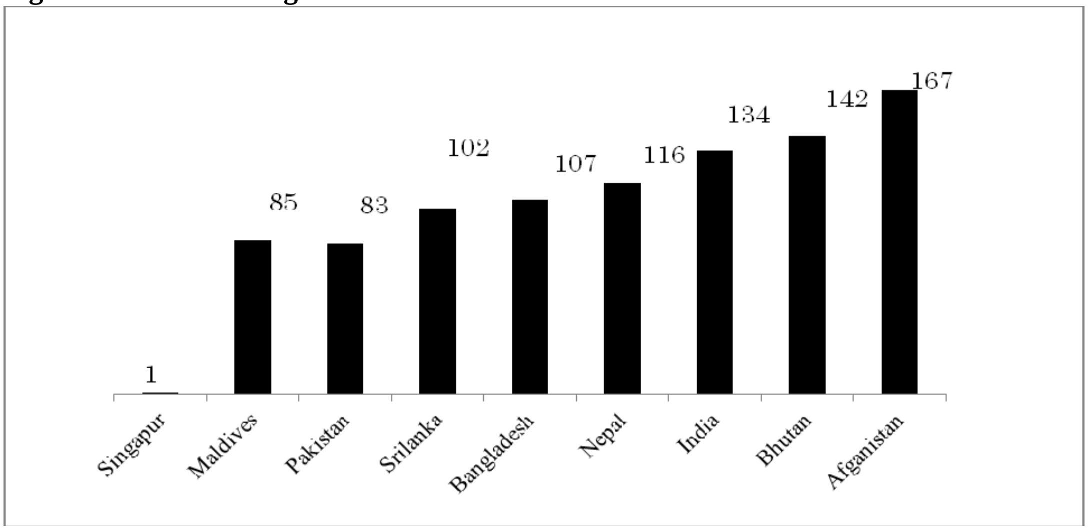
Source: JETRO April 2010

In the competition out of 700 Economic Zones globally 200 participated in the competition. All the zones were evaluated on a 10 point scale on the basis of some set criteria. Among the top 10 of the two categories Chittagong Export Processing Zone, Bangladesh scored 3rd position in the "Best Cost Effectiveness" and also 4th position in the "Best Economic Potential" for 2010-2011.

Cost of doing business:

The Doing Business report 2010 published by the World Bank and IFC ranked Bangladesh 119th in the Ease of Doing Business Global Rank among 183 economies as shown in figure-6. However, Bangladesh was ranked 20th in terms of protecting investors. Besides, the country was also ranked 71th in getting credit, 98th in starting a business and 89th in paying taxes.

Figure 8: Ease of Doing Business: Global Rank



Source: Doing Business 2010, IFC, The World Bank

H. Government Borrowing from Foreign Sources:

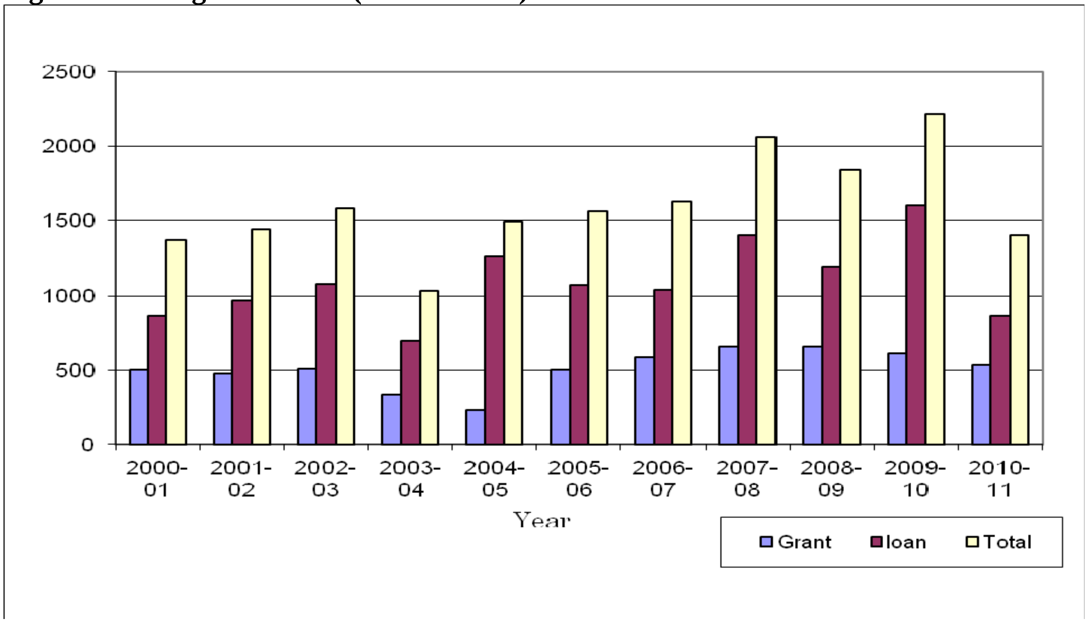
Bangladesh is experiencing a paradigm shift in the field of foreign assistance from grants to credits. The trend of external resources flow clearly shows that grants to Bangladesh are decreasing and the receipts of credit from foreign sources are increasing. As a result amortization of principal and interest payment by Bangladesh is increasing which in fact reduces the net flow of external resources to Bangladesh. The net flow of foreign assistance increases during the years of natural calamities. The statement of foreign interest and principal repayment clearly reveals that, Bangladesh never defaulted in repaying foreign debt. Table 14 shows the government borrowing from foreign sources and its repayment during FY 2000-01 to FY2010-11. The foreign aid flow situation is shown in figure 9.

Table 14: Government Borrowing:

FY	Disbursement of Loans and Grants			Principal and Interest Payment			Net Foreign Aid Flow	
	Grant	Loans	Sub- Total	Interest	Principal	Sub-Total	After Principal Payment	After Principal & Interest Payment
1	2	3	4=2+3	5	6	7=5+6	8=4-6	9=4-7
2000-01	504	865	1369	159	438	597	931	772
2001-02	479	963	1442	151	435	586	1007	856
2002-03	510	1075	1585	156	452	608	1133	977
2003-04	338	695	1033	165	423	588	610	445
2004-05	234	1257	1491	185	434	619	1057	872
2005-06	501	1067	1568	176	502	678	1066	890
2006-07	590	1040	1630	182	540	722	1090	908
2007-08	658	1403	2061	184	586	770	1475	1291
2008-09	658	1189	1847	200	655	855	1192	992
2009-10	613	1604	2217	190	686	876	1531	1341
2010-11*	531	868	1399	157	588	744	811	655

Source: Economic Relation Division.
* April 2011

Figure 9: Foreign Aid Flow (Million USD)



Currently, the debt obligation of the government is at a tolerable level. Financing through grant and credit from external sources is gradually narrowing due to shift in the policies of development partners. This prompted the government to take various reform initiatives and to adopt motivational measures to mobilize resources from domestic sources alongside from external sources. In principle, the government prefers concessional foreign borrowing to domestic borrowing because of the lower cost of foreign borrowing and longer repayment period.

II.1.2 Domestic Environment:

A. Economic Growth:

World Economic recession had a limited influence on Bangladesh economy. As a result GDP growth falls that time. GDP growth rate stands at 6.19 percent and 5.74 percent in FY 2007-08 and 2008-09 respectively. Bangladesh economy has got momentum after recession and 6.07 percent growth rate is achieved in FY 2009-10. According to the provisional estimate of Bangladesh Bureau of Statistics (BBS) the country has achieved GDP growth of 6.66 percent in FY2010-11. Medium Term Macroeconomic Framework (MTMF) envisaged that the growth of GDP for the fiscal year 2011-12 will be 7 percent which will increase to 8 percent in the fiscal year 2014-15. The per capita GDP during FY2004-05 to FY2010-11 are shown Table 15 shows the GDP, GNI, Per Capita GDP and GNI at current market prices.

Table 15 GDP, GNI, Per Capita GDP and GNI at Current Market Prices

Item	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*
GDP (In Crore Tk.)	370707	415728	472477	545822	614795	694324	787495
GNI (In Crore Tk.)	389635	442935	507752	594212	670696	758928	852822
Population (In Crore)	13.70	13.88	14.06	14.24	14.42	14.61	14.79
Per Capita GDP (In Tk.)	27061	29955	33607	38330	42628	47536	53236
Per Capita GNI (In Tk.)	28443	31915	36116	41728	46504	51959	57652
Per Capita GDP (In US$)	441	447	487	559	620	687	755
Per Capita GNI (In US$)	463	476	523	608	676	751	818

Source: Bangladesh Bureau of Statistics.

* Provisional Assessment

Among the different sectors that contributes to GDP , over the last decade agriculture was the largest contributing sector in the GDP composition. In the recent years robust growth in industrial sector change the basic characteristics of sector wise composition. From the last couple of years industrial sector left agricultural sector and remains ahead in contribution in GDP composition and the gap in increasing steadily.

Table 16: GDP at Current Market Prices

(In Crore Taka)

Sector/Sub-sector	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11*
1. Agriculture and Forestry	56167	62223	70124	80201	89426	100588	113388
2. Fishing	15456	16317	17783	19790	21806	24223	26993
3. Mining and Quarrying	4041	4643	5322	6152	7091	8114	9021
4. Manufacturing	58795	68923	81178	93901	106445	120108	138430
5. Electricity, Gas & Water Supply	4909	5392	5590	6070	6542	7195	7712
6. Construction	29061	32797	37543	43854	50125	55658	62325
7. Wholesale and Retail Trade	50278	56984	66011	78220	88276	100295	113902
8. Hotel and Restaurants	2512	2853	3289	3889	4460	5150	5971
9. Transport, Storage & Communi.	38289	43206	48908	56907	64280	71880	84022
10. Financial Intermediations	5934	6684	7744	8955	10245	12300	14458
11. Real Estate, Renting & other Business Activities	29744	32157	34929	38058	41616	45683	49888
12. Public Admn and Defence	9637	11036	12743	14427	16360	18757	21977
13. Education	8788	9935	11776	13531	15494	17908	20964
14. Health and Social Work	8104	9022	10307	11819	13391	15142	17549
15.Community, Social and Personal Services	33876	38283	43568	50200	58364	68466	75061
Import Duty	15113	15274	15662	19847	20871	22853	25835
GDP at Current Market Price	370707	415728	472477	545822	614795	693324	787495
Growth Rate (%)	11.33	12.14	13.65	15.52	12.64	12.94	13.42

Source: Bangladesh Bureau of Statistics

Table 17: Sectoral Growth Rate of GDP at Constant Prices (Base Year: 1995-96)

(In Crore Taka)

Sector/Sub-sector	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
1. Agriculture and Forestry	1.80	5.23	4.69	2.93	4.10	5.56	4.82
2. Fishing	3.65	3.91	4.07	4.18	4.16	4.15	5.44
3. Mining and Quarrying	8.38	9.26	8.33	8.94	9.84	8.80	4.85
4. Manufacturing	8.19	10.77	9.72	7.21	6.68	6.50	9.51
5. Electricity, Gas & Water Supply	8.90	7.67	2.10	6.77	5.91	7.28	5.96
6. Construction	8.31	8.31	7.01	5.68	5.70	6.01	6.37
7. Wholesale and Retail Trade	7.06	6.75	8.04	6.82	6.21	5.87	6.06
8. Hotel and Restaurants	7.12	7.45	7.52	7.55	7.58	7.61	7.62
9. Transport, Storage & Communication	7.97	7.98	8.03	8.55	8.01	7.69	7.93
10. Financial Intermediations	8.92	8.50	9.18	8.89	8.99	11.64	9.42
11. Real Estate, Renting & other Business Activities	3.65	3.69	3.76	3.75	3.81	3.89	3.96
12. Public Ad. & Defence	8.02	8.15	8.41	6.21	7.01	8.35	9.56
13. Education	7.90	9.05	8.96	7.80	8.05	9.24	9.47
14. Health and Social Work	7.40	7.79	7.64	7.02	7.20	8.10	8.30
15. Community, Social and Personal Services	4.05	4.09	4.58	4.62	4.70	4.72	4.75
Growth Rate (%)	5.96	6.63	6.43	6.19	5.74	6.07	6.66

Source: Bangladesh Bureau of Statistics

Figure 10: GDP Growth in Large Sector at Constant Price (%)

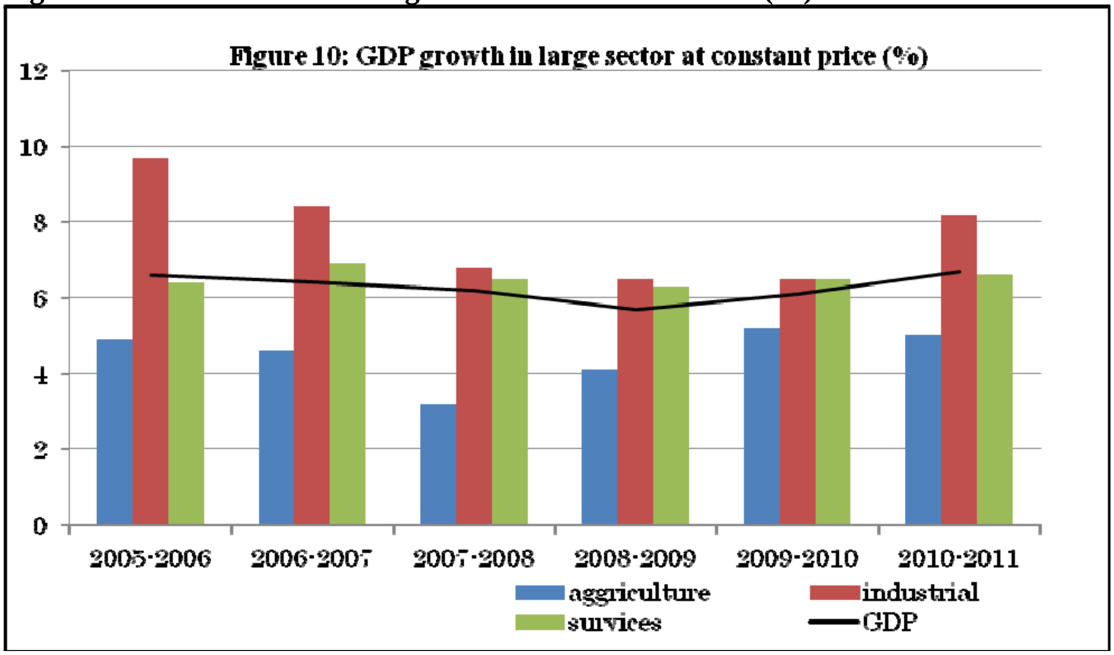


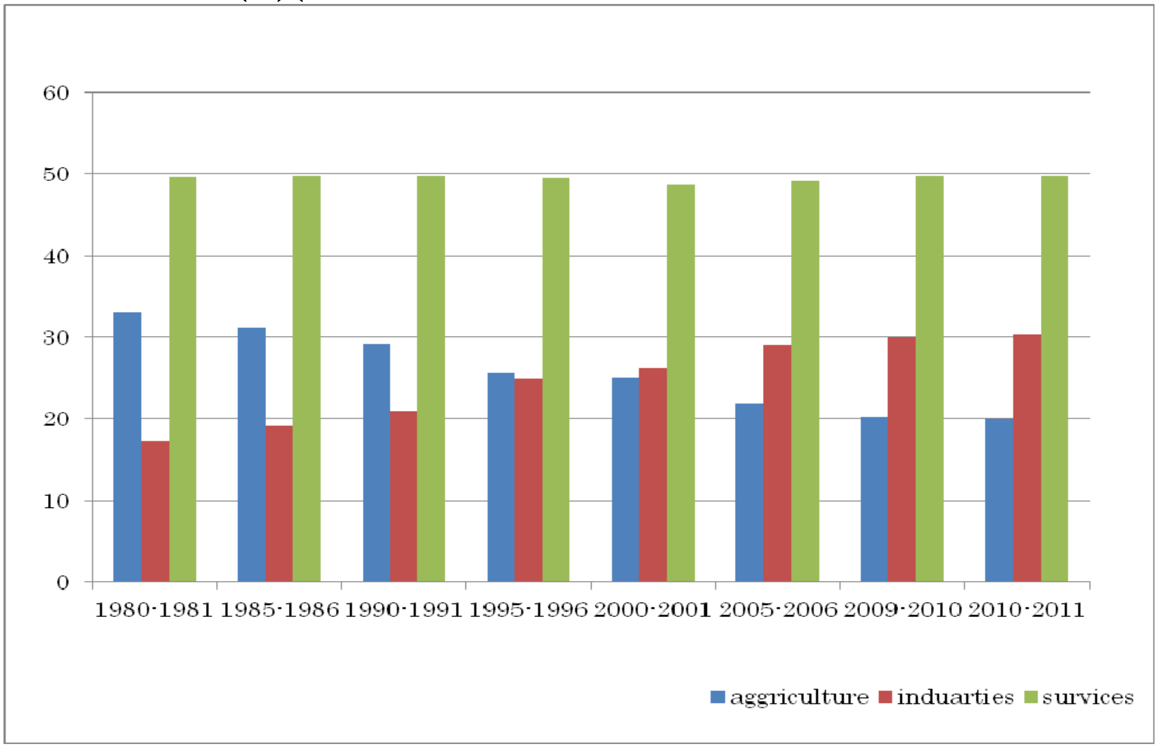
Table 18: Trend of GDP Transformation of Broad Shares in GDP and Growth Rate at Constant Prices (Base Year: 1995-96)

Composition of Broad shares in GDP (% rate)								
Sector	1980-1981	1985-1986	1990-1991	1995-1996	2000-2001	2005-2006	2009-2010	2010-2011*
Agriculture	33.07	31.15	29.23	25.68	25.03	21.84	20.29	19.95
Industries	17.31	19.13	21.04	24.87	26.2	29.03	29.93	30.33
Services	49.62	49.73	49.73	49.45	48.77	49.14	49.78	49.72
Total	100	100	100	100	100	100	100	100
Growth (% rate)								
Agriculture	3.31	3.31	2.23	3.10	3.14	4.94	5.24	4.96
Industries	5.13	6.72	4.57	6.98	7.45	9.74	6.49	8.16
Services	3.55	4.10	3.28	3.96	5.53	6.40	6.47	6.63
Overall GDP (at production price)	3.74	3.34	3.24	4.47	5.41	7.02	6.22	6.75

Source: Bangladesh Bureau of statistics.

* Provisional

Figure 11: Trend of GDP Transformation of Broad Shares in GDP and Growth Rate at Constant Prices (%) (Base Year: 1995-



B. Inflation:

With the recovery of global economy, domestic demand is on the increase in many countries. This has resulted in unexpected price escalation in international commodity (food and excluding food) markets creating upward pressures on inflation in many countries. Rise in food price in International market due fall in food production in India and other countries due to bad weather has created pressure on inflation during FY2010-11. Impositions of restrictions on exporting food by different exporting countries to ensure the domestic food security and the possibility of continuing the oil price have enhanced the pressure of inflation. According to IMF, overall commodity price index has increased 32% from January 2010 to February 2011. The rise in food price has become severe at 2nd half of 2010 but due to unstable political condition in Middle East and North Africa has created pressure on oil price again. As a result the price of crude oil reached at $110 from $95 in between January-March 2011.

The increasing inflationary trend that began to show up since the second quarter of FY 2009-10 continued throughout FY 2009-10 and FY 2010-11. The 12-month point to point consumer price index (CPI) inflation has again reached the double digit level, at 10.67 per cent in April 2011 compared to 8.54 per cent in April 2010. This is the highest level since July 2008 when 12- month point to point inflation rose to as high as 10.82 per cent. As before, the source of such high inflation is the high food inflation which reached 14.36 per cent in April 2011 as opposed to 10.47 per cent in April 2010. The weight of food items in the commodity basket of Bangladesh is as high as 58.8 percent, of which the share of rice is around 20 per cent. Hence the rise in food inflation affects the overall inflation significantly. Based on BBS data it has been estimated that the contribution of food inflation to overall inflation was 68.7 per cent in FY 2009-10.

Contrary to food inflation non-food inflation rate declined to 3.97 per cent in April 2011 from 5.46 per cent in April 2010. This is somewhat paradoxical since this trend does not follow the price behavior of commodities in the market. Prices of food and non-food items tend to move along the same direction though at a different pace. Increase in food prices act as an impulse for non-food prices to be pushed upward. In case of Bangladesh this happens very quickly and visibly. The mystifying trend of non-food prices as opposed to food prices calls for a revisit of the methodology of categorizing and weighing non-food items.

Another striking feature of recent inflation is that rural food inflation has surpassed urban food inflation which was not the case in Bangladesh till August 2010. Plausible causes for rural inflation could be high purchasing power of the rural population through increased agricultural production, higher labor wages, expanded social safety net program and inflow of remittances.

In the South Asian context, Bangladesh stands second, next to Pakistan only, in terms of inflation. Though there has been gradual rise of inflation in all South Asian countries, Bangladesh surpassed them recently. Despite higher food price in the international market, India has been able to keep its food price index down through higher production of major crops and ensuring adequate supply in the domestic market.

The Government has taken several steps to check this upward trend of inflation and also to keep the prices of essentials within the reach of the consumers. Along with the initiative of augmenting domestic production and ensuring smooth supply of commodities, measures have been taken for market monitoring, open market sale of essential commodities, and ban on hoarding. Side by side, Bangladesh Bank has raised the Cash Reserve Requirement (CRR) and Statutory Liquidity Ratio (SLR), along with fixing of new interest rate for REPO and reverse REPO to check inflationary pressure due to excess liquidity in the banking system. It is expected that the pressure of inflation will fall in the coming months as the production of rice is very good during this year in Bangladesh and the price of agricultural product in international market has become stable since March 2011.

Table 20: Consumer Price Indices and Inflation

FY	Consumer Price Index			Inflation		
	General	Food	Non Food	General	Food	Non Food
1998-99	120.94	125.16	115.1	7.06	9.3	3.95
1999-00	124.31	128.52	118.64	2.79	2.68	3.08
2000-01	126.72	130.3	122.25	1.94	1.38	3.04
2001-02	130.26	132.43	127.89	2.79	1.63	4.61
2002-03	135.97	137.01	135.13	4.38	3.46	5.66
2003-04	143.9	146.5	141.03	5.83	6.93	4.37
2004-05	153.23	158.08	147.14	6.48	7.91	4.33
2005-06	164.21	170.34	156.56	7.17	7.76	6.4
2006-07	176.06	184.18	165.79	7.22	8.12	5.9
2007-08	193.54	206.79	176.26	9.93	12.28	6.32
2008-09	206.43	221.64	186.67	6.66	7.18	5.91
2009-10	221.53	240.55	196.84	7.31	8.53	5.45

Source: Bangladesh Bureau of Statistics.

Figure 12: Trends of Inflation inflation

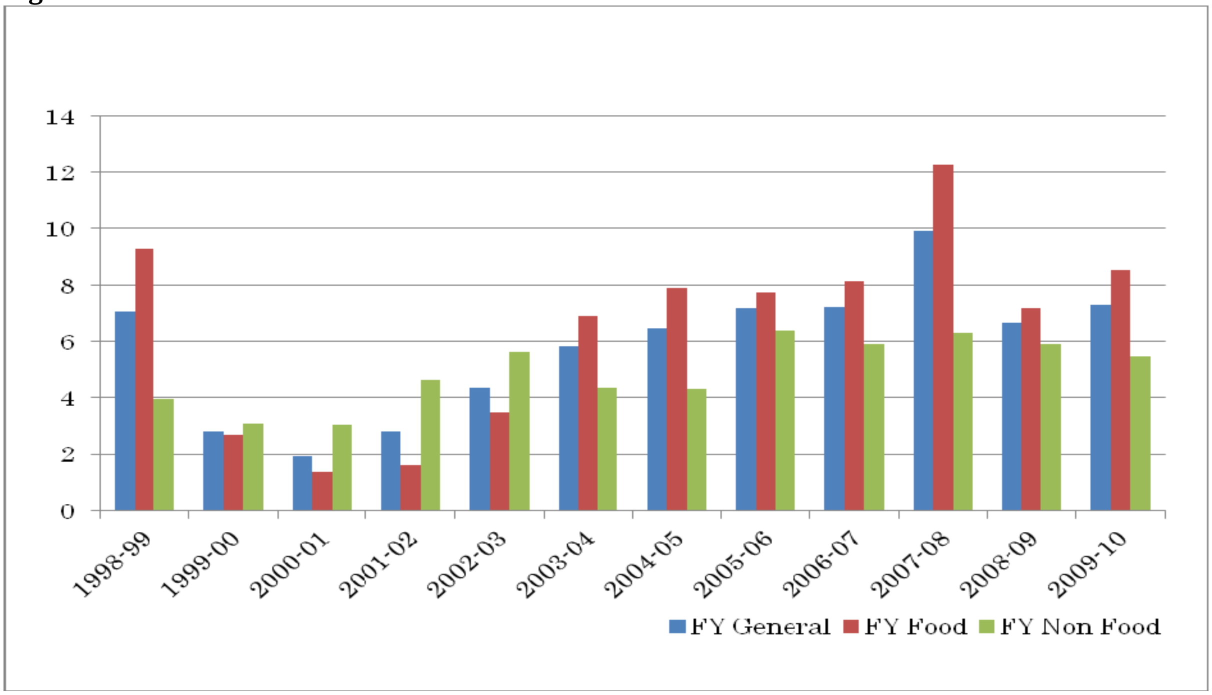
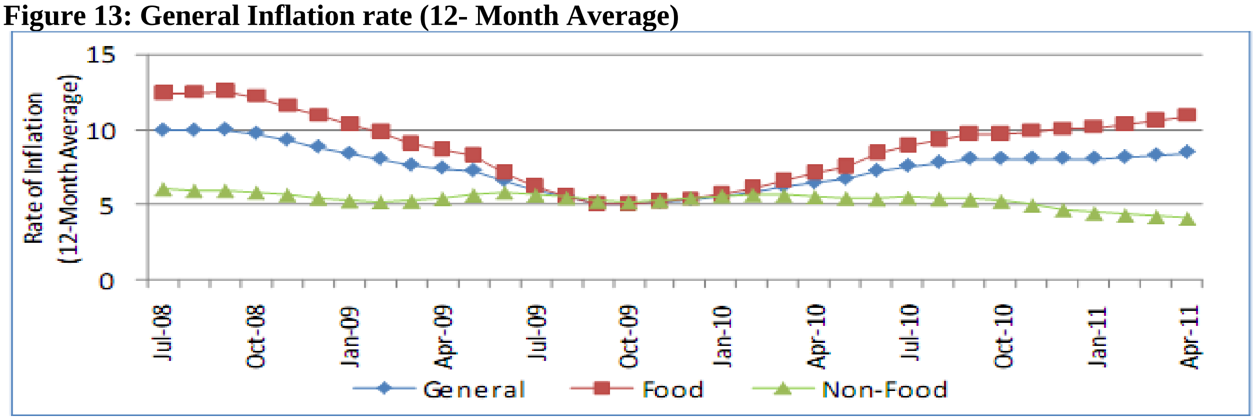
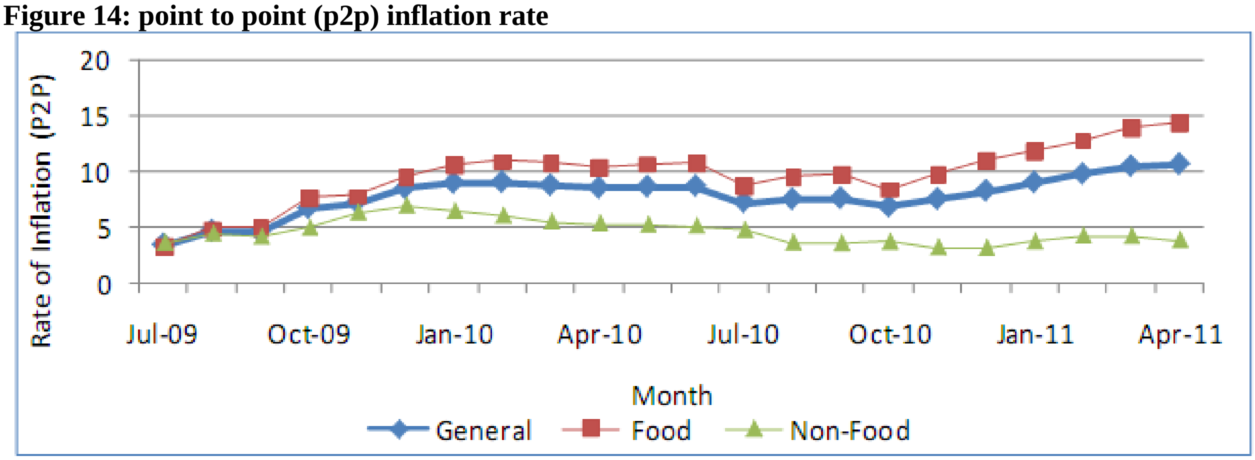


Figure 13: General Inflation rate (12- Month Average)



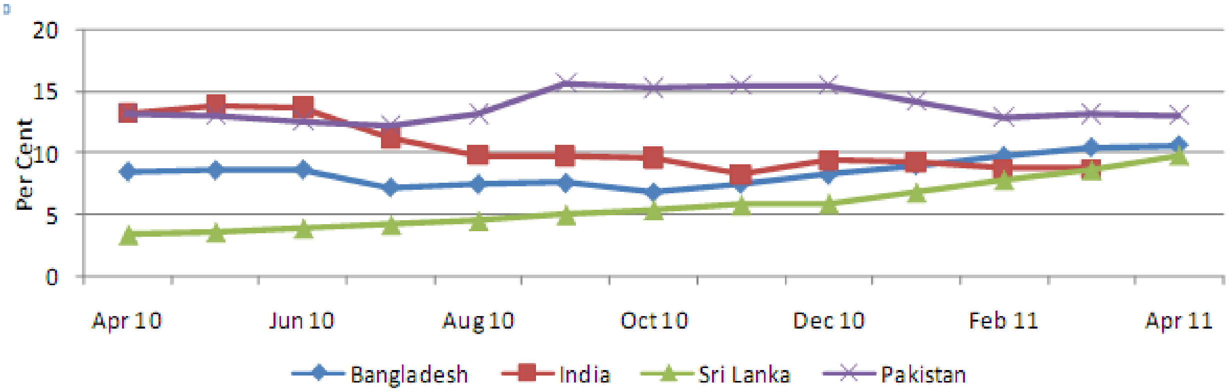
Source: Bangladesh Bank

Figure 14: point to point (p2p) inflation rate



Source: Bangladesh Bank

Figure 15: point to point inflation in South Asia



Source: Centre for Policy Dialogue (CPD) Bangladesh

C. Consumption:

Consumption grew steadily over the last few years . The growth of consumption is around 10% over the last few years. In fiscal year 2010-11 consumption reaches 63.32 billion taka. Private sector consumption is the largest portion of consumption category.

Table 21: Year-Wise Consumption

(In Billion Tk)

FY	1999 -00	2000 -01	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008-09	2009 -10	2010 -11
Consumption	19.46	20.79	22.35	24.45	26.79	29.65	33.15	37.63	43.49	49.12	55.4	63.32
Public	1.08	1.14	1.36	1.6	1.84	2.05	2.3	2.61	2.88	3.23	3.74	4.31
Private	18.38	19.64	20.99	22.85	24.95	27.59	30.85	35.02	40.61	45.89	51.65	59.01

Source: Bangladesh Bureau of Statistics

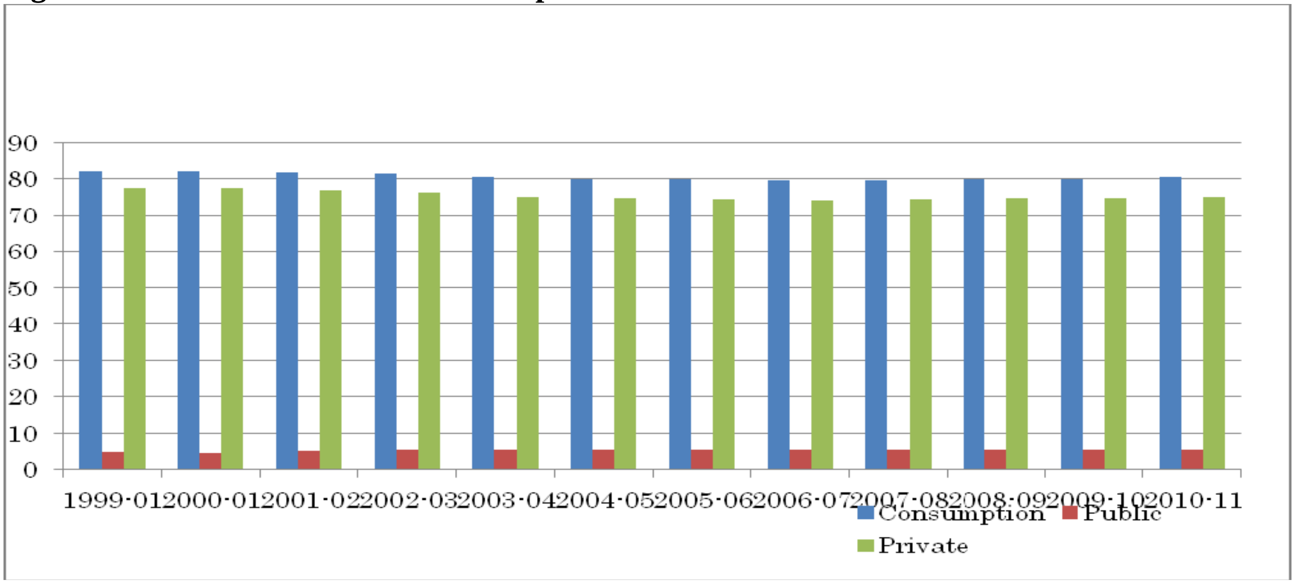
In fiscal year 2010-11 consumption as a percentage of GDP amounted 80.4%. Consumption in private sector shared 74.9% of GDP where the consumption of public sector accounted 5.5%.

Table 22: Consumption as a Percentage of GDP

FY	1999 -00	2000 -01	2001 -02	2002 -03	2003 -04	2004 -05	2005 -06	2006 -07	2007 -08	2008 -09	2009 -10	2010 -11
Consumption	82.1	82	81.8	81.4	80.5	80	79.8	79.6	79.7	79.9	79.9	80.4
Public	4.6	4.5	5	5.4	5.5	5.5	5.5	5.5	5.3	5.3	5.4	5.5
Private	77.5	77.5	76.8	76	74.9	74.5	74.2	74.1	74.4	74.6	74.5	74.9

Source: Bangladesh Bureau of Statistics

Figure 16 : Private and Public Consumption Trend



D. Investment and Savings:

In FY 2002-03 the domestic and national savings as percentage of GDP were 18.63 and 24.87 respectively. Domestic and national savings reached to 20.09 and 29.57 percent of GDP respectively in FY 2008-09. According to provisional estimates, the rates of domestic and national savings were assessed to be 19.59 and 28.40 percent of GDP in FY 2010-11. From the table 23 and figure 17 it is clear that while growth of national savings as percentage of GDP show a positive trend, domestic savings as percent of GDP has been plummeting since FY2007-08.

In FY 2002-03, the rate of total investment was 23.41 percent of GDP in which the shares of public and private sector were 6.2 percent and 17.21 percent respectively. The rate of national investment gradually picked up to 24.65 percent of GDP in FY 2005-06. After the period there was a fluctuation of investment and in FY 2008-09 investments as percent of GDP declined to

24.37, in which the shares of public and private sector were 4.7 percent and 19.67 percent

respectively. However, in FY 2010-11 investments picked up to 28.40 percent of GDP and the shares of public and private sector were 5.28 percent and 19.46 percent respectively.

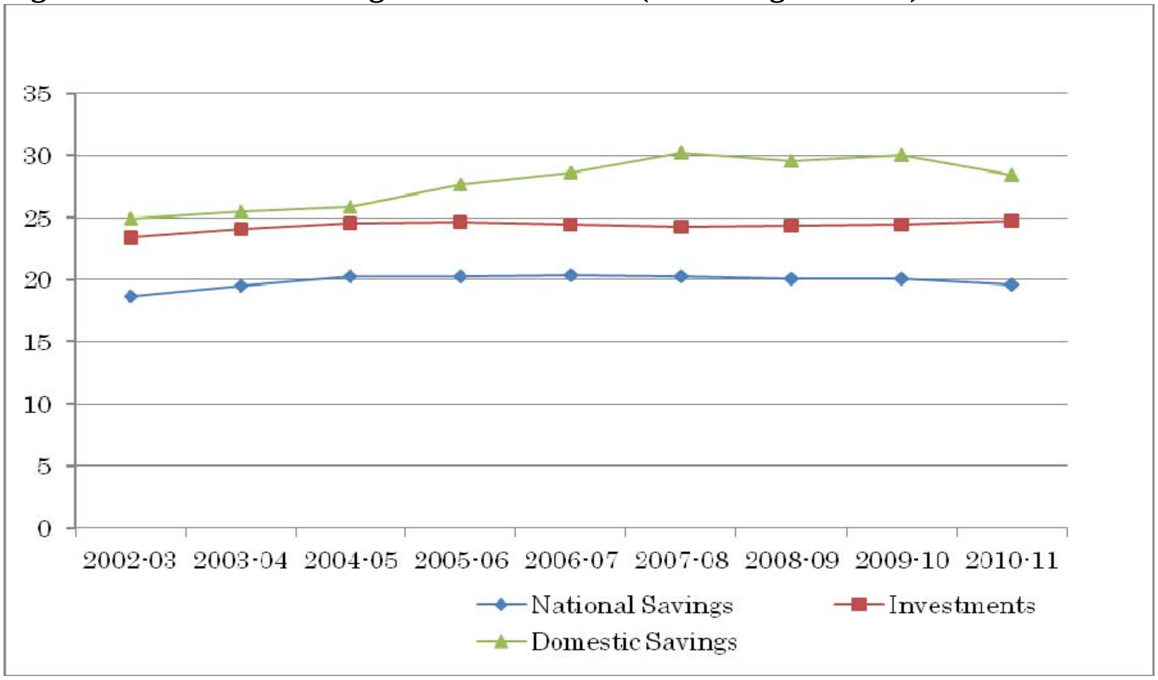
At the beginning of the nineties, the share of private investment in total investment was about 60 percent, which stood just below 79 percent in FY 2010-11. An analysis of the investment data reveals that while the contribution of public sector in total investment is gradually decreasing the contribution of private sector investment is increasing steadily. The present government is planning and implementing short, medium and long term plans to remove Infrastructure bottlenecks for enhancing Investments by implementing Road map for power generation, import of LNG, production and import of Coal, use of renewable energy and the massive plan for infrastructure under ADP and Public Private Partnership (PPP).

Table 23: show the year-wise Internal Savings, investments, National Savings as percentage of GDP for the last few years.

FY	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Internal savings	18.63	19.53	20.25	20.25	20.35	20.31	20.09	20.1	19.59
Investments	23.41	24.02	24.53	24.65	24.46	24.21	24.37	24.41	24.73
Public	6.2	6.2	6.2	6	5.5	4.9	4.7	5	5.3
Private	17.2	17.8	18.3	18.7	19	19.3	19.7	19.4	19.5
National savings	24.87	25.44	25.84	27.67	28.66	30.21	29.57	30.02	28.4

Source: Bangladesh Bureau of Statistics

Figure 17: Trends of Savings and Investments (Percentage of GDP)



E. Capital Market:

Trend of capital market was upward in FY 2009-10 but it is observed downward trend in FY 2010-11. Market capitalization of the Dhaka Stock Exchange (DSE) rose from 21.4 percent of GDP in June 2009 to 39 percent of GDP in June 2010. During that time general price index of share in Dhaka capital exchange (DSE) increased to 6153.68 (98.43% growth) from 3010.26. As a result of increasing participation of people, both market capital and index have changed significantly. By the end of June 2010, the number of BO (Beneficiary Owner) accounts has increased to 25.64 lakh from 14.15 lakh at the end of June 2009. The number of BO accounts has stood at 34.15 lakh. It is observed strong trend of capital market at the starting of FY 2010-11 but from January 2011capital market becomes unstable. The price index started declining and reached at 5612.52 which is 30.3% lower than that of December 2010. Similarly market capitalization reached to 34.19 percent of GDP. Price Earning (P/E) ratio declined to 16.43 in 12 May 2011 from 29.35 in January 2011. The following steps have been taken to streamline the capital market during FY2010-11:

(1) Strengthening monitoring system
(2) Re fixing of loan margin
(3) An alternative IPO valuation method, the book building method was introduced in Bangladesh capital market for the first time through a notification issued on 11 March 2009. This will attract private companies with good track record and sound fundamentals to raise capital from the market, where issuer may get better price of their shares depending on institutional demand for the shares. To facilitate transaction of companies delisted by DSE, DSE has established Over-the-Counter (OTC) market since September 6, 2009 upon instruction of the Commission.
(4) To facilitate transaction of companies delisted by DSE, DSE has established Over-the-Counter (OTC) market since September 6, 2009 upon instruction of the Commission.
(5) To educate the investors and market intermediaries; and to train the companies in corporate governance in the listed companies 'Bangladesh Institute of Capital Market' has been established.
(6) The Commission, in association with the Dhaka and Chittagong Stock Exchanges arranged investors training program
(7) To reform the market, improve the institutional capacity and human resources and enhance the market surveillance system, SEC has taken a project named 'Improvement of Capital Market

Governance Program' with assistance of the Government and Asian Development Bank (ADB), which is now under implementation.

Market Scenario:

Primary issue:

During first eight months (July-February) of FY2010-11, SEC allowed 13 companies to raise Tk.817 crore (including premium) and another 3 companies have been allowed to draw 696.1 crore Tk through as capital through Initial Public Offering (IPO). The subscription money received against the said companies was Tk. 7089.3crore, which was 27.74 times higher than the amount of public issues, indicating huge demand of securities in the market.

Secondary market scenario:

Dhaka Stock Exchange (DSE)

The number of securities (including mutual funds, debentures and government bonds) listed with the DSE increased from 450 of June 2009 to 486 by April 2011. By the end of April 2011, the issued capital of listed securities stood at Tk. 77846.00 crore, which is 28.19 percent higher than that of June 2010. As of April 2011, market capitalization of securities stood at Tk. 2, 77,219.3crore which is 2.65 percent higher than that of June 2010. General share price index of the DSE stood at 6198.8 (growth 21.27) in April 2011, which was 5111.6 in June 2010. The trading operation in the DSE since 2005 to April 2011 is shown in table 24 below:

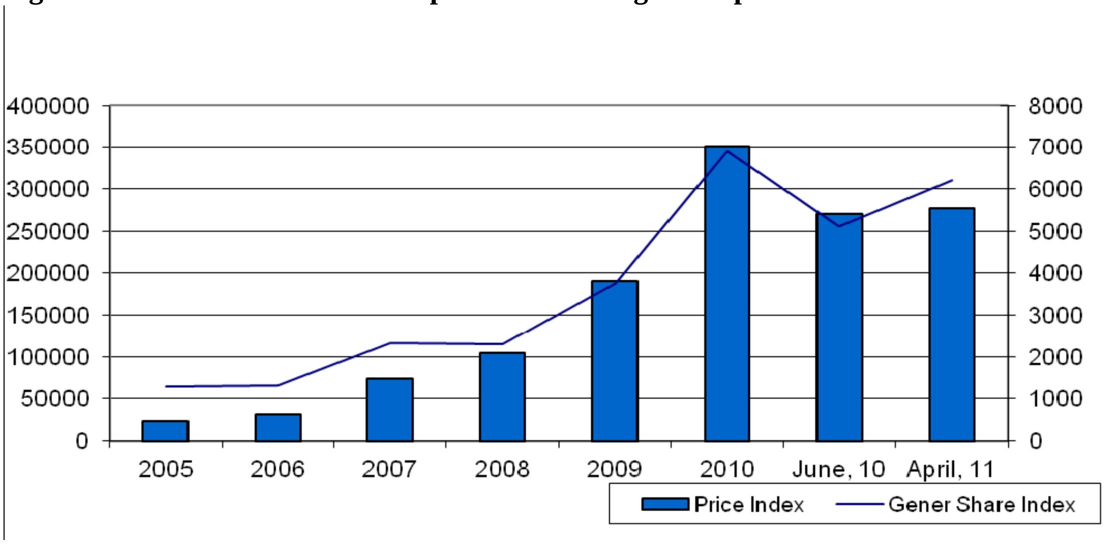
Table 24: Trading Operation in the Dhaka Stock Exchange

Calendar year	No. of listed securities	Initial Public Offering (IPO)	Issued Capital (In Crore Tk)	Market Capitalisation (In Crore Tk)	Turnover (In Crore Tk)	Price Index
2005	286	12	7031.3	22829.0	6483.6	1275.1
2006	310	12	11843.7	31544.6	6506.9	1321.4
2007	350	14	21447.0	74219.6	32282.0	2336.0
2008	412	12	37215.6	104379.9	66796.5	2309.4
2009	415	18	52209.9	190322.8	147530.1	3747.5
2010	445	18	66434.0	350800.6	400991.3	6877.7
June, 10	450	8	60726.3	270074.5	165324.3	5111.6
April, 11	486	5	77846.0	277219.3	15628.4	6198.8

Source: Dhaka Stock Exchange.

The trend of market capitalization and general price index in the DSE since 2005 to April 2011 is shown in figure 18 below

Figure 18 :The trend of market capitalization and general price index in the DSE



Source: DSE

Chittagong Stock Exchange (CSE)

The number of securities (including mutual funds, debentures and government bonds) listed with the CSE increased from 232 of June 2009 to 234 by April 2011. By the end of April 2011, the issued capital of listed securities stood at Tk. 20111.6 crore, which is 42.93 percent higher than that of June 2010. As of April 2011, market capitalization of securities stood at Tk. 219448.0 crore which is 13.63 percent lower than that of June 2010. General share price index of the CSE stood at 16941.2 (6.49% lower) in April 2011, which was 18116.1 in June 2010. The trading operation in the CSE since 2005 to April 2011 is shown in table 25 below:

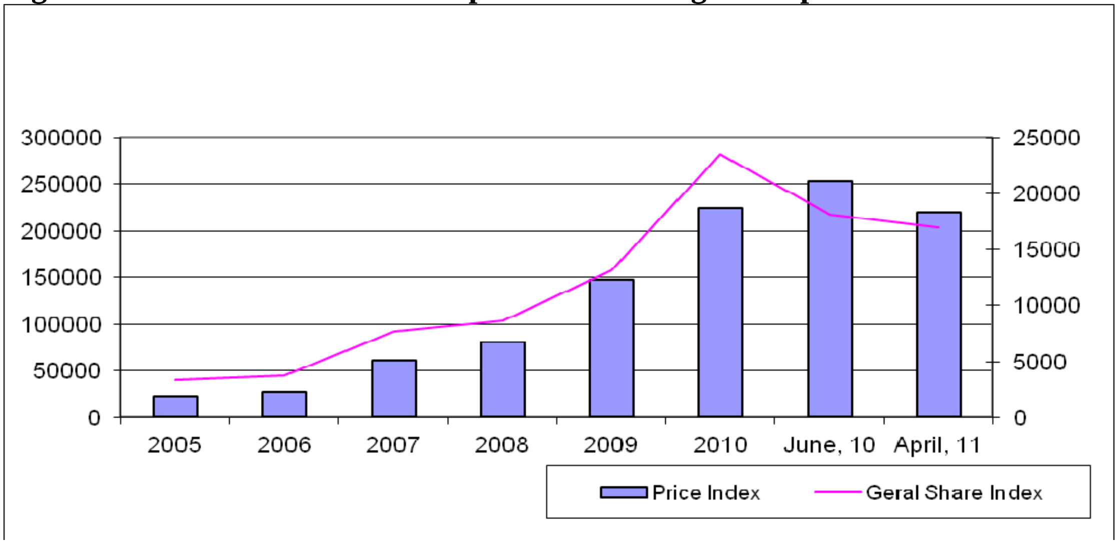
Table 25: Trading Operation in the CSE

Calendar year	No. of listed securities	Initial Public Offering (IPO)	Issued Capital (In Crore Tk)	Market Capitalisation (In Crore Tk)	Turnover (In Crore Tk)	Price Index
2005	210	16	5551.9	21994.3	1404.3	3378.7
2006	213	6	6937.9	27051.1	1589.3	3724.4
2007	227	13	8917.4	61258.0	5259.0	7657.1
2008	238	12	12160.3	80768.4	9980.4	8692.8
2009	217	18	15512.5	147080.7	16256.3	13181.4
2010	232	17	20677.4	224176.8	21711.2	23449.0
June, 10	232	7	20111.6	253439.3	12956.3	18116.1
April, 11	234	6	28744.7	219448.0	1690.6	16941.2

Source: CSE

The trend of market capitalization and general price index in the CSE since 2005 to April 2011 is shown in figure 19 below.

Figure 19: The trend of market capitalization and general price index in the CSE



F. Money Supply:

Aiming to provide adequate liquidity during global recession, Bangladesh Bank refrained from mopping up excess reserves at the beginning of FY2009-10. Despite adequate supply of money and credit, demand for credit did not increase during this period. As a result, liquidity increased in the money market and the call money rate plummeted below 1 percent. Under the circumstances, Bangladesh Bank started operating 30-day Bangladesh Bank Bills from August, 2009 and resumed its' reverse-repo operation in October, 2009 with a lower interest rate that led to gradual reduction of excess reserves of the scheduled banks. However, a large portion of the excess liquidity was absorbed to provide credit to the private sector and import payments as the economic activities boosted up in the middle of the fiscal year. Moreover, the inter-bank call money rates exceeded 4 percent. In spite of substantial decline in the excess reserves, inflation continued to show upward trend and exceeded the earlier projected level of 6.5 percent for FY2009-10. In order to contain such inflationary pressure by restraining expansion of monetary base, Bangladesh Bank re-fix Cash Reserve Requirements (CRR) and Statutory Liquidity Ratio (SLR) 5.5 percent and 18.5 percent respectively which were effective from 15 May 2010.

Trends in Monetary Aggregates:

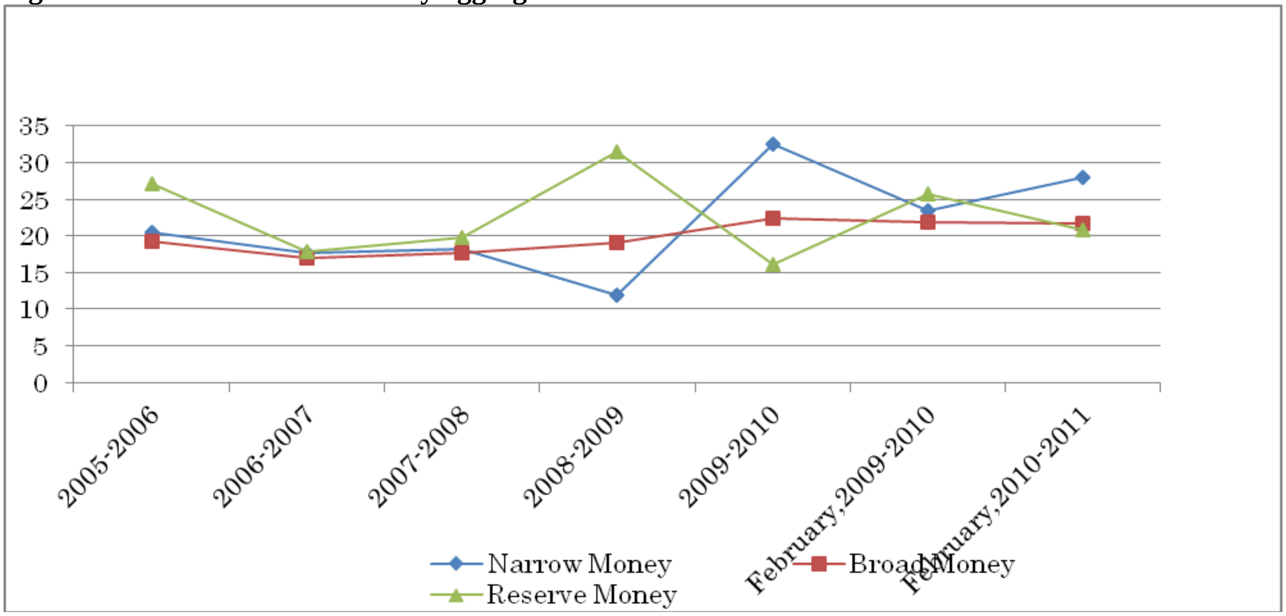
Though the growth in Narrow Money (M1) has been increased in February of FY2010-11 than that of FY2009-10 on the basis of year on year but the growth in Broad Money (M2) and reserve money have been declined sharply. Due to excess availability of currency notes and coins with the public (currency outside bank) M2 has increased. But as a result of declining of demand deposit and time deposit, the growth of M2 has reduced slightly. On the other hand though there is a huge growth in net domestic assets but due to excessive fall in net foreign assets, the growth of reserve money declines. The trends of monetary aggregates are shown in table 26.

Table 26: The trends of monetary aggregates (Percentage change at the end of period on the basis of year)

Monetary aggregates	2005-06	2006-07	2007-08	2008-09	2009-10	February, 2009-2010	February, 2010-2011
Narrow Money	20.47	17.62	18.23	11.99	32.46	23.44	27.95
Broad Money	19.3	17.06	17.63	19.17	22.44	21.9	21.66
Reserve Money	27.12	17.9	19.78	31.46	16.03	25.7	20.77

Source: Bangladesh Bank.

Figure 20: The trends of monetary aggregates



Narrow Money (M1):

The 12-month point to point consumer price index (CPI) inflation has again reached the double digit level, at 10.67 per cent in April 2011 compared to 8.54 per cent in April 2010.

The supply of M1 has increased by 32.46 percent in FY 2009-10 compare to 11.99 percent in FY 2008-09. The growth in M1 has risen by 11.99 percent in February of FY2010-11 on the basis of year on year which was 23.44 percent in FY 2008-09.

Broad Money (M2):

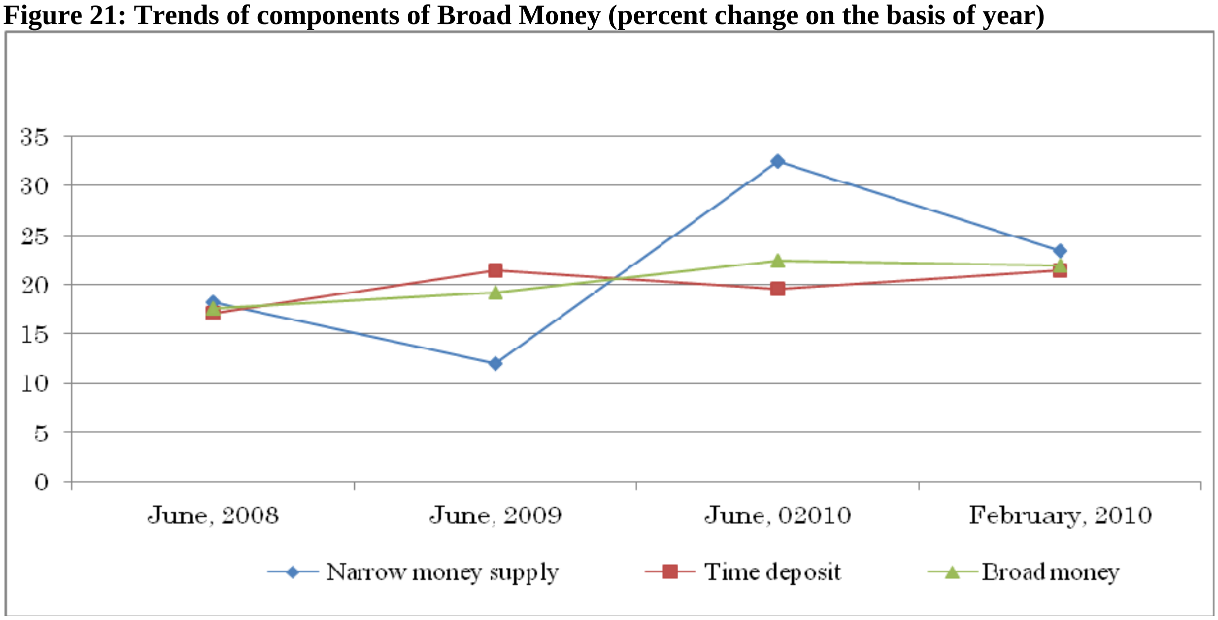
The supply of M2 has increased by 22.44 percent in FY 2009-10 compare to 19.17 percent in FY 2008-09. The growth in M2 has risen by 21.66 percent in February of FY2010-11 on the basis of year on year which was 21.90 percent in FY 2008-09. During that time the growth in time deposit stood at 19.81 percent which was 21.45 percent at the same time of previous year. At the end of FY 2010-11broad money balance stood at Tk 406784.9 crore compared to Tk 363031.2 crore at the end of FY 2009-10.

Table 27: Money and credit situation

Aggregates	June, 2008	June, 2009	June, 02010	February, 2010	February, 2011
Balance at end of period (Crore Tk)					
(1) Net Foreign assets	37317.9	47459.4	67073.7	64759.3	67774.2
(2) Net domestic assets	211477	249040.4	295957.5	269611.8	339010.7
a. Domestic credit	248677.3	288552.4	340213.6	311791.3	394221.6
1) Public sector(net)	46909.1	58185.2	54392.3	49396.4	56072.8
2) State sector	11632.4	12439.7	15060.7	14392.3	19867.0
3) Private assets	190135.8	217927.5	270760.6	286002.6	318281.8
b. Other assets	-37200.1	-39512	-44256.1	-42179.5	-55210.9
(3) Narrow money supply	59314.4	66426.9	87988.3	75936.7	97162.7
a. Currency notes and coins with the public	32689.9	36049.2	46157.1	41602.4	51918.2
b. Demand deposit*	26624.5	30377.7	41831.2	34334.3	45244.5
(4) Time deposit	189480.5	230072.9	275042.8	258434.4	309622.2
(5) Broad money	248794.9	296499.8	363031.2	334371.1	406784.9
Percent change at the end of year on the basis of year to year					
(1) Net Foreign assets	15.07	27.18	41.31	86.47	4.66
(2) Net domestic assets	18.10	17.76	18.84	12.53	25.74
a. Domestic credit	20.95	16.03	17.89	13.33	26.44
1) Public sector(net)	30.41	24.04	-6.52	-7.21	13.52
2) State sector	-33.36	6.94	20.77	-0.04	38.04
3)Private assets	24.94	14.62	24.24	19.52	28.34
b. Other assets	39.77	-6.21	-11.89	-18.66	-30.89
3) Narrow money supply	18.23	11.99	32.46	23.44	27.95
a. Currency notes and coins with the public	22.69	10.28	28.04	16.09	24.80
b. Demand deposit*	15.45	14.10	37.70	33.69	31.78
4) Time deposit	17.11	21.42	19.55	21.45	19.81
5) Broad money	17.63	19.17	22.44	21.90	21.66

Source: Bangladesh bank * including other state owned deposit

Figure 21: Trends of components of Broad Money (percent change on the basis of year)



G. Labor Force and Employment:

Overseas Employment and Remittances

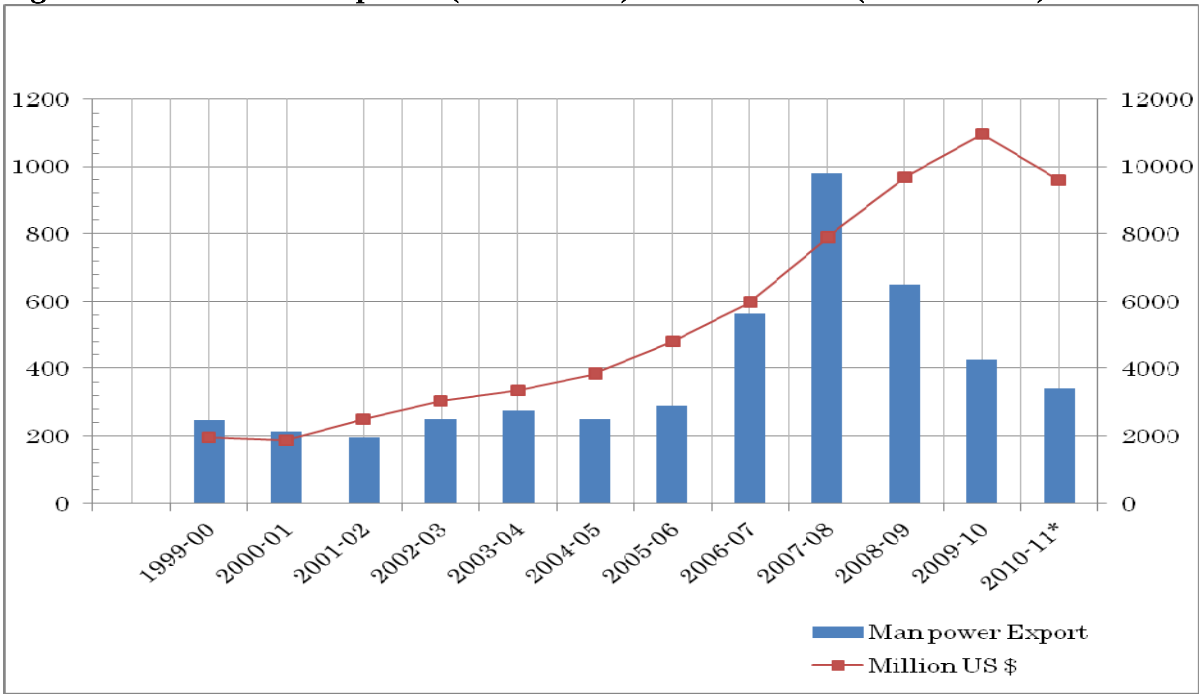
Bangladesh offers an abundant supply of disciplined, easily trainable and low-cost work force suitable for any labor-intensive industry. Of late, there is an increasing supply of professionals, technologists and other middle and low level skilled workers. They receive technical training from universities, college, technical training centers, polytechnic institutions etc. The expenditure incurred by an employer to train his employee is exempted from income tax. In order to assess the overall situation of labor force and employment, Bangladesh Bureau of Statistics conducts the Labor Force Survey. According to the last Survey 'Report on Monitoring of Employment Survey (MES) 2009, published by BBS the number of economically active population (above 15 years) is 5.37 crore. Out of this, a labor force of 5.10 crore (male 3.85 crore and female 1.25crore) is engaged in a number of professions, the highest (43.53 percent) still being in agriculture. According to the Labor Force Survey, 2005-06, the total labor force of over 15 years of age was 4.74 crore (male 3.61 crore and female 1.13 crore) with agriculture remained the highest (48.10 percent) source of employment. Between the two survey periods, the number of agricultural workers decreased by 4.57 percent. According to MES 2009, it is observed that 39.22 percent of labor force is engaged in self-employment while it was 41.98 percent in FY 2005-06. It may be noted that during the two survey periods, the number of self- employed labor force decreased by 2.76 percent. According to the MES 2009, 20.20 percent of labor force was daily laborers and 21.18 percent unpaid family workers, which was 18.14 percent and 21.73 percent respectively according to the previous survey. The latest survey also indicated that 17.06 percent of the labor force was engaged as full time employees indicating an increase by 3.14 percent. The share of employed labor force (above 15 years) by different sectors of the economy as per Labor Force Survey 1995-96, 1999-00, 2002-03, 2005-06 and MES 2009 is shown in Table 28.

Table 28: Number of Expatriate Bangladeshis and their Remittances

Fiscal Year	No of employment abroad (000)	Amount of remittance			
		Million US$	Percentage change (%)	Crore Tk.	Percentage change (%)
1999-00	248	1949.32	14.28	9825.40	19.63
2000-01	213	1882.10	-3.45	10266.00	4.48
2001-02	195	2503.44	32.81	14390.19	40.17
2002-03	251	3060.31	22.25	17719.58	23.14
2003-04	277	3372.49	10.20	19872.39	12.15
2004-05	250	3848.30	14.11	23646.97	18.99
2005-06	291	4801.88	24.78	32274.60	36.49
2006-07	564	5978.47	24.50	41298.50	27.96
2007-08	981	7914.78	32.39	54293.24	31.47
2008-09	650	9689.16	22.42	66674.87	22.80
2009-10	427	10987.40	13.40	76010.96	14.00
2010-11*	342	9587.15	4.30	67806.10	6.67

Source: Bureau of manpower, employment & training and Bangladesh Bank

Figure 22: Trends in Manpower (in thousand) and remittance (Million USD) in flow



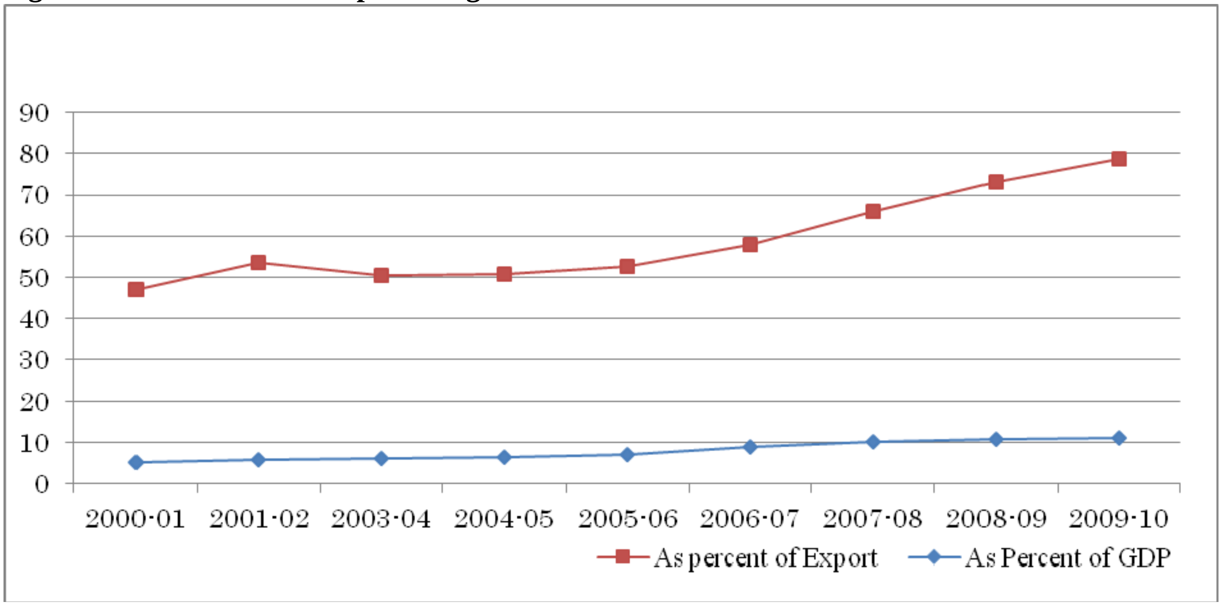
The amount of remittances in terms of GDP and export earnings has also increased over the years. In FY 2001-02 remittances as percent of GDP and export stood at 5.26 percent and 41.78 percent respectively. In FY 2009-10 remittances as percent of GDP and export were 10.96 percent and 67.72 percent respectively. Table 29 and figure 23 show remittances in terms of GDP and export earnings for the last few years.

Table 29: Remittance as a percentage of GDP and Export

Fiscal Year	As Percent of GDP	As percent of Export
2000-01	5.26	41.78
2001-02	5.90	47.76
2003-04	5.98	44.35
2004-05	6.37	44.46
2005-06	6.89	45.62
2006-07	8.74	49.09
2007-08	10.02	56.09
2008-09	10.84	62.25
2009-10	10.96	67.72

Source: Bangladesh Bank

Figure 23: Remittances as a percentage of GDP



The share of overseas employment by country for FY 2001-02 and FY 2009-10 are given below in Figure 24 and 25 respectively-

Figure 24: Overseas Employment by country 2001-02

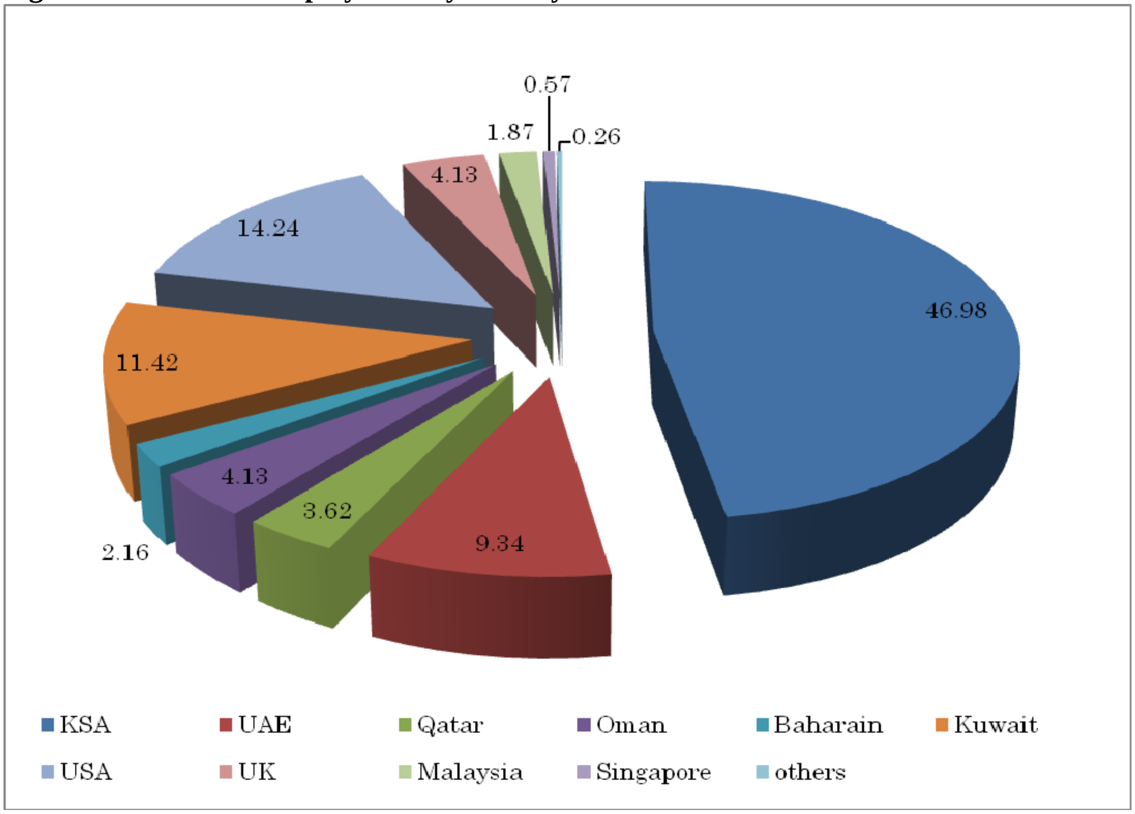
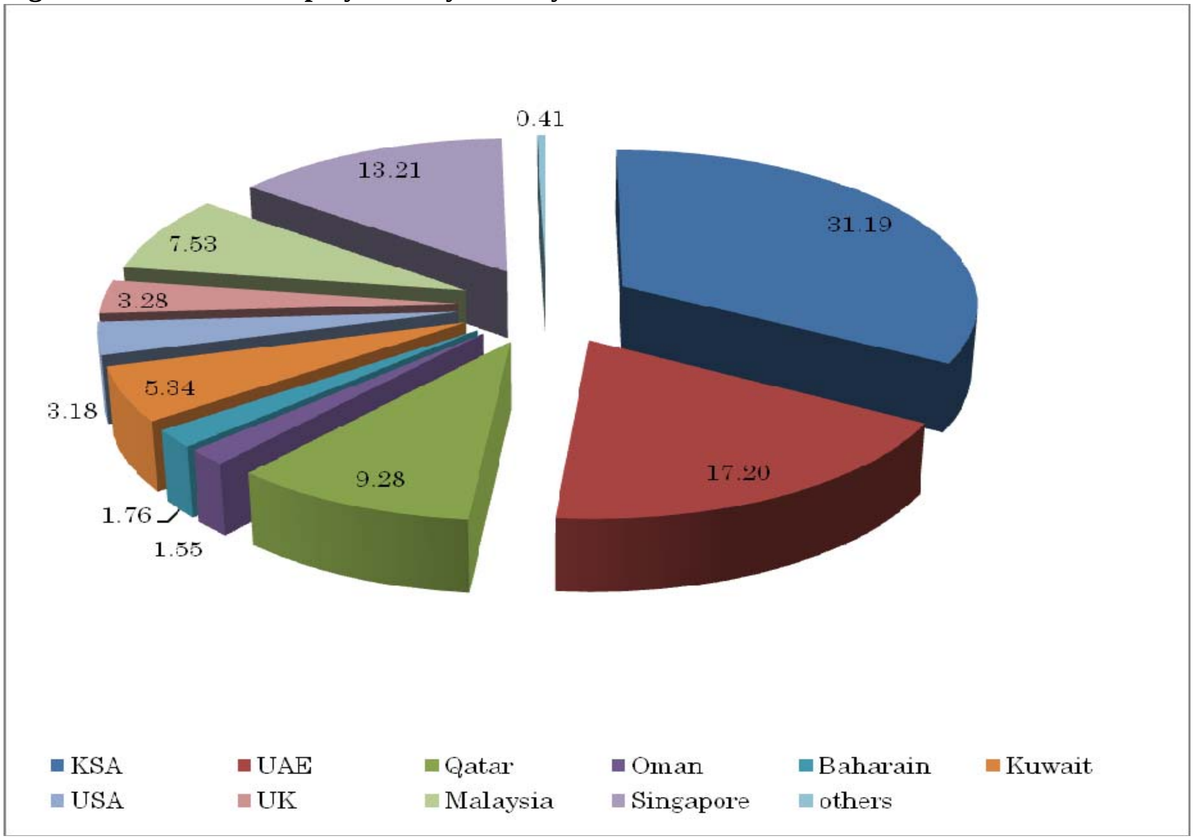


Figure 25: Overseas Employment by country 2009-10



H. Fiscal Policy and Fiscal management:

Fiscal policy governs the public revenue generating and spending activities. It is meant to maintain balance between public income and expenditure. Formulation and implementation of a sound fiscal policy is one of the most important functions of the government. It lays emphasis on maintaining macroeconomic stability through harmonizing public expenditure management. Sound fiscal policy is also fundamental to fostering economic growth. Currently, a number of reform program are in progress to update and streamline public expenditure and revenue management. These reform program have a direct bearing on the outcome of fiscal policy. There is no alternative to sound fiscal management in overall economic governance as a balanced public income and expenditure regime assures the private sector a stable macroeconomic environment.

Public Expenditure:

To run the regular activities of Government and to implement the important Public project it is obvious to spend money. Ensuring a sound public expenditure management system is an important part of Fiscal system. The principal objectives of public expenditure management are to encourage expenditure in productive sector, exercise austerity in public expenditure and restrain unproductive outlays. The key aspects of huge public outlays in each year are to build physical infrastructure for channeling investment, reducing poverty and developing human resources. Total public expenditure, development expenditure and expenditure-GDP ratio for FY 2010-011 and over the last decade are presented in Table 30.

Table 30: Public Expenditure

(In crore Tk.)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Public Expenditure (a+b+c)		40757	42075	47184	53903	59030	66836	93608	94140	110523	129876
(a) Non-development expenditure		22700	25307	28390	33324	36618	45412	56989	67125	77,119	83243
(b) Development expenditure		15050	15271	16817	18771	19473	17916	24349	24712	31817	39421
(c) Other expenditure		3008	1497	1977	1808	2940	3508	12270	2303	1577	7213
As percentage of Gross Domestic Products (GDP)											
Public Expenditure as percent of GDP (a+b+c)	14.75	14.92	14.00	14.17	14.54	14.20	14.30	17.48	15.30	15.92	16.49
(a) Non-development expenditure	8.10	8.31	8.42	8.53	8.99	8.81	9.71	10.64	10.91	11.11	10.57
(b) Development expenditure	6.27	5.51	5.08	5.05	5.06	4.68	3.83	4.55	4.17	4.58	5.01
(c) Other expenditure	0.38	1.10	0.50	0.59	0.49	0.71	0.76	2.29	0.23	0.23	0.92

Source: ADP from IMED, M/O Planning and Non-development and other expenditure are revised from Finance Division, M/O Finance.

Composition of Non-development Expenditure

Analysis of total non-development expenditure shows that in FY 2003-04, expenditure on pay and allowances was 27.4 percent of total non-development expenditure (Appendix Table 20). In FY 2004-05 and FY 2005-06 these ratios went down to 25.3 and 27.6 respectively, but increased to 28.5 percent in FY 2006-07 and again went down to 23.6 percent in FY 2008-09. In FY 2003-04, the expenditure on subsidy and current transfer accounted for 28.4 percent of total non-development expenditure. In FY 2004-05, FY 2005-06, FY 2006-07 and FY 2008-09, the expenditure on subsidy and current transfer accounted for 30.1, 29.1, 31.4 and 40.5 percent of total non-development expenditure respectively. In FY 2004-05, FY 2005-06, FY 2006-07 and FY 2008-09 the shares of interest payments on foreign and domestic loans in total non-development outlay were 18.8, 19.8, 20.2 and 20.8 percent respectively.

Expenditure Under Annual Development Program (ADP):

Though implementation of full ADP is very important to flourish the national economy but the rate of actual ADP expenditure is downward over the last decade. The average actual expenditure against the revised allocation of ADP was 88 percent during the period from FY2000-01 to FY 2008-09. The average actual expenditure against the revised allocation of ADP is around 91 percent during the FY2009-10. It is mentionable that the size of the revised allocation of ADP is bigger than that of previous year but the average rate of utilization of ADP and total expenditure amount is higher than that of previous year, which indicates that the implementation capabilities of project is increasing in Public sector. The higher utilization of ADP has serious consequences as it widens the scope of investment and enhance employment opportunity. The government has endeavored to make headway in ADP utilization and it is showing improvement with a 91 percent utilization of revised allocation in FY 2009-10 and it is 31 percent higher than the actual utilization of FY 2008-09.

Table 31: Implementation of ADP

(In crore Tk)

Year	Original Allocation	Revised Allocation	Actual Expenditure	Expenditure as % of Revised Allocation
2000-01	17500	18200	16240	89.2
2001-02	19000	16000	14090	88.1
2002-03	19200	17100	15434	90.0
2003-04	20300	19000	16817	89.0
2004-05	22000	20500	18771	91.6
2005-06	24500	21500	19473	91.0
2006-07	26000	21600	17917	83.0
2007-08	26500	22500	18450	82.0
2008-09	25600	23000	19688	85.7
2009-11	30500	28500	25917	91.0
2010-11*	38500	35830	17509*	48.9*

Source: IMED, Ministry of Planning. * March FY 2010-11.

Composition of ADP Expenditure by major Sectors:

The increasing trend of allocation and expenditure in socio-economic and physical infrastructure sectors through ADP is consistent with the twin goals of the government achieving higher growth and reducing poverty. ADP expenditure and its composition by major sectors are presented in Table 32.

Table 32: ADP Expenditure and its Composition by Major Sectors (%)

Sector	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Agriculture	4.5	4.4	3.74	4.04	3.62	5.20	5.86	7.00	6.27	6.20	6.60
Rural Development	12.2	11.1	10.09	13.83	14.27	15.83	17.14	15.00	16.6	14.10	12.95
Water Resources	6.1	5.4	4.29	4.04	2.44	3.22	2.29	4.00	4.09	4.19	3.51
Industries	3.3	1.9	1.14	2.74	2.42	1.64	1.24	1.00	2.09	1.69	1.23
Power	12.2	12.1	13.70	17.26	20.74	16.22	13.87	13.00	11.7	9.28	14.288
Gas, Oil & Natural Resources	2.5	3.1	4.00	5.19	6.04	1.62	0.74	1.00	1.07	3.83	3.05
Transport	20.4	19.9	16.15	18.04	12.27	14.30	14.40	11.00	10.10	13.28	14.92
Communication	2.8	6.1	3.63	2.23	2.93	2.82	2.72	2.00	0.93	1.14	0.80
Physical Planning & Housing	7.5	6.6	5.61	5.91	6.03	7.56	6.86	7.00	11.5	10.45	9.53
Education & Religion	13.3	14.2	13.88	12.28	13.70	13.83	15.48	16.00	16.0	15.72	14.39
Health & Population	7.3	7.9	6.72	8.27	8.17	9.59	9.97	11.00	10.7	10.61	9.01
Others	7.8	7.4	17.00	6.24	7.38	8.19	9.43	12.00	8.94	9.54	9.74
Total ADP	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.00	100.0	100.0	100.0

Source: IMED, Planning Ministry.

Budget Balance and Financing:

Budget is prepared in line with the national plans and strategies adopted for economic growth, poverty reduction and social development. A budget deficit occurs when there is a gap between government revenue and expenditure, where expenditure outweighs the revenue income. Successive governments in Bangladesh have been taking initiatives to channel resources and transfer income at an enhanced rate to the poor people of the country as 40 percent of population still live below poverty line. The increasing trend of transferring public resources to the poor and vulnerable section of the population raises budget deficit a little further, but it creates purchasing power of the huge population and thus propels growth by increasing aggregate demand. It also helps a large part of the population to maintain minimum standards of living. The trend of budget deficit in Bangladesh clearly shows that deficit remains below 5 percent of GDP except those years when there were natural calamities. This is a sign of prudence in overall fiscal management. Table 33 below shows data on budget deficit and the mode of its financing during the period from FY1999-00 to FY2010-11.

Table 33: Overall Budget Balance

(As percent of GDP)

Budget Deficit/ financing	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Overall budget deficit (excluding foreign grants)	-6.1	-5.1	-4.4	-4.2	-4.2	-3.9	-3.7	-6.1	4.0	3.7	-4.4
Overall budget deficit (including foreign grants)	-4.5	-4.1	-3.7	-3.4	-3.4	-3.3	-3.3	-5.3	3.4	3.3	-3.8
Net foreign financing	2.5	2.0	1.7	2.3	2.4	1.7	1.8	2.4	0.6	1.8	1.3
Net domestic financing	2.8	2.7	1.3	2.2	1.8	2.2	1.9	3.7	2.8	2.2	3.1

Source: Finance Division, M/O finance, BBS and Bangladesh Bank.

Resources for ADP

The contribution of domestic resources towards financing of ADP shows an upward trend and accounts for about 50 percent of the resources for ADP during FY 2000-01 to 2008-09. Only in FY 2007-08, the contribution of domestic resources fell below 40 percent. During FY2007-08 external assistance registered a sharp growth for arresting losses due to recurrent floods and devastation of cyclone Sidr. In FY 2009-10 and in FY 2010-11, the share of domestic resources was about 60 percent and 66 percent respectively. Though the size of ADP in 2011-11 was reasonably higher than that of FY 2009-10 but as the financing of ADP from domestic sources and total allocation is higher significantly than previous year which is considered as a positive indicator during the period from FY 2000-01 to FY2010-11. Table 34 below shows the financing of ADP from external and domestic sources during the period from FY 2000-01 to FY2009-10.

Table 34: Quantum of Resources (Domestic and Foreign) in Financing Revised ADP.

(In Crore Tk.)

	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Total Financing	18200	16000	17100	19000	20500	21500	21600	22500	23000	28500	35130
Foreign Financing	8670	8215	8241	9410	10430	10700	10194	14430	12990	16500	11900
Domestic Financing	9530	7785	8859	9590	10070	10800	11406	8424	10011	12000	23200
Domestic financing as % of Total ADP allocation	52.36	48.66	51.81	50.47	49.12	50.23	52.81	37.44	55.65	42.1	66.04

Source: IMED, Finance Division, Ministry of Finance, Planning Ministry

Public Debt Management:

The government resorts to borrowing to fulfill its commitment of social welfare expenditure, meet unexpected expenditure in emergencies, increase investment, and defray development plan outlays. The government borrows both from domestic and external sources. Table 35 shows year-wise government borrowing (net) from domestic sources the period from FY 2000-01 through FY 2010-11. Source-wise government borrowing from domestic sources over the last 10 years is presented in Table 35.

Table 35: Net Government Borrowing from Domestic Sources

(In Crore Tk.)

Fiscal Year	Net Government borrowing from the banking system			Government borrowing from non-bank sources	Total government borrowing	Percentage of GDP
	Borrowing from Bangladesh Bank	Borrowing from scheduled banks	Total borrowing			
2000-01	2009.30	895.10	2904.30	4208.42	7112.82	2.8
2001-02	2727.00	-158.60	2568.40	4711.47	7279.87	2.7
2002-03	-2589.70	1607.20	-982.50	4795.22	3812.72	1.3
2003-04	1653.00	1016.10	2669.10	4658.90	7328.00	2.2
2004-05	3826.70	-142.80	3683.90	2972.57	6656.47	1.8
2005-06	9351.80	-3310.40	6041.40	3103.23	9144.63	2.2
2006-07	905.00	3510.90	4415.90	4682.30	9098.20	1.9
2007-08	66.20	10802.90	10869.10	3144.80	14013.90	2.6
2008-09	2958.1	8317.9	11276.00	5596.00	16872.00	2.7
2009-10	-6634.9	2842	-3792.9	12419.57	8626.67	1.3
2010-11*	-3067.3	4747.8	1680.5	3460.71	5141.21	0.7

Source: Bangladesh Bank.

Government Receipts:

The main source of government revenue is tax revenue. Public revenue principally consists of direct and indirect taxes and they account for more than 80 percent of the total receipts. The rest comes from different non-tax collection such as fee, charge, toll etc. The level of revenue collection is an important indicator to determine the stage of economic development of a country. In FY 2000-01, revenue-GDP ratio was 9.6 percent, which gradually rose to to 11.5 percent in FY2009-10. It is expected that it will reach at 12.09 in FY 2010-11.Table 36 shows tax and non-tax revenue receipts and tax-GDP ratio during the period from FY2000-10 to FY2010-11

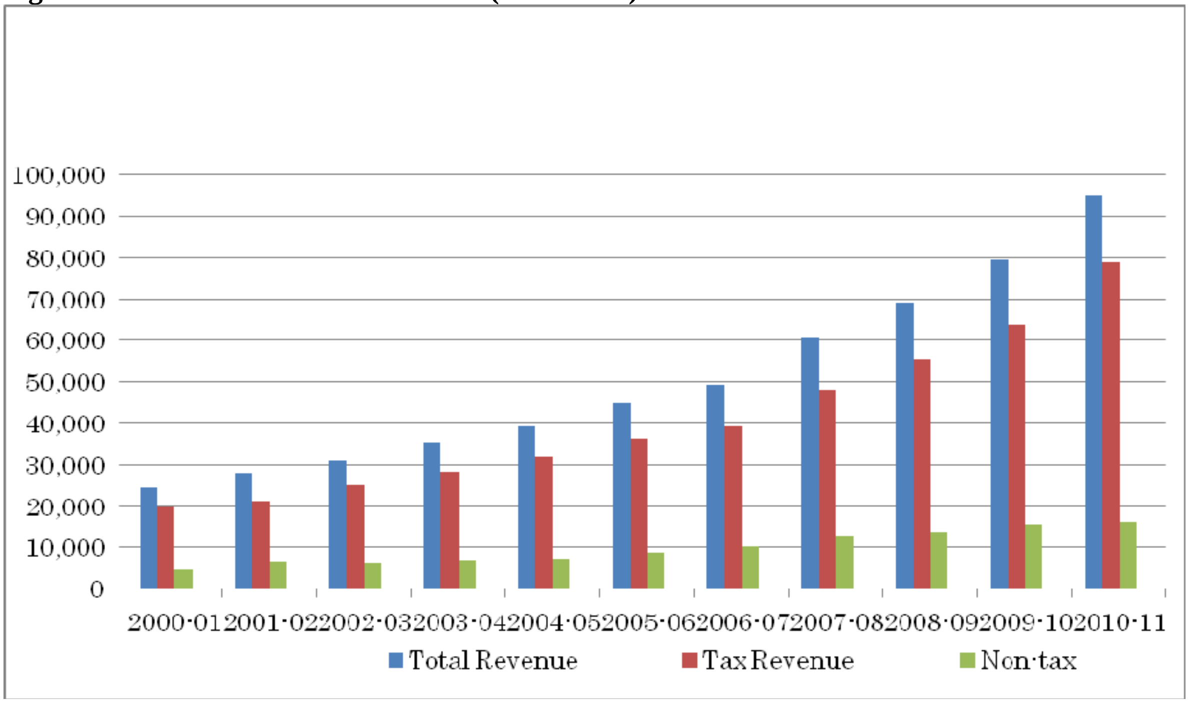
Table 36: Revenue Receipts

(In Crore Tk.)

Particulars	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Total Revenue	24,342	27,893	31,120	35,400	39,200	44,868	49,472	60,539	69,180	79,484	95188
Tax Revenue	19,778	21,332	24,950	28,300	31,950	36,175	39,247	48,012	55,526	63,956	79052
Non-tax Revenue	4,564	6,561	6,170	7,100	7,250	8,693	10,225	12,527	13,654	15,528	16135
As percentage of Gross Domestic Product (GDP)											
Total Revenue	9.6	10.21	10.35	10.63	10.57	10.79	10.58	11.17	11.24	11.5	12.09
Tax Revenue	7.8	7.81	8.30	8.5	8.62	8.70	8.40	8.86	9.02	9.2	10.04
Non-tax Revenue	1.8	2.4	2.05	2.13	1.96	2.09	2.19	2.31	2.22	2.2	20.5

Source: MOF, NBR.

Figure 27: Trend of revenue collection (crore taka)

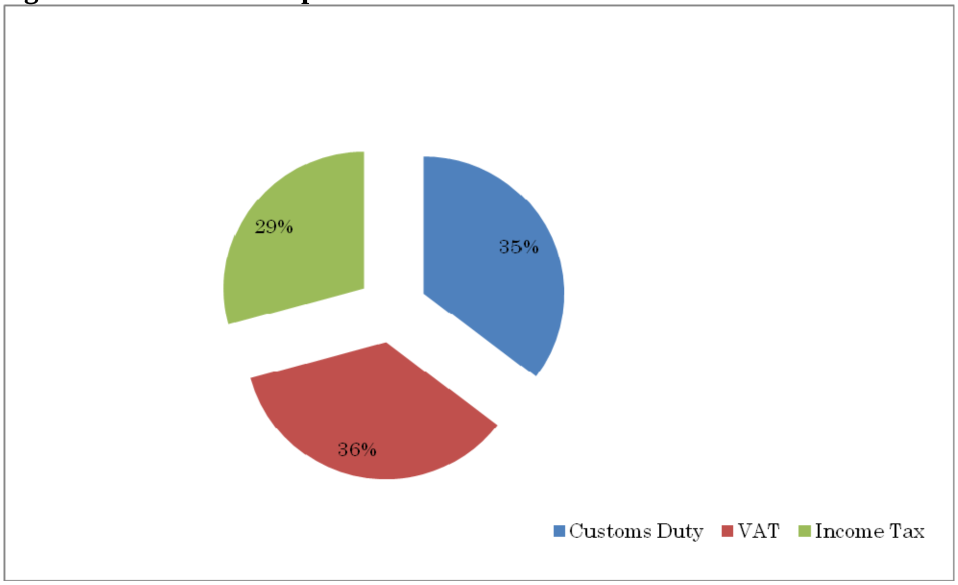


Revenue Collection Activities:

The amended revenue target was fixed Tk. 79052 in FY 2010-11. From the beginning of FY it was seen that revenue collection activities were in good pace. Due to high growth in economic activities private sector activities got momentum as a result high growth is observed in every sector of revenue. Analysis of revenue collection activities for FY2010-11 by categories shows that the bulk of revenue collection comes from VAT (36%). Next positions are held by import duty (35%) and Income Tax (29%) . Overall, the share of Income tax in the total revenue collection is gradually increasing.

The revenue targets of FY 2010-11 were under challenge due to the fall out impact of the global financial crisis. The global economy was recovering from the backlash of a recession with varying degrees in different parts of the world. Specially at starting of FY it was suspected that import revenue might decrease due to falling tendency in Export-Import growth but revenue target in this sector was achieved as economic activities got momentum in 2nd half of FY.

Figure 28 : Tax revenue receipt from direct tax and indirect Tax in FY 2010-11



III. Tax Structure: Institution and the Reality

Tax policy is an important instrument of fiscal policy and has been used to redistribute wealth of a nation. Deriving strength from the principle of equity, it is a tool against monopolistic tendencies of the society and corrects man made distortions therein. In the era of welfare state system, the traditional domain of governments of maintaining law and order and providing protection against external and internal aggression has undergone complete transformation. Present day governments are to provide various public services to their citizens ranging from education, health and employment to infrastructure development. This increasing role of states has compelled the governments to mobilize their resources in order to address the growing demands for public goods provision. An effective and efficient tax system plays key role in mobilizing revenue for government.

A. National Board of Revenue (NBR):

The National Board of Revenue (NBR) is the central authority for tax administration in Bangladesh, was established by President's Order No. 76 of 1972. It is under administrative control of Internal Resources Division (IRD) of the Ministry of Finance (MoF). MoF has 4 Divisions, headed by 4 permanent Secretaries to the Government, namely, the Finance Division the Internal Resources Division (IRD), the Banking Division and the Economic Relations Division (ERD). The Secretary, IRD is the ex-officio Chairman of NBR. The NBR consists of 15 members excluding chairman, 8 of whom comes from indirect tax (Income Tax) administration and 7 come from indirect tax (Customs and VAT) administration. The members are ex-officio additional secretaries to the government. 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 total 607officers of various grades and supporting staff positions.

Table 37: Manpower of National Board of Revenue

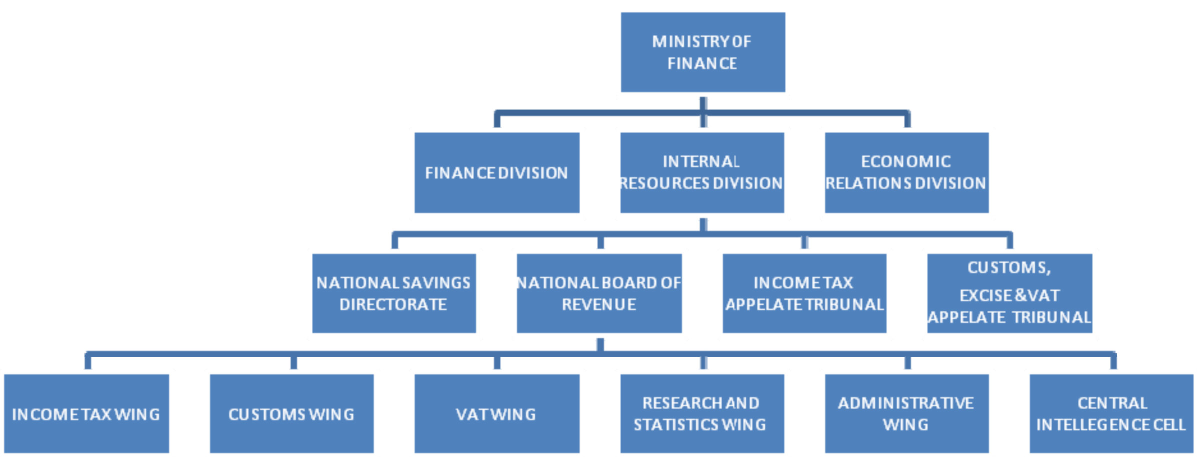
Class of Employees	Total approved post
First Class	158
Second Class	8
Third Class	318
Fourth Class	113
Total	607

Source: National Board of Revenue

The NBR (2005) described its mission statement as follows: 'The NBR will collect taxes fairly and efficiently and will strive to maximize voluntary compliance with Bangladesh's tax law'. Commensurate with this mission statement, NBR defined its goal as follows:

1. To increase revenue collection targets through modernization of tax administration and procedures;
2. To develop a sound and transparent legal and regulatory system;
3. To identify areas where revenue is at risk and to deal firmly and fairly with non-compliance;
4. To facilitate trade flows leading to speedy clearance of import /export cargo;
5. To develop and manage an effective revenue administration staffed with a well-trained and motivated workforce;
6. To design and deliver fair, responsible, and effective enforcement mechanisms in ways that directly respond to changes in the economic environment and technological opportunities

Figure 29: Organizational Chart of Ministry of Finance and NBR

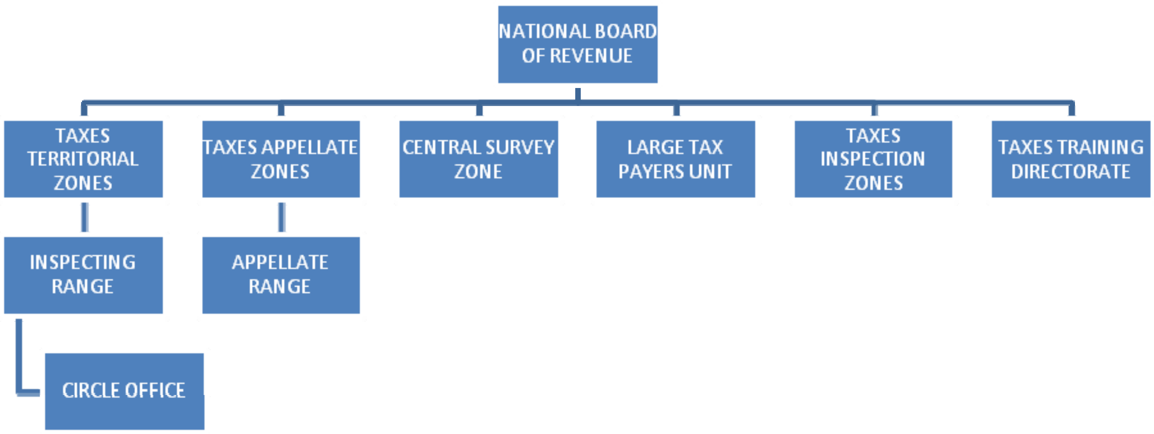


B. Direct Tax Administration

National Board of Revenue divided its total revenue collection arrangement into two wings- Direct Tax and Indirect Tax. Direct Tax collecting wing is known as Income Tax Department. Income Tax wing collects income tax, gift tax and wealth tax. Income tax administration is divided into two parts, Administrative & Judicial. Administrative authorities are mainly concerned with assessment and collection of taxes while Judicial authorities deal with appeals, tribunals relating to income tax. There are four Members namely: Member (Tax Policy), Member (Administration & Management), Member (Inspection and Survey) and Member (Appeal & Exemption) working in the NBR. There are 15 territorial Taxes Zones and 5 Appeal Zones, one LTU, one Survey zone and one Inspection Directorate. Each territorial zone has around 22 circle offices, except LTU and Zone-8, Dhaka. A zone is headed by the

Commissioner of Taxes where a Range office is headed by an Additional/Joint Commissioner of Taxes. A circle office is headed by a Deputy Commissioner of Taxes.

Figure 30: Organizational Chart of Income Tax Department



The circle office is the point to collect tax at field level. It is basically the building block of income taxes system where the officer in charge is responsible for receiving tax returns , assessment of returns , demand creation , collection of demands/enforcement , appeals management , reporting and all administrative functions . According to income tax ordinance a circle office is assigned by a Deputy commissioner of Taxes who is a class one officer of income tax cadre. He or she is assisted by one inspector and few clerks.

There are 649 circle offices for collecting income tax. There are four types of circles depending on jurisdictions and type of activities. These are companies circle, salaries circle, contractor's circle and business circle. Basically, company circle handles company cases and individual cases of its directors. Salary circle and contractor circle holds jurisdiction of personal income tax cases of salary holders and contractors, suppliers respectively. A business circle holds territorial jurisdiction of sole proprietorship and partnership businesses. A typical circle office handles three thousand to four thousand income tax cases of its jurisdiction each year. Since in the circle everything is done almost manually with no significant support of information technology, managing a circle becomes a mammoth task for an officer. There are some circles which handle more than ten thousand files, which is almost impossible to manage efficiently by a single circle officer.

Table 38: Work force of direct Tax Administration

Class of Employees	Total approved post
First Class	490
Second Class	717
Third Class	2,209
Fourth Class	5,324
Total	8,750

Source: National Board of Revenue (among 8,750 manpower 3501 new posts have been created recently)

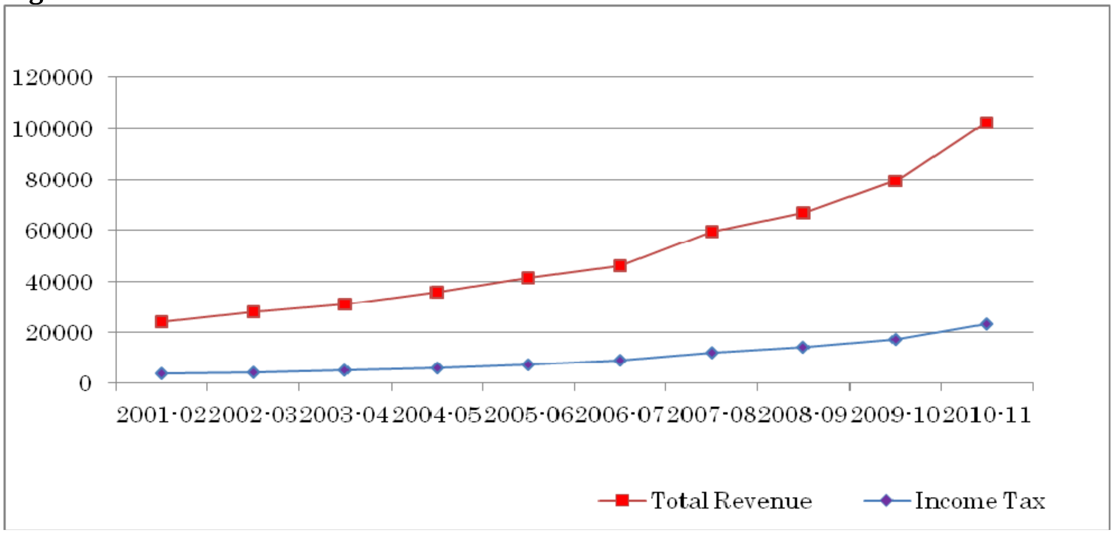
Supervising authority of Circle office is concerned inspecting range officer. By designation he is called Inspecting Additional commissioner of taxes or Inspecting Joint commissioner of taxes. A range officer normally assigned to monitor all functions of 4 to 6 circle offices. Range officer reports to Commissioner of Taxes who is the administrative head of taxes zone. Commissioner of tax is responsible for overall administration and management of a tax zone. He or she monitors every legal and administrative aspect of taxes under his zone. Generally, a tax zone consists of four range offices and around 20 circles.

Table 39: Performance of Income tax wing

(In thousand crore taka)

FY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Income Tax	3936.34	4465.44	5001.15	5827.47	7422.72	9050.05	12188.12	14274.21	17428.34	23119.82
Total	20207.21	23651.12	26193.77	29904.46	34002.43	37219.32	47435.66	52527.25	62042.16	79092.2
Income Tax as a % of total revenue	19.47988	18.88046	19.0929	19.48696	21.82997	24.31546	25.694	27.17487	28.09112	29.231479

Figure 31: income tax trend



Income Tax Mechanism

Income tax procedure starts when a taxpayer submits returns. A taxpayer is required to submit return within the 30th September of every year at the respective circle. NBR may extend the dateline for return submission. Every taxpayer is entitled to submit return under Self-Assessment System. Earlier only individuals have this opportunity but from FY 2007-08 NBR introduced Universal self-Assessment system. By this system, all taxpayers are entitled to submit their return under self-assessment. Because of Universal self-assessment system, taxpayers are now free from any type of pressure from tax officials. After receiving the returns, tax authority checks the returns. If the tax official found any discrepancy in the return, they would call taxpayers for personal hearings. After hearing, tax authority issues an assessment order cum demand notice if additional demand is due from the taxpayer.

Sources of Income:

For the purpose of computation of total income and charging tax thereon, sources of income can be classified into 7 categories, which are as follows:

1) Salaries
2) Interest on securities
3) Income from house property
4) Income from agriculture
5) Income from business or profession
6) Capital gains
7) Income from other sources.

Registration

To become a taxpayer, every individual or company required to take a Taxpayer Identification Number

(TIN). TIN is a computer generated 10 digit number which remains unchanged for a taxpayer for good. Each taxpayer is assigned with a unique Taxpayer Identification Number (TIN). At present total number of TIN stood at around 2.3 million. For a country with a population around 150 million, this number seems very poor. It is to be noted that many of these TIN holders are not active taxpayers.

Who should submit Income Tax Return?

a) If total income of any individual other than female taxpayers, senior taxpayers of 65 years and above during the income year exceeds Tk 1,65,000/-. If total income of any female taxpayer, senior taxpayer of 65 years and above during the income year exceeds Tk 1,80,000/-.
b) If any person was assessed for tax during any of the 3 years immediately preceding the income year.
c) A person who lives in any city corporation/paurashava/divisional HQ/district HQ and owns a building of more than one storey and having plinth area exceeding 1,600 sq. feet/owns motor car/owns membership of a club registered under VAT Law.
d) If any person runs a business or profession having trade license.
e) Any professional registered as doctor, lawyer, income tax practitioner, Chartered Accountant, Cost & Management Accountant, Engineer, Architect and Surveyor etc.
f) Member of a Chamber of Commerce and Industries or a trade Association.
g) Any person who participates in a tender.
h) A person who has a Taxpayer's Identification Number (TIN).
i) Candidate for Union Parishad, Paurashava, City Corporation or Parliament election.

Income Tax Rates

From assessment year 2008-09 National Board of Revenue introduced a new style of individual tax rates for individuals. NBR introduced separate tax rate for female, senior taxpayers of 65 years old and above (from FY09-10, the age limit for senior taxpayer become 65 instead of 70). Female and old taxpayers will be required to pay tax if their initial income exceeds TK.180, 000. The overall tax rates for assessment year 2009-10 has been presented in the following tables.

Table 40: Tax Rate for General Individual (Assessment Year- 2010-11)

For individuals other than female taxpayers, senior taxpayers of 65 years and above, tax payable for the:		
First	TK.165,000	Nil
Next	TK.275,000	10%
Next	TK.325,000/	15%
Next	TK.375,000	20%
Rest Amount	-----	25%

Source: National Board of Revenue

Table 41: Tax rates for female and senior taxpayers (Assessment Year- 2010-11)

For female taxpayers, senior taxpayers of age 65 years and above, tax payable for the:		
First	TK.180,000	Nil
Next	TK.275,000	10%
Next	TK.325,000	15%
Next	TK.375,000	20%
Rest Amount	-----	25%

Source: National Board of Revenue

Table 42: Tax rates for Companies (Assessment Year- 2010-11)

For Companies:	
Publicly Traded Companies	27.5%
Non-publicly Traded Companies	37.5%
Banks, Insurance & other Financial Institutions	42.5%
Mobile Phone Operator's Company's	45%
Dividend of companies	15%

Source: National Board of Revenue

Fiscal incentives:

The main goal of government to design such a tax policy by which local and foreign investment in the country will be benefited and the country will be able to attract more FDI. To motivate taxpayers government announces the following fiscal incentives.

a) Tax holiday:

Tax holiday is allowed for industrial undertaking, tourist industry and physical infrastructure facility established within 1st July 2008 to 30th June 2011 in fulfillment of certain conditions.

Industrial Undertaking Eligible for Tax holiday:

1) An industry engaged in production of textile, textile machinery, jute goods, high value garments, pharmaceuticals, melamine, plastic products, ceramics, sanitary ware, steel from iron ore, MS Rod, CI Sheet, fertilizer, insecticide & pesticide, computer hardware, petro-chemicals, agriculture machinery, boilers, compressors, basic raw materials of drugs, chemicals and pharmaceuticals.
2) An industry engaged in agro-processing, ship building, diamond cutting.

Physical Infrastructure Eligible for Tax holiday:

Sea or river port, container terminals, internal container depot, container freight station, LNG terminal and transmission line, CNG terminal and transmission line, gas pipe line, flyover, mono rail, underground rail, telecommunication other than mobile phone, large water treatment plant & supply through pipe line, waste treatment plant, solar energy plant, export processing zone.

Tourism Industry Eligible for Tax holiday:

Residential hotels of three stars or more are eligible for tax holiday.

b) Accelerated depreciation:

Accelerated depreciation on cost of machinery is admissible for new industrial undertaking in the first year of commercial production 50%, in the second year 30% and in the third year 20%.

c) Income derived from any Small and Medium Enterprise (SME) engaged in production of any goods and having an annual turnover of not more than taka 2.4 million is exempt from tax.

d) Industry set up in EPZ is exempt from tax for a period of 10 years from the date of commencement of commercial production.

e) Income from fishery, poultry, cattle breeding, dairy farming, horticulture, floriculture, mushroom cultivation and sericulture are exempt from tax up to 30th June, 2011, subject to investing at least 10% of the exempted income that exceeds Tk.100 thousand, in government bonds

f) Income derived from export of handicrafts is exempted from tax up to 30th June, 2011.

g) An amount equal to 50% of the income derived from export business is exempted from tax.

h) Listed companies are entitled to 10% tax rebate if they declare dividend of 20% or more.

i) Income from Information Technology Enabled Services (ITES) business is exempted up to 30th June, 2011.

Tax Rebate for investment:

Rate of Rebate:

Amount of allowable investment is either up to 25% of total income or Tk. 500,000/- whichever is less.
Tax rebate amounts to 10% of allowable investment.

Types of investment qualified for the tax rebate

1) Life insurance premium
2) Contribution to deferred annuity
3) Contribution to Provident Fund to which Provident Fund Act, 1925 applies
4) Self contribution and employer's contribution to Recognized Provident Fund
5) Contribution to Super Annuation Fund
6) Investment in approved debenture or debenture stock, Stocks or Shares
7) Contribution to deposit pension scheme
8) Contribution to Benevolent Fund and Group Insurance premium
9) Contribution to Zakat Fund
10) Donation to charitable hospital approved by National Board of Revenue
11) Donation to philanthropic or educational institution approved by the Government
12) Donation to socioeconomic or cultural development institution established in Bangladesh by Aga Khan Development Network

Tax withholding functions:

In Bangladesh, withholding taxes are usually termed as Tax deduction and collected at source. Under this system, both private and public limited companies and any other organizations specified by law are legally authorized and bound to withhold taxes at some points of making payment and deposit the same to the Government Exchequer. The taxpayer receives a certificate from the withholding authority and gets credit of tax against assessed tax on the basis of such certificate. Around 65% of income tax revenue comes from tax withheld at source. In recent years, tax administration is putting much emphasis on this area. At present, there are 40 heads on which deduction or collection of tax at source is applicable.

Appeal

If a taxpayer is aggrieved with the assessment or not satisfied with the adjudication of tax officials can go for appeal against that adjudication order. The law of the land has given the taxpayers a lot of options so that they can get the real justice.

a) A taxpayer can file an appeal against the order of Assistant Commissioner of taxes or Deputy Commissioner of taxes to the Additional or Joint Commissioner of Taxes (Appeals)/ Commissioner (Appeals).
b) If the taxpayer is not satisfied with the order of the higher officials of tax department he or she can go to the Tax Appellate Tribunal against the adjudication order.
c) Against the adjudication order of Taxes Appellate Tribunal, the taxpayer with enough legal ground can further go to the High Court Division of the Supreme Court of Bangladesh.
d) Finally, the aggrieved taxpayer may appeal against the verdict of High court Division to the Appellate Division of the Supreme Court.

Double Taxation Avoidance

The government may enter into an agreement with the Government of any other country for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income leviable under the Income Tax Ordinance 1984 and under the corresponding law in force in that country, and may by notification in the Gazette, make such provisions as may be necessary for implementing the agreement. The objectives of a Bangladesh Double Taxation Avoidance Agreement are as follows:

a) To obtain a more effective relief from double taxation compared to relief gained under unilateral measures;
b) To determine the income to be attributable to any person resident in Bangladesh having any special relationship with a non-resident;
c) To create a favorable climate for the inflow of foreign investment into the country;
d) To make special tax incentives provided by Bangladesh fully effective for taxpayers of capital exporting countries; and

e) To prevent evasion and avoidance of tax.

In the year 1980, Bangladesh concluded its first Bangladesh double taxation avoidance agreement ever with United Kingdom. There are agreements on avoidance of double taxation between Bangladesh and 29 countries which are:-

(1)United Kingdom of Great Britain and Northern Irelands (2) Singapore (3) Sweden (4) Republic of Korea 5) Canada (6) Pakistan (7) Romania (8) Sri Lanka (9) France (10) Malaysia (11) Japan (12) India (13) Germany (14) The Netherlands (15) Italy (16) Denmark (17) China (18) Belgium (19) Thailand (20) Poland (21) Philippines (22) Vietnam (23) Turkey (24) Norway (25) USA (26) Indonesia (27) Switzerland (28) Oman (29) Myanmar.

Large Taxpayers Unit (LTU) Income Tax

To modernize the direct tax administration, government introduced Large Taxpayers Unit (LTU) as test case under the pressure of some donor organizations in November, 2003. The LTU is called so-called functional unit. Except some exceptions, only the multinational and big companies are the stakeholder of Large Taxpayers unit. The concept is regarded controversial which created discrimination between the traditional tax circle office and LTU. Moreover, the LTU is functioning. But it is very difficult to assess its achievement because all big and fair taxpayers are the member of LTU.

LTU is responsible for collecting more than 30% of the total income tax revenue. LTU arranged around 4 core factions of a typical tax administration

1. Taxpayer Services Wing;
2. Revenue Accounting Wing;
3. Tax Collection Enforcement /Appeal Wing;
4. Audit Wing;

In the organizational design audit function has the most emphasis. Major portion of human resource is allocated for audit function of LTU. Basic activities of each functional wing are as follows:

1. Taxpayers service wing:

a. Providing taxpayers' education
b. Receiving returns and payments
c. Apprising taxpayers

2. Revenue accounting wing:

a. Maintaining records of demand and payments
b. Making all correction, revision of demand
c. Maintaining all statistics audit report

3. Collection, enforcement/appeal wing:

a. Monitoring of collection of advance tax, outstanding tax
b. Impose penalty on non-filers and defaulters
c. Filing appeal before Tribunal, High Court
d. Enforcement such as seizure, freezing, civil suit

4. Audit wing:

a. Selecting audit cases
b. Determining audit points
c. Test and verification of audit points
d. Confront the audit findings with the taxpayer
e. Determine the tax payable as per audit

C. Indirect Tax

Indirect taxes in Bangladesh are Customs duties, VAT and Excise duties. Indirect tax administration basically divided into two broad wings, one is VAT wing and the other one is Customs wing. Personnel are appointed exclusively for indirect tax administration, and officials work in different wings of indirect tax administration in a regular rotation. In case of indirect taxes, officials of Customs, Excise and VAT department are responsible for collecting total indirect taxes under the same administration. Indirect tax administration is divided into two parts, Administrative & Judicial. Administrative authorities are mainly concerned with assessment and collection of indirect taxes while judicial authorities deal with appeals, tribunals relating to indirect tax. There are 7 Members (Customs and VAT) are working in the NBR. There are 11 Customs, Excise and VAT commissionerate, 6 Customs House, 2 Customs Bond commissioerate, 4 directorates, 1 Academy, and one LTU, 84 division and 254 circles. All offices are headed by the Commissioner of Customs and VAT except division and circle office. A division office is headed by an Assistant /Deputy Commissioner of Customs and VAT. A circle office is headed by a Revenue officer.

Circles and division are the basic units for VAT. Division office gives the VAT registration, value approval, turnover tax registration and circles office collects revenue and returns. Circles and division offices are monitored by Commissionerate office. Customs house collects import and export revenue, facilitates trade, Customs Bond commissionerate monitors the activities of export oriented industry.

Figure 32: organizational chart of Indirect Tax department

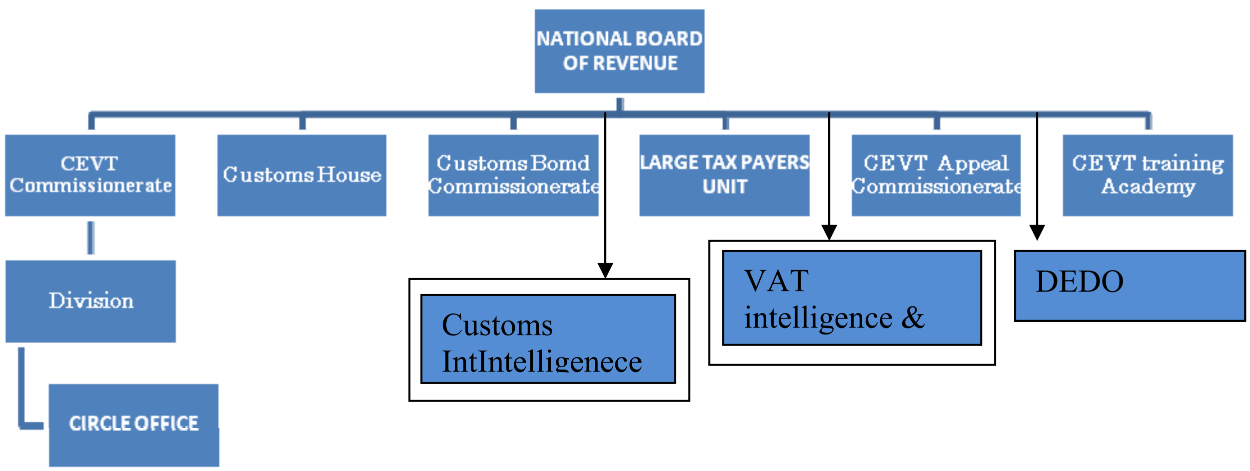


Table 44: Work force of direct Tax Administration

Class of Employees	Total approved post
First Class (cadre)	531
First Class (non-cadre)	933
Second Class	4668
Third Class	5785
Fourth Class	743
Total	12660

Source: National Board of Revenue (among 12,66o manpower 5241 new posts have been created recently)

Customs Wing:

In addition to the long-served role as a collector of state revenues at the border, Bangladesh Customs is now responsible for administering trade with other countries and securing the economy and society with respect to the cross border movement of goods. Like other developing countries Bangladesh Customs is still acting like fiscal frontier.

Tariff Structure:

As one of the founding members of WTO, Bangladesh has to abide by such obligations as reduction of tariff rates and facilitation of trade as set out in the agreement. In compliance with the obligations, tariff rates are being decreased each year. The number of effective slabs in FY 1991-92 was 18 and the highest tariff rate was 350 percent. Until 1999-2000, custom tariff was divided into 3 categories. To simplify the tariff structure, these three categories, namely, general exemption, concession rates and statutory rates, have been made equal in FY 2000-01. Since then, Bangladesh has been pursuing the most favorable nation (MFN) tariff rates. Table 45 below shows the tariff structure shows the maximum tariff trend from Fy 2000-01 to FY 2010-11.

Table 45: Tariff structure

FY	Tariff rates (Import)	Maximum tariff	slab
2000-01	0,5,15,25,37.5	37.5	5
2001-02	0,5,15,25,37.5	37.5	5
2003-04	0,7.5,15,22.5,32.5	32.5	5
2004-05	0,7.5,15,22.5,30	32.5	5
2005-06	0,7.5,15,25	25	4
2006-07	0,6,13,,25	25	4
2007-08	0,5,12,25	25	4
2008-09	0,10,15,25	25	4
2009-10	0,3,7,12,25	25	5
2010-11	0,3,5,12,25	25	5

Source: NBR

Custom Assessment system:

Bangladesh Customs started the process of taking off from traditional Customs to the modern Customs in the early 90s. this was done with the introduction of version 2.0 of ASYCUDA, a software developed by UNCTAD, in 1994. Under the reform projects like Customs Administration Modernization (CAM) project and Modernization and Automation Project (MAP), NBR upgraded the automation software, from ASYCUDA version2.0 to ASYCUDA++ version 1.6 to ASYCUDA++ 18.d which has the following notable features-

- Declaration processing
- Selection of lane for risk management (Green, Yellow, Red)
- Assessment of goods
- Payment and release of goods
- Log register of users.

To further facilitate the trade, NBR has been attempting to introduce a single window system at every Custom House. With a view to encouraging Public Private Partnership (PPP) NBR, in cooperation with different chambers of commerce and industry, has undertaken an automation project to enable the users and stakeholders of different Customs house to use online facilities through interfacing. Under that project, bill of entry module for online submission of Customs declaration (direct Traders Input) by importers or clearing and forwarding (C&F) agents, and Manifest Module for online submission of Import General manifest (IGM) or Export General manifest (EGM) by shipping agents. NBD has installed container scanner at CHC. NBR has already taken plans to upgrade its system with the latest version ASCUDA World.

Valuation System:

The value of imported goods is determined in according to the proviso of section 25 or 25A of Customs Act 1969. Customs duty is livable on any goods by the price actually paid or payable or nearest ascertainable equivalent of such price, at which such or like goods are ordinarily sold, or offered for sale, for delivery at the time and place of importation. The value shall include the freight, insurance, commission and all other cost, charges and expenses incidental to the sale and delivery at the place of importation or exportation, where the seller and buyer have no interest in the business. This value is called transaction value. The value declared by the importer or the pre-shipment (PSI) agency on behalf imported i.e. transaction value is the base for assessment. The value is checked by the Customs officer in according to Customs Valuation Rules 2000. The valuation rules follow the GATT valuation method. As a member of WTO, Bangladesh has implemented the Agreement on Tariffs and Trade (GATT), 1994 (Customs Valuation Agreement). Valuation is a severe problem in customs department. Importer in collaboration with PSI agency declares lower price and when customs authority finds the declared value is not correct then the importer goes to court. If any assessment officer (assistant revenue officer) wants to enhance the value he has to take approval from the officer not below the rank of an assistant commissioner.

Provisional Assessment:

According to section 81 of Customs Act, if any assessment is not possible due to chemical or other test or for a further enquiry for purposes of assessment then the officer not below the rank of an assistant commissioner may order that the duty payable on such goods be assessed provisionally by accepting additional amount as security or bank guarantee from a schedule bank. The provisional assessment has to be finalized within 120 working days from the date of provisional assessment.

Examination of goods:

Under section 198 of the Customs Act customs authority is entitled to examine the goods. Examination is a very difficult job and it is not possible to examine every consignment so 10% of the total consignment which are imported under PSI is selected for consignment among which 6% is selected by system and rest 4% is selected by commissioner of customs. For non-PSI consignments there is no percentage limitation.

Pre-shipment:

Bangladesh Customs is facing severe shortage of manpower as there is no direct recruitment of basic officer (assistant revenue officer or inspector) since 1981 due to court cases. On the other hand due to retirement manpower is also decreasing. According to somebody, World trade is changing first but due to shortage of competent manpower Customs authority was not in a position to be synchronized with world trade and huge volume of export and import. So to reduce the work load Government of Bangladesh introduced PSI system though Bangladesh Customs authority claims they are competent enough in handling those matters. For recruiting PSI agency section 25A is introduced in Customs Act. Four PSI agencies are working on behalf of Customs. They examine the goods before shipment and issue a certificate which is known clean report on findings (CRF) ascertaining value, harmonized system (HS) code, quantity and quality of goods. PSI Company ascertains the value according to GATT valuation method. There is some huge allegation of patronizing importers for under-invoicing against PSI agency. PSI Company intentionally issues lower price. The license of one PSI agency was cancelled due to this type of behavior. PSI fees are collected from importer as a result huge amount of foreign currency is going out. According to section 25B of Customs Act government can exempt any goods from mandatory PSI. Bangladesh Customs is now recruiting fresh officer and its capacity is increasing so government has taken a decision to phase out the PSI.

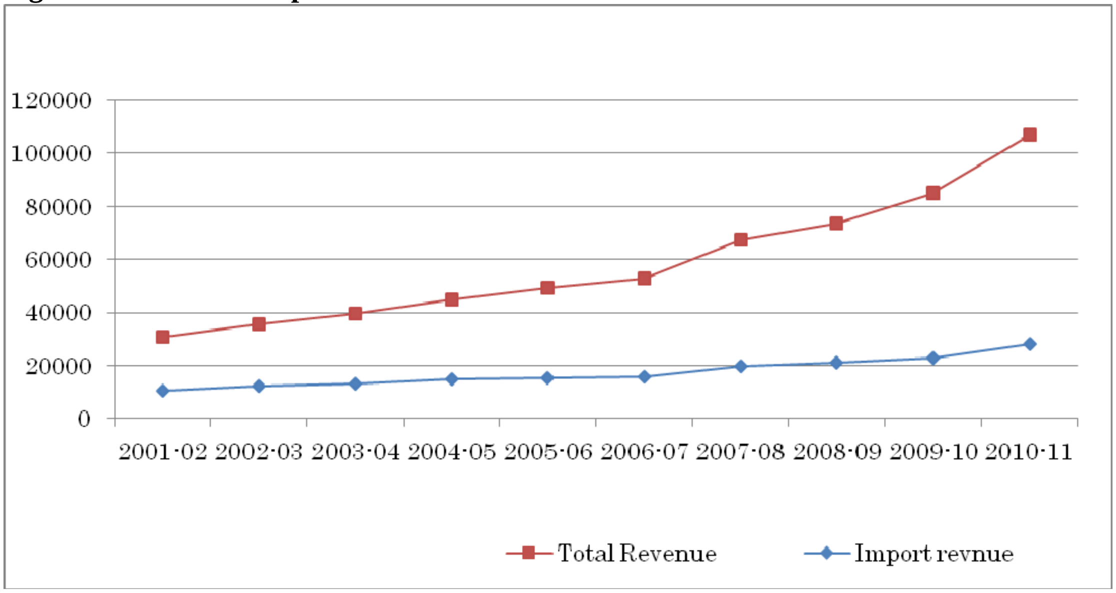
Table 46: Performance of Customs wing

(In thousand crore taka)

FY	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Import	10484.73	12068.22	13171.13	15112.62	15274.5	15662.56	19846.92	20870.91	22851.47	27959.28
Total	20207.21	23651.12	26193.77	29904.46	34002.43	37219.32	47435.66	52527.25	62042.16	79092.2
Customs as a % of total revenue	51.88608	51.026	50.28345	50.53634	44.92179	42.0818	41.83966	39.73349	36.83216	35.350237

Source: NBR

Figure 33: trends of import revenue



Value Added Tax (VAT):

Customs duty was first introduced in 1978 in greater India. But to collect more tax from domestic source The excises and Salt Act 1944 was introduced in sub-continent. Excise base was elaborated in 1972 to improve the social, administration and economic infrastructure. As a result the list of goods for excise duty was increased as well as dome service was also included in excise list. In addition to excise duty, sales tax and business turn over tax was introduced in 1982.

Exemption was introduced in excise and sales tax system. There was discrimination of tax on different types of goods and services which had a negative impact on economic growth. On the other hand input credit was not allowed in excise system as a result there was cascading effect of tax on same product which leads to increase of production cost. There was no scope of refund in case of export.

To avoid such types of problems modern and scientific tax system with one rate (15%) VAT was introduced in 1991 replacing sales tax, business turn over tax and excise tax which came into force since 2 July 1991. But there is still some Sales tax and excise tax for 2 or 3 services.

The VAT administration is run by the officers of indirect tax department (Customs, Excise and VAT) They are being posted in Customs and VAT commissionerate in a regular rotation. Member (VAT) of NBR is the head of VAT department who has to report to the Chairman NBR. At present, there are 12 VAT commissionerates including one Large Taxpayers Unit (VAT). The head of VAT commissionerate is Commissioner. Each commissioner is responsible for the administration and management of his commissionerate. There are some Divisions under each commissionerate and under each Division there are some Circle offices.

Customs Houses are responsible for collecting VAT at the import stages as a result VAT chain starts from the customs points. VAT commissionerates and Customs Houses always maintain a strong communication among them to calculate and find out the real VAT payable by the importers and manufacturers.

Value Added Tax (VAT) legal frame work:

The legal frame work of Value added Tax Act is as follows:

02 July 1991 and onwards: The Value added Tax Act 1991

However, the VAT Act does not consist of only the main statute, rather these encompass a number of statutory elements as follows:

- Value Added Tax Act 1991 – the parent statute;
- Value Added Tax Rules 1991;
- S.R.O. (Statutory Rules and Order)/Gazette Notification;
- Value Added Tax Circular;
- General or Special Order;
- Explanation/Office Memorandum;
- Verdicts of Appellate Tribunal for equivalent fact;
- Verdicts of the High Court Division on question of law; and
- Verdicts of the Appellate Division on judgment of the High Court Division.

Imposition of VAT (Section -3):

(1) VAT shall be imposed and payable, at the rate of 15% on value determined under section 5 of VAT Act, on all goods imported into Bangladesh, except the goods listed in first schedule of VAT Act, and on the supply of all goods not listed in the said schedule and on all services rendered in Bangladesh, except services specified in 2^{nd} schedule of that Act.

(2) 0% rate for export or deemed export goods or services.

(3) VAT shall be paid by-

(1) For importation of goods- Importer;

(2) For supply of goods- supplier;

(3) For service- Service provider;

(4) For importation of service- Service receiver (Reverse VAT charge)

Application of VAT rate (section 4):

(1) For supply of goods or service- applicable VAT rate will be determined under section 6(2) and 6(3);

(2) For importation of goods- applicable VAT rate will be determined under section 30 of Customs Act 1969;

(3) For importation of service- applicable VAT rate will be determined by the time for payment.

Determination of Value for VAT (section 5 & rule 3):

(a)Import Stage:

Customs Assessable Value under section 25 or 25A of Customs Act + Customs duty + Supplementary Duty+ other duty and Tax (Except AIT)

(b) Domestic/Local Stage:

1) Goods (manufacturing): Price of Inputs +Production cost + Profit, Charge, Fee and Commission + Supplementary duty + other duty and Tax except VAT paid in previous stage.

Before supplying of any goods manufacturers have to declare his price of his products in 'Mushak-1' form before divisional officer and can starts supplying goods from the date of declaration. The divisional officer will make inquiry of the price and if finds ok him will give approval of the price. If he doesn't agree with price he will give hearing to the producer and will give his decision.

2) Services: total receipts excluding VAT but including supplementary duty

3) NBR can fix Tariff Value for any goods and service. In case of Tariff value price declaration is not mandatory but if anyone wants to sell goods or service on the basis of actual value addition then he has to declare the price and has to take approval from divisional officer.

Time for Payment (Section-6)

- For imported goods, VAT is to be paid at the time of paying import duty
- For supply of goods VAT is to be paid on the following activities whichever occurs first
  - When the goods is delivered or supplied.
  - When an invoice relating to the supply of goods is given
  - When any goods are used personally or given for use to another person
  - When the price of the goods is received in part or full
- For services rendered by registered persons/ business, VAT is to be paid on the following activities whichever occurs first
  - When the service is rendered.
  - When an invoice relating to the rendering of service is given
  - When the price of the services is received in part or full

Supplementary duty (section 7):

Supplementary duty is imposed on some luxurious goods and service stated in 3rd schedule of VAT Act. The rate of supplementary goods for different goods and services are stated in that schedule.

Turn over Tax (section 8 & rule4):

If annual turnover of a taxpayer is less than 6 million Bangladeshi taka then he doesn't need to be registered as VAT tax payer. He has to give 4% tax on his annual turnover. But some supply of goods and services are under VAT regardless of annual transaction.
To be enlisted as a turnover tax payer any person has to apply in 'Mushak-6' before divisional officer. After investigating everything, if he is satisfied will register him as turnover tax payer. The penal section, refund, government dues will be as like as VAT.

Tax Credit (section-9, rule 19, 20, 21) and Duty Draw Back (Section -13 & rule 29, 30):

Supplier or trader of taxable goods or provider of taxable service may take input tax credit (within 30 days following the date on which entire inputs mentioned in the invoice or bill of entry enter into the Taxpayer's premise of production, delivery or service rendering) against output tax payable on goods supplied or service rendered in every tax period except the following cases-

a. VAT paid on inputs in the production of exempted goods;
b. Turnover tax paid inputs procured from a Turnover taxpayer;
c. Supplementary duty paid on inputs used in the production of goods or rendering service;
d. VAT paid on reusable package at any other time except for the first time;
e. The VAT paid on goods and services related to the construction, balancing, modernization, replacement, expansion, renovation, and repair of any building or structure or establishment; purchase and repair of all kinds of furniture, stationary, air conditioner, fan, lighting equipment, generator etc, architectural plan and redesign, though directly related to production of taxable goods and services;
f. Various goods and services related to production or supply of taxable goods or rendering of taxable service, the VAT paid in excess of the rate of VAT on such goods and services set by the rule;
g. VAT paid against expenditure on travel, entertainment, staff welfare and development activities;
gg.
(1) VAT paid on the inputs which are not included in the taxable value base of goods mentioned in sub-section (2) of section (5);

(2) Input Tax paid on inputs purchased by traders who are mentioned in the 2nd proviso of sub-section (2) of section (5);

h. VAT paid on inputs purchased by the specified service provider as per proviso of sub-section (4) of section 5;

hh. Input Tax paid on inputs purchased by the trader mentioned in sub-section (4a) of section 5;

i. VAT paid on inputs purchased by a supplier who supplies goods at tariff value fixed as per proviso of sub-section (70 of section (5);

j. Input Tax mentioned in invoice or Bill of entry with a registration number of the concern supplier or trader or renderer of service;

k. VAT paid on goods under the custody or possession or occupancy of other person;

Taxpayers are entitled to drawback of VAT, supplementary duty, import duty, Excise Duty, and all other duties and taxes (except AIT). If a taxpayer supplies goods to domestic market as well as exports goods then he can take the drawback by himself in account current. There are two types of draw back-

(1) Flat rate- for some items exporter can go to his lien bank and can draw his draw back from bank by submitting available documents.
(2) Full drawback- for 100% exporter go to duty exemption and draw back (DEDO) office to get back all types of taxes (except AIT).

The difference between Tax credit and Duty Draw Back is credit allows only for input VAT but Draw back allows all type of duty and Tax.

VAT registration:

There are two types of registration-

(1) The person who imports or supplies goods and services (except goods of 1st schedule and service of 2nd schedule) have to take VAT registration under Section-15. He has to apply in form 'Mushak-6' before divisional officer.

(2) Any person exempted from registration under section 16 may apply for voluntarily registration (Section-17)

Keeping of Accounts (section31):

(1) Import bill of entry
(2) Statement all purchase of goods and services, taxable and exempted, and challans related thereto
(3) Statement all supply of goods or rendering of service, taxable or exempted, or export of those goods or service and challans related thereto
(4) Account current
(5) Statement of accounts of deposited money
(6) Statement of stock of inputs and goods manufactured or produced
(7) Such books and records as may be set by special Rules.

Time for submission of Return (Section-35 & rule 24)

Every manufacturer or producer or trader of taxable goods or renderer of taxable service shall have to submit return in form ' Mushak-19'for each tax period within 14 working days of the next month after tax period (Tax period- one month).

Offences and Penalties (section 37 and section 37 A):

(1) For irregularities such as if anyone fails to submit an application for registration or fails to submit return within the specified date or fails to inform VAT officer about any change of information relation to registration or fails to comply of any summons under section 25 the he shall be liable to pay minimum 10 thousand taka and maximum twenty five thousand taka (section 37 (1)).

(2) if any person-

(a). fails to give tax invoice or gives an untrue invoice in the context of important information; or

(aa). Fails to pay VAT, or VAT and supplementary duty on goods supplied or service rendered by him being directed twice by the concerned officer; or
(b) Submits untrue return in the context of important information; or
(bb) attempts to evade tax by supplying goods without recording information in Account Current book (VAT-18) or in sales book (VAT-17); or
© evades or attempts to evade Tax by submitting counterfeit or false documents to a VAT officer; or
(d) Doesn't preserve required documents, or destroys documents; or
(e) Consciously makes a false statement or declaration; or
(f) Obstructs or prevents any VAT officer on duty; or
(g) if any person involved in receiving, taking possession, carrying of such goods where VAT or VAT and supplementary duty has been evaded; or
(h) if anybody takes input tax credit through fake or counterfeit VAT invoice; or
(i) Evades or attempts to evade VAT or VAT and supplementary duty by any other means;
He shall be liable to pay minimum same amount of evaded tax and maximum 2.5 times to evaded tax and any other case not related to tax evasion, he shall be liable to pay minimum ten thousand taka and maximum 100000 taka (section 37 (2)).
If any taxpayer fails to pay tax or any withholding agency fails to deposit money in the government treasury then 2% interest will be added in addition to the due amount.

Special judge (section 37 A):
With the permission of NBR, an officer not below the rank of an Assistant Commissioner can file a case before special judge for an any offence stated in section 37(2).

Appeal (section 42):
If a taxpayer is aggrieved with any decision or order of any VAT officer he may choose to go for appeal and can choose among the following alternatives.
1. Can appeal to commissioner (Appeal) against the decision or order issued by an Additional Commissioner or any VAT officer subordinate to him;
2. The appellant can choose to go to the Customs, Excise and VAT appellate Tribunal authority against the decision or order issued by the Commissioner, the Commissioner (Appeal) or any VAT officer subordinate to him;
3. If the appellant is still unsatisfied with the order passed by the appellate Tribunal and , the taxpayer with enough legal ground can further make a reference to the High Court Division of the Supreme Court of the country. Finally, the aggrieved taxpayer may finally appeal against the verdict of High court Division to Appellate Division of the Supreme Court.
4. if any person wants to file an appeal, he shall have to pay at the time of his filing appeal,-
(a). in case of an appeal to commissioner (Appeal), 10% of the fine charged or tax demanded;
(b). in case of an appeal to Appellate Tribunal), 25% of the fine charged or tax demanded;
©. in case of an appeal to commissioner (Appeal), 15% of the fine charged or tax demanded if the Appeal is made against the order of Commissioner (Appeal)
5. if Appellate Tribunal fails to give any decision on the appeal within 9 months from the date of receipt, the appeal shall be deemed to have been granted by the appellate authority.

Realization of Short-levied or Unpaid and other duties and Taxes (section55):
(1) If VAT or VAT and supplementary duty has not been imposed or paid or has been short imposed or short paid or has been erroneously refunded or drawback of VAT, supplementary duty, Customs duty, excise duty and other duties and taxes (excluding AIT) has erroneously repaid under section 13 or duty and taxes payable on any goods supplied or service rendered in Bangladesh has been adjusted due to inadvertence or wrong interpretation then the concerned VAT officer shall, within the five years from the date on which the said duty or VAT became payable or short paid or refunded or repaid or drawback or adjusted, issue a show cause notice demanding the duty or VAT

(2) But if anybody hides any information for tax evasion or evades tax by submitting false documents then the time limit of five years will not be applicable.

Recovery of Government dues (section 56 & rule 43):

(1) When any amount of money is due from a person under VAT Act 1991, VAT officer will recover the under the following procedures –

(a) will deduct the money from himself or Income tax, Excise or Customs held under his control, when any of them owe money to the person from whom the money is recoverable;

(b) Can freeze his bank account;

(c) Can stop removal of any goods or rendering of service from the business promise or seize vehicle (with or without goods) of the business firm until the said money is fully collected;

(d) Keep business premises of the said person is unlock;

(e) Can attach or sell without attachment the moveable or immovable property;

(f) Can recover the money by seizing and selling the goods;

(g) If the owner ship of the firm is transferred, the money is recoverable from the new owner;

(h) Can lock his Business Identification Number (BIN)

(2) If the money is not recovered in the procedures stated above the officer file certificate case before district collector and money will be recovered under Public Demand Recovery Act.

The VAT officer shall have to remind at least twice the concerned person in writing before taking action under section 56. If his business premises is to be put under lock or his movable or immovable property is to be attached and sold or sold without attachment he shall be noticed at least two weeks' notice and if the person desires for hearing then it is mandatory to give him the opportunity.

Refund (section 67):

(a) If VAT or VAT and supplementary duty is paid or over paid due to inadvertence, error or misinterpretation, or any other reason then refund can be claimed in FORM "TR-31" to divisional officer within six months of the payment;

(b) Concerned officer will give his decision within 90 days of the receipt of the application for refund.

Audit (section-26A):

An officer not below the rank of Joint Commissioner can give order for an audit. VAT commissionerate and VAT audit and investigation office are responsible for conducting audit. The main function of The VAT audit and investigation department is to conduct audit, intelligence and investigation of the vulnerable VAT units throughout the country. The officials of this office conduct secret investigation and intelligence work to find VAT evaders and on confirmation, they take intensive to audit the selected business unit. The VAT commissionerate also conduct audit activities in a regular basis to ensure the transparency in VAT. But VAT audit department conduct their audit independently all over the country. If they find any discrepancy, they send the report to the respective VAT commissionerate to collect the unpaid revenue or to take the necessary measures against the taxpayers.

If an audit is done by VAT office then generally any other VAT office will not conduct further audit unless they have sufficient information that the firm is evading tax.

Tax Payment Procedure:

In VAT system, VAT is paid on the following two procedures:

(a) By registered person: Registered person will collect VAT from buyer or service receiver when he supplies goods or renders service. He will keep the amount of input VAT as credit and deposit rest of the part in treasury. VAT is paid in some cases by account current in this system.

(b) Withholding deduction:

In all stages buyer of goods or receiver of service paid the VAT at a fixed rate. The seller of goods or service provider deposits the money in Government treasury which is collected from buyer of goods or receiver of service. it means the tax payer is treated as source of that tax. The seller of goods or service provider is treated as tax collector only. But the withholding system is just opposite to that system. In this case the receiver of goods or service i.e. VAT payer is bound to deposit his payable tax into government treasury. As the buyer of goods or service receiver i.e. the person who pays VAT deposits VAT by himself so it is called tax deduction at source. Withholding authorities of VAT deduction in Bangladesh are-

(1) Government, semi government or autonomous organization;
(2) NGO;
(3) Bank, insurance, or other financial institution;
(4) Limited company;
(5) Education institution.

Responsibilities of a business man:

To conduct a business related to goods or service which is under the coverage of VAT, a business man has to do the following responsibilities-

(a) Has to register himself before starting business;
(b) Has to take approval if he changes any information related to business;
(c) Has to take value approval where necessary;
(d) Has to maintain all Challans (invoice) and register books;
(e) Has to deposit all taxes according to law;
(f) Has to submit returns for every tax period;
(g) Has to be careful of all lawful right so that he can take all advantages of law.

Responsibilities of consumer:

Consumer pays VAT in VAT system. Business man doesn't pay VAT; they act as collector and deposit the VAT in government treasury. Consumer pays the VAT from his own earning for building his nation. It's the responsibility of government and consumer to make sure that the paid VAT by consumer is being deposited properly. If consumers become little bit careful then he can make confirm of his tax from his earning into government treasury by taking invoice from seller of the goods or service providers. If he doesn't take invoice then his paid VAT will be kept by business man.

Large Taxpayers Unit (VAT)

Large Taxpayers Unit (VAT) was established in 2004. This unit was set up after the implementation of income tax LTU. Almost all big multinational and national organizations are registered under LTU (VAT). As only the big enterprises and the multinational companies who have big volume of business , pay tax in LTU and as LTU has set up few years back and deals with big business holder , it is very difficult to evaluate the performance of LTU in government revenue collection.

VAT Revenue

Performance of VAT revenue in national budget is significant . In spite of many exemptions, VAT is the leading revenue in NBR. Its contribution is the highest in the total revenue of NBR.

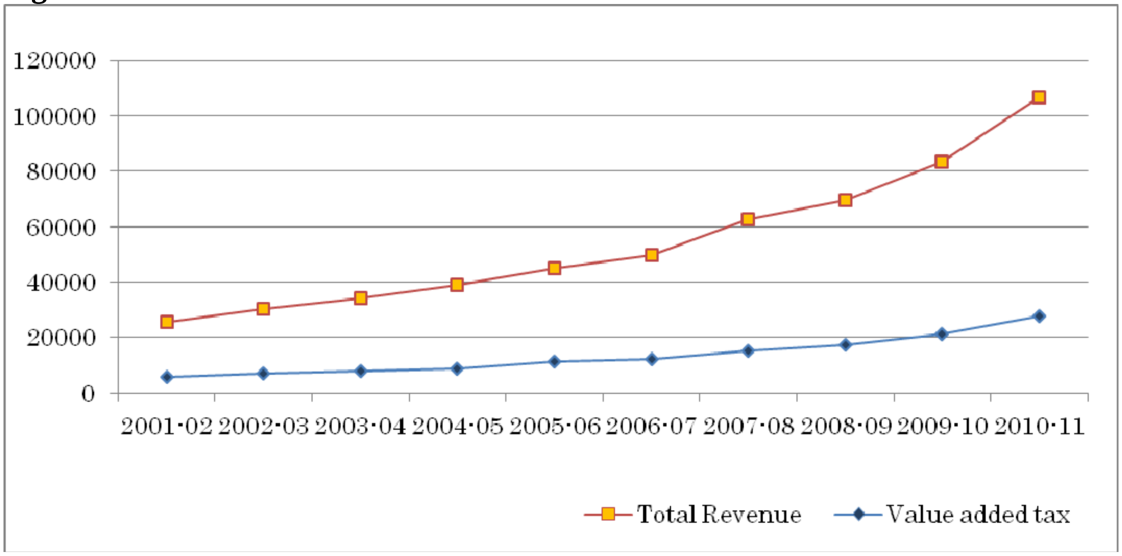
Table 47: Performance VAT

(In thousand crore taka)

Particulars	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Value added tax	69.61	80.73	85.75	106.05	123.98	136.83	170.13	201.16	241.40	275.27
Total Revenue	207.3	237.5	270.5	305	344.56	374.79	459.7	530	621.57	790.92
VAT as % of total revenue	33.33	33.61	31.7	34.77	35.98	36.5	37	37.95	38.84	

Source : National board of revenue.

Figure 34 : Performance of VAT



The deviation of VAT system in Bangladesh:

VAT system is a scientific and automatic system. Credit system moves the VAT mechanism from starting to consumer level automatically. Automatic system depends on its account system to work automatically. The account system becomes very complicated due to tax culture in Bangladesh. To make the situation workable, some excise culture has been adopted in Bangladesh VAT system, which is a deviation from ideal VAT system. This type of deviation has made the simple and scientific VAT system complicated.

According to IMF Bangladesh VAT system is an extended part of Excise system (IMF report on Bangladesh Tax 2007; page 12). Revenue reform commission has commented that the excise psyche is still present in the VAT administration. The VAT system of Bangladesh has been deviated a lot from ideal VAT system. The major deviations are following-

a. Value declaration: in open market economy the price of goods and service are determined according to demand and supply of the market. VAT should be imposed at every transaction of goods or service but the system has been deviated from that transaction system and turned into determination of value of products which has made the system complicated. At present value declaration and its approval become the most difficult job in Bangladesh VAT system.
b. Cascading Tax: The main fault of excise system was cascading effect of tax. VAT system is free from that fault but VAT system of Bangladesh is not free from that fault. The products or services which are related to supplementary tax, supplementary tax is added to determine the base value of those products or service. At import stage the value for VAT is determined by adding the customs duty, supplementary duty and other taxes (if any) with transaction value. As a result cascading effects have been created for some products. There are some exemption or tariff value or truncated base or general rate are existing in VAT chain which has also created the cascading effects.
c. Tariff value: Transaction value method is not followed everywhere. Value addition has been fixed for some products or service which is known as tariff value. Credit system is restricted for tariff value as a result VAT chain is distorted.
d. Maximum retail price: VAT is imposed at every stage from production to supply chain but in Bangladesh for some products VAT is imposed on the basis of maximum retail price. Producer can pay the VAT of the retail and wholesale stage on the basis of maximum retail price, if he desires which is also a distortion in VAT chain. Basically this is an excise system.
e. Truncated base VAT: some lower rates (6%, 5.5%, 4.5% etc) along with unique rate (15%) have been introduced in VAT system in the name of truncated base. Credit mechanism is also restricted in truncated base system which also distorts VAT chain.

f. Advance trade VAT (ATV): Importer or manufacturer is not known to consumer. Basically consumer know the business people (trader) as a result this trading stage is most important among the 4 (import, manufacture, trading and service) but unfortunately this trading sector is neglected most. Though the VAT at import stage or manufacturing stage is paid indirectly by the consumer but he doesn't know this fact. So how much VAT is collected at import or manufacturing stage but there is a lack of knowledge among consumers. Without collecting proper VAT at trading stage short cut path has been adopted. 20% value addition is assumed at trading stage and on the basis of this addition VAT at trading stage is collected at import stage in advance to increase revenue collection.. As a result though revenue is increased in short term but in long run it is hampering the VAT mechanism.

g. Registration: Without registering on the basis of account based location, physical structure of business firms is registered on the basis of geographical location. As there is no registration of full VAT chain of a business entity so most of the vertically integrated part of the business remains out of VAT net. This is a big fault of Bangladesh VAT system.

IV. Country Specific Fiscal Issue

The National Board of Revenue (NBR), as the central authority of tax policy and administration in Bangladesh, plays a critical part in the development of the country. During the current fiscal year (FY 2010-11), NBR is expected to collect Taka 75,600 crore, providing much needed support to the governments development efforts. In recent years, Bangladesh's tax collection has recorded an impressive growth averaging 20% per annum. Despite this good achievement, a lot remains to be done. Bangladesh's tax-GDP ratio at 9.3% remains quite low when compared with other similarly placed countries in South Asia. Less than 1% of the population pays income tax and tax evasion is persistent even though a significant amount of tax revenue is given up in the form of tax incentives. Together, curbing tax evasion and dealing with tax incentives could add 5 percentage points to the tax-GDP ratio, potentially adding about 40,000 crore to the revenue collection. Most of NBR's processes are manual and there is little in the nature of taxpayer service and taxpayer education. The NBR also faces problems in its functioning due to its current administrative structure. Despite being under the same board, the different wings of the NBR (Income Tax, Value Added Tax (VAT) and Customs) operate almost independently providing little support to each other in combating tax evasion and providing a unified front to taxpayers. Moreover, the NBR faces the problems of acute shortage of trained manpower as well as physical infrastructure. These weaknesses of the NBR have not gone well with the business community and individual taxpayers.

In response to these challenges, the NBR has embarked on far reaching reforms both on tax policy and tax administration.

The NBR should take an aggressive and comprehensive organizational renewal program that seeks to put in place an efficient, effective, fair and responsive tax regime which is benchmarked against international best practice. The envisaged reform program must cover all the three taxes i.e. Income Tax, VAT and Customs. The reform will review and modernize both, (i) the tax policy (tax laws and statutory rules) and (ii) tax administration (business process, organizational design, HR policies, taxpayer services etc.).

Tax performance in Bangladesh has been registering a steady incremental annual improvement over the years with an average 20% growth over the last four years. However the gap between tax policy expectation and tax performance is significant. This gap is going to become far wider in future as the GOB expects the three taxes to deliver revenue outturns that would be more than 200% higher than the current tax performance over the next five years.

The macroeconomic framework underpinning the budget envisages the Bangladesh economy to grow by 7% in FY 2011-12. This outcome is predicated upon a significantly enhanced revenue outturn by allowing the government to finance a much larger Annual Development Program. However, the NBR faces several challenges in fulfilling this goal.

The tax base in Bangladesh is very narrow with fewer than one million income tax filers. Non-reporting and under-reporting of taxes afflict all the three taxes. The present tax information gap between what the taxpayer knows and what the three tax departments know about their taxpayers is very wide. In effect, the taxes that get paid are what the taxpayer chooses to pay and not what he/she is obliged to pay under law.

The NBR is woefully short on administrative resources in terms of manpower, finance as well as physical infrastructure. Its tax management procedures and business rules are desperately in need of review and improvement and its processes are cumbersome, being largely manual and paper intensive. There are obvious leakages of tax revenue from even tax filers on account of inadequate accounting procedures. The present tax administration structure, methods and business processes were designed for a manual paper based work environment and are inadequate. These do not equip the NBR to deliver on its ambitious service and compliance improvement goals, which in turn are critical for the NBR to fulfill its revenue outcome / tax performance vision. Hence the NBR needs to embrace ICT as a key driver in its comprehensive tax administration reform effort. This part of the reform is the program, "Digital NBR" which in turn is a subset of the national program, Digital Bangladesh".

The NBR does have pockets of computerization in some work areas. However, this is largely on standalone PC's and does not produce strategic value for the NBR. In fact, the disaggregated computer programs run side by side with the legacy manual processes have not replaced any significant part of the legacy tax management work. There is no integrated information system and different functions even within the same building do not communicate with each other.

The present weaknesses in tax laws and tax administration severely limit the capacity of the NBR and its field formations. Thus the NBR cannot expect to deliver the desired growth in revenue outcomes without first fixing the tax laws through a comprehensive policy reform and supporting such policy reforms with concurrent tax administration reforms.

The NBR needs to focus on the following issues to enhance its performance as well as building community confidence

(1) Tax Policy Reforms

The Income Tax Ordinance of 1984 has become out of date and complicated over time due to several amendments through successive Finance Acts. The VAT Act of 1991 is badly in need of reform to move it from an excise based system towards a true VAT. The Customs Tariff is also in need of restructuring and the Customs Act, 1969 needs to be modernized.

(a) Reforms of Income Tax Law

There are several weaknesses in the current Income Tax Ordinance. These include, the excessive discretion provided to tax authorities on policy issues, the proliferation of tax incentives and concessions, poor compliance arising due to weak enforcement, limited use of information of taxpayers from other taxes as well as third party information from other agencies, and over dependence on presumptive taxes as a final tax irrespective of taxpayer size.

So, undertaking a comprehensive review and re-casting of the Income Tax Ordinance to simplify and streamline tax laws, reduce opportunities for disputes and litigation, correct and check transfer of national tax resources to locations outside the country and move to a full-fledged self-assessment tax regime in line with international best practices is now inevitable which will in turn rationalize and streamline work distribution pattern and enable and support centralized operations and return processing, electronic filing, gathering of third-party information and improved compliance management methods. The law will assist in re-allocation of administrative resources for tax compliance and customer service.

(b) Reforms of VAT Act

The VAT Act of 1991 suffers from several weaknesses. The main problem is that the existing VAT is primarily built around the old excise system that it replaced. The problems are, excessive use of physical monitoring of businesses rather than the use of secondary information, treatment of each unit of a multi-unit business as a separate business entity, use of deemed value added based on a percentage of sales (truncated VAT), tax liability based on approved prices rather than actual prices, over reliance on presumptive VAT etc. So reforms in VAT law are necessary to rationalize the operation of the law as well as facilitate country-wide administration of the VAT regime. The reforms should be done to facilitate electronic interface for taxpayers and a national tax accounting platform for VAT credits and refunds/adjustments of input/output tax. It should also facilitate centralized processing of returns and effective flagging and reporting of exceptions for compliance intervention by field staff.

(c) Customs Tariffs Restructuring and Rationalization including modernization of Customs Act

Reforms in Customs Act is necessary to improve the policy content and framework of the Customs Act, 1969 in the context of the national vision of Bangladesh as well as the required operational efficiency of the customs interface in the country. The reform of the Customs Act would include,

d) Provision for full implementation of Revised Kyoto Convention (RKC)
e) Introduction of WCO SAFE Framework of Standards (FoS)
f) Review of related SROs
g) Introduction of Authorized Economic Operators (AEO)

h) Tariff rationalization to promote investments and prevent misdeclarations and eliminate distortions

The modernization program, at the policy level should also factor in the mutation in the role and mandate of the customs authority from being a pure revenue collecting agency in the era of the high tariff walls to a multi-role organization in the current era of borderless movement of goods, services and currency flows. The modernization of the Customs Act also must concern improved risk management techniques, de-congestion and sharp turn-around cycle times at port facilities for customs clearance, remote centralized pre-arrival processing of duty payment and customs clearance with intelligent selection methods for full audit and verification in high risk cases.

(2) Integrated Revenue Management Program: Business Process

Though Income-tax, VAT and Customs Departments function under the NBR, there is very little data inter-change among the three tax departments and the possible synergy among the three is entirely absent. An integrated revenue management program can connect the three departments at transactional level by linking the taxpayer identification numbers i.e. TIN and BIN in the data base. The three departments substantially deal with the same client base or sub-sets of the same base. Hence it makes good business sense to create a data mining facility with modern risk management techniques to enforce better tax compliance. The methodology for setting up such an integrated system is to first centralize the data base and transaction processing of the three departments at one location and then to build an information system that can mine data in the three data bases and thereafter process the same for exception reports. The separate Modernization Plans under the different tax wings should not be seen as independent verticals but limited to tax specific activities that cannot be integrated across the different taxes. The integrated revenue management program will enable the desired flow of information and consequent synergy among the three tax wings of the NBR.

(a) Direct Tax Modernization Program

There are over 140 million (there is no consensus about the statistics somebody says it is over 160 million) population in Bangladesh but only less than one million people give Income Tax which tells the inefficiency of Income tax Management so measures should be taken in the reform of the Income Tax Act so that the Act shall put in place an efficient and modern direct tax regime in the country. The design must seek to encourage wide voluntary compliance by the over-whelming majority of taxpayers. This is sought to be achieved by making it simple for the honest taxpayer to meet his/her tax obligations with minimum inconvenience and with no additional compliance cost. The design must also seek to increase the cost of non-compliance and make the likelihood of detection of evasion much higher. This can be achieved by a strong and efficient third party reporting system. This will enable an integrated platform for capturing, analyzing and disseminating information after identifying logical inconsistencies between such information and information reported by a taxpayer in his/her tax return. Improved risk management methods will enable focused deployment of compliance resources in high revenue yielding cases and this in turn will produce a compelling compliance regime that will widen the tax base. Tax administration reforms will segregate and consolidate non-customer facing non-discretionary, high volume mass tax tasks in a centralized processing centre for efficient processing and closure. The manpower released from this re-design will be re-assigned for compliance, customer service, collection, market surveys, intelligence gathering and other customer facing activities. The policy and administrative procedure will seek to widen the taxpayer base to at least two million taxpayers from the present one million.

(b) VAT Modernization Program

There are over 0.7 million VAT tax payers in Bangladesh. VAT is introduced in 1991 though it is generating lion share of tax revenue still, the question of effectiveness of VAT System in Bangladesh arises at different forums like local trade bodies, international organizations and development partners. VAT productivity within the SAARAC is still one of the lowest. Some VAT experts say that according to economic activity there should be over 1 million VAT taxpayers in Bangladesh. The VAT productivity for different SAARAC countries are given below-

Table 48: Levels and Changes in VAT Efficiency Ratio (three year average)

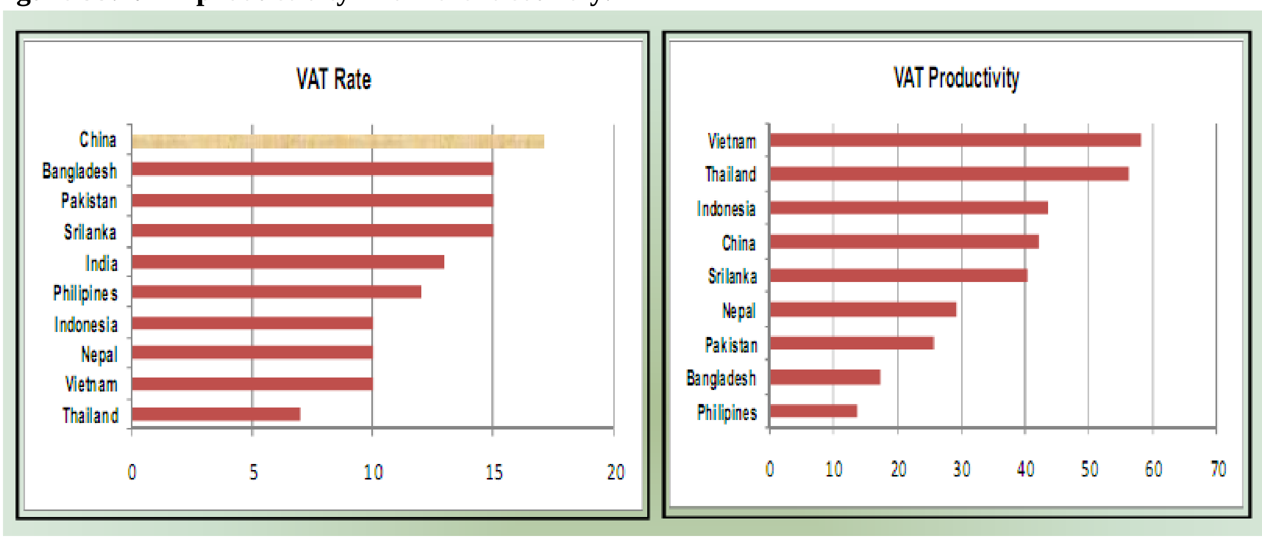
	VAT Efficiency%			C-Efficiency (%)			VAT Gross Compliance Ratio (%)			Initial Three Years	Last Three Years
Country	Initial 3 years	Last 3 years	difference	Initial 3 years	Last 3 years	difference	Initial 3 years	Last 3 years	difference	Initial 3 years	Last 3 years
Bangladesh	18.9	19.5	0.6	23.2	24.5	1.4	24.7	26.3	1.7	2001-03	2006-08
Nepal	24.7	29.5	5.5	27.9	32.8	2.1	31.2	37.3	6.1	1997-99	2006-08
Pakistan	13.9	24.6	10.7	16.4	28.9	12.5	19.7	32.4	12.7	1990-92	2005-07

Source: IMF

Table 48 shows these three 'efficiency' measures for 3 countries using three year averages for two periods, for the early 1990s and the three most recent years available in the 2000s. The change in the three efficiency measures between these two periods is also reported in Table 48.

From the above table we find VAT productivity is the lowest in the SAARAC countries. If we look at the following we also find the same picture.

Figure 35: VAT productivity in different country.



Source: NBR

Given Bangladesh's VAT rate is 15%, one would expect revenue productivity to be higher than revenue productivity of countries with normal tax rate.

So modernization of VAT administration is urgent. The objective to modernize the VAT administration in order to improve voluntary compliance and customer convenience in meeting tax obligations under the law should get priority. The Act and procedure as well as business process have to be improved to establish an efficient risk management regime for compliance intervention to ensure wide adherence to the VAT Act, which is capable of significant improvement in revenue outcomes. This implies restructuring of the VAT administration to take advantage of the efficiencies provided through automation that enables information exchange across the different taxes. The officer-jurisdiction centric administration would need to be changed to more flexible arrangements that would help in meeting the challenges posed by understatement of sales in evasion prone sectors, improper valuation of value added on services as well as loss of tax from internet based marketing.

(c) Customs Modernization Program

The customs modernization program should incorporate the latest ICT technology for better compliance in all its land, sea and air ports. This must include evaluating the practice of Pre-Shipment Inspection (PSI) and its gradual phase out. PSI adds to cost of doing business in Bangladesh and reduces the competitiveness of national businesses as similar costs are not imposed on businesses of neighboring countries. The replacement of the Pre-shipment Inspection will entail training of the customs officials in modern valuation techniques. The Customs Modernization Program should incorporate following components;

f) Develop policy units at the NBR with strong and reliable MIS support and statistical capability;
g) Formulate and update Standard Operating Procedures (SOP) on Risk Management, Post Clearance Audit, Assessment, Physical Inspection, Non-Intrusive Inspection, Passengers' baggage handling at ports etc.;
h) Develop audit manual for regular audit of activities and performance by internal and external agencies. (this is in addition to CGA audit);
i) Strengthen and modernize intelligence and risk management, improve valuation and audit capacity;
j) Redefine scope of work at customs stations through reduction in discretionary powers redesigning working process;
k) Strengthen and modernize Customs Training Academy and review HR policy for retention of core competences (risk management, PCA, valuation, classification etc.) at respective offices;
l) Redefine the role of PSI Agencies to procure support services like conducting investigations against customs fraud at overseas locations, gather trade data (price, forecasting etc.) for valuation database, quality certifications etc;
m) Establish connectivity with important partners for providing Single Window Services; and
n) Recruit new officers and impart training.

(3) Taxpayer Identification Number (TIN)/Business Identification Number (BIN) Project

The Taxpayer Identification Number (TIN) is the foundation for any automation of tax administration. The TIN enables the maintenance of a single taxpayer account, enables the exchange of information of taxpayer transactions across the different taxes and high value transactions outside. This ensures that taxpayers have the correct status of their tax liabilities and also ensures that the tax evaders are targeted based on the information collated from multiple agencies. The existing TIN is a manual registration program that suffers from many defects including representation errors, duplicate numbers, incomplete database and inconvenience of a decentralized registration procedure. The NBR needs replacing this number by an efficient nationally unique number or new TIN which will also be linked with the national ID Number. The program should centralize the database, the transaction processing and allotment process and maintain high service standards. TIN Facilitation Counters (TIN FC) should be established in all districts of the country to enable ease of application and service for applicants. It should also consider set up an e-filing portal for remote online application and also put in place an express service for urgent cases.

The Business Identification Number (BIN) program for registering businesses and branches of businesses for VAT administration has to be revamped and a new series of VAT is to be allotted that would follow up, and be derived from the TIN. This will enable proper management of VAT payers.

(4) Centralized Processing of Income Tax and VAT Returns program

A modern tax administration makes the maximum use of technology to relegate routine tasks to the background to be outsourced with high quality data that would then be made available to tax officers. A big part of such routine tasks involves the data entry and arithmetic processing of tax returns. A Central Processing Centre is to be set up for processing all Income-tax and VAT returns, whether e-filed or paper filed at one integrated processing center. This center will draw tax payment information from the tax record keeping accounting agency or CRA and deliver products and services to tax-payers, to NBR and other key stakeholders. The centralization of high volume low knowledge, repetitive jobs like receipt and processing of returns and accounting for taxes etc. will free critical trained manpower of the NBR for attending to the highly neglected tax compliance activities. This change in management of tax work will support significant improvements in revenue mobilization.

(5) Tax Information Network

NBR shall establish an integrated tax accounting system which will be able to verify tax payment claims against actual receipt by the government in banks, consolidate tax accounts and support field formations with accurate tax payment information online. It will also support the NBR and the government with real time accurate revenue performance information. A Central Record Keeping (CRA) Agency is to be established on a managed service model as a public private partnership to serve all the three tax wings of the NBR with an efficient accounting system. The system must be designed to produce output reports and actionable compliance information for correcting delinquency in income tax, VAT and customs payments. This intervention is likely to significantly improve revenue performance and compliance environment in the three taxes under NBR control. The Tax Information Network would allow taxpayers to have real time access of their tax accounts and automatic crediting of refunds to their bank accounts. This would considerably reduce compliance costs of taxpayers as they would have less need for costly accountants to ensure that their tax records are in order or, having to visit the tax office from time-to-time.

(6) Strategic Communication and Taxpayer Outreach, Education and Assistance

Bangladesh has a very narrow tax base and a very small percentage of the population bears the burden of taxation. Most of the direct tax revenues come from TDS whereas a larger percentage should be coming from corporate tax as well as from businesses and professions through advance tax (PAYE). The logical inference is gross under reporting or non-reporting from various eligible categories. The tax performance across the board is inconsistent with the GDP and economic growth in Bangladesh. Obviously, in addition to improved taxpayer experience and effective compliance, there is a strong case for educating eligible taxpayers with their tax filing obligations as well as with information on how to go about it. Centralization and automation of tax accounts and return processing coupled with an efficient TIN database will provide valuable tools for analyzing taxpayer profile and behavior. Such analysis and information will be used to undertake an aggressive taxpayer education program. This will assist taxpayers to behave as responsible citizens/residents and to meet tax obligations arising from taxable income and activities within the sovereign territory of Bangladesh. The taxpayer education program will make available a menu of offerings through remote outlets like websites, internet etc. as well as through customers facing one to one or group interface with the NBR Customer Service Wing.

(7) Enforcement Improvement Program

Enforcement should be entirely revamped efficient and re-organized along modern and of lines. The traditional system subjective selection and intuitive enforcement with no measurement criteria for success needs to be replaced by a risk based compliance regime that will seek to make a distinction between honest and delinquent taxpayers. It will encourage delinquent taxpayers to join the voluntary compliance mainstream. The compliance system has to be assisted by modern data mining audit selection tools that will identify and give a risk rating to different taxpayers and persons for enforcement action.

(8) Audit: Skill (Training and Manual) Development Project; capacity build-up

Since the Circle Officer handles every tax task in his jurisdiction in relation to every taxpayer, audit is only one of his/her several responsibilities. Hence, even competent and experienced tax officers have neither the time nor the opportunity to develop skills in effective audit work. In fact, the audit work has been largely crowded out on account of increase in workload and lack of manpower and other resources. Once routine and repetitive jobs are centralized in CPC, CRA, Centralized TIN administration etc., the Circle Officer will have the space and opportunity for quality audit work. An aggressive program for skill development and training in audit work needs to be planned. Additionally, access to taxpayer specific third party information, TDS information, tax accounts information and industry specific performance information will enable the audit wing for moving to information driven audit of cases selected through an identity blind intelligent selection criteria. Skill development program needs to be undertaken for combating international tax evasion, tax avoidance and transfer pricing.

(9) Litigation: Structure, Management Capacity Building, ADR

Dispute resolution is a key issue in taxation. Currently, the dispute resolution mechanism within the NBR is inadequate and most of the disputes go up to forums outside the control of the NBR like Courts etc. There are over 18000 court case related VAT and Customs matter in honorable high court and about 30,000 million taka is blocked due to those cases. So reform program should be taken to rationalize taxes at both policy and implementation levels and to discourage disputes as far as possible. In the event of disputes, the objective would be to settle disputes within the department wherever practical through a variety of tools including the ADR system. Improvement in voluntary compliance experience, taxpayer education, and an efficient information/risk-based compliance regime will itself reduce the volume of disputes.

(10) Research Wing Development Project

Tax systems face several challenges in developing countries. These include a poor compliance environment and a wide tax information gap. These in turn result in under performance of tax systems. While these challenges have not been adequately addressed, globalization of the economy and dismantling of trade and tariff barriers have thrown up further challenges of transnational jurisdiction shopping and transfer of national tax resources to other countries and tax havens. In order to address these challenges through an institutional mechanism, this program would look at developing a research wing which will carry out in-depth research. These will include international tax jurisprudence, in-house data analysis, market survey and research both within and through outsourcing. The effort is to support the three tax wings of the NBR to intervene with policy options as well as administrative re-adjustment for dealing with existing and emerging challenges. This support will help reduce the tax gap which is the difference between taxes legally owed to the State and tax actually paid and collected. With strong and powerful back end systems being developed by the NBR for information and data management, the research wing will have enough width and depth for undertaking research and empirical studies to serve tax policy and administration.

V. Conclusion: Where we stand and where we go?

Despite numerous threats of natural hazards and political challenges Bangladesh made to the Next Eleven - eleven emerging economies identified by one of the largest investment banks, Goldman Sachs as countries having high potential of becoming world's largest economies in this century along with the BRICS (Brazil, Russia, India, China and South Africa). The country which was considered to be a 'bottomless basket' in 1971 is now offering a mirror to others how a developing country can be identified as a 'development state' and sometimes, being referred to a 'development surprise' of the 21st century. Bangladesh is also one of the six countries in Asia and Africa which has been feted for its progress towards achieving the UN Millennium Development Goals, a set of targets that seek to eradicate extreme poverty and boost health, education and the status of women worldwide by 2015. The country's economy has been growing nearly six percent a year over the past three years despite global downturn of investments. The export of garments has been enjoying a steady growth and made the country fourth largest exporter of ready made garments in the world, only behind China, European Union and Turkey.

The economic recession hit the globe at an extremely wrong time for Bangladesh since it has been growing at a steady pace for the last few years. A healthy growth rate of 6 percent could be maintained over the last seven years primarily by dint of successes in the semi-industrial and service sectors with the flow of remittances from other parts of the globe. Industrial growth averaged eight percent per annum in the last seven years despite inadequate infrastructure including severe scarcity of power and energy as well as inefficient governance and business procedures. Services, which grew at over six percent per annum in recent years, have remained robust, benefiting from continuous flow of remittances. Agriculture also grew at nearly four percent per annum in recent years and output has varied largely because of weather-related shocks. More recently, in FY 2009, agricultural crops, especially paddy, had a bumper production which may lessen import of food grains in the next few years and food security may be maintained. The external current account has been in surplus since FY 2006. Continued robust growth of remittances and strong export growth helped to maintain the surplus.

Despite such a commendable performance Bangladesh has been adversely affected by financial crisis originated in the developed countries. Export was also affected by the recession and many orders for Bangladeshi garment industries have started to shift to neighboring countries. This was mostly due to decline in the consumer expenditure in the countries with which Bangladesh trades. Exports of other sectors such as leather, handicraft etc has also been adversely affected. In order to cope with the global recession efforts are needed to diversify the export portfolio of the country as well as destinations of produces. Movement of 'natural persons' has also had a blow recently due to some socio-political issues in the importing countries. Besides, the laws and conventions that regulate movement of 'mode four' (i. e. export of laborers) has not been favoring Bangladesh in most counts. All these variables have made the economy vulnerable even though statistics gives a sanguine picture.

Collection and management of revenue has always been a challenge for a rising economy. In Bangladesh's case, extraction of internal resources has never been satisfactory compared to even neighboring developing states. The revenue-GDP ratio in Bangladesh has just crossed nine percent which is extremely low even in South Asian standards, as a matter of fact, among the lowest in the world. Reasons are numerous - both economic and non-economic. The country failed to create a tax-paying culture among its citizens. Some influential clergy of the society is allowed huge exemptions defying all rules, regulations and norms. In addition, seeking assistance to the development partners seem to a practice for long years. Although the administration has focused mainly on foreign aid and loan, initiatives to attract investment has never been vigorous. The dependence on foreign loan instead of internal revenue creates a real problem for the economy. In a word, the economy hovers around a vicious cycle of external loans where maintaining the balance of payment in the country's favor is extremely challenging. Without having appropriate revenue policy in place, it would be tremendously difficult for the country to break the jinx and come out from the vicious cycle of balance of payments. Consequently, the government’s one of the foremost priority is to augment revenue collection through broadening the tax net, establishing transparency and accountability in the tax management and increasing efficiency in the revenue administration.

There are numerous management and administrative problems and issues in the revenue department including shortage of sufficient trained officials and inspectors, inadequate information and communication technology support, lack of modern ICT based system in the Value Added Tax and Income Tax wings, lack of transport and other necessary supports impairing strict enforcement and monitoring on tax evaders, and most importantly, the absence of a proper revenue culture. If the management decides to modernize revenue administration with efficient software, hardware and human resources, the scenery of revenue collection would be changed noticeably. In the year of 2004, Central Intelligence Cell (CIC) was established under the direct control of NBR to retard the evil activities of the tax evaders. The use of Electronic Cash Register (ECR) in the medium and large traders and service providers of all city corporations areas in the district headquarters were made mandatory from the July 01, 2008. Recently, the government has taken decision to set up NBR wings at the upazilla level and greater use of universal tax assessment system for widening the tax base. These all are good news for revenue department. However, the development partners have been influencing in favor of a merger of the departments of Income Tax and Value Added Tax which was not welcome by the stakeholders. If the government forcefully merges these departments only for the sake of the vested interest groups against the national interest, the upward trend of revenue collection and overall development may face a huge blow in the following years.

Unfortunately enough, the government has not yet been able to finance its annul development programs from domestic resources and still has to mostly depend on foreign assistance. With an economy of huge potential government's dependence on foreign funding to support its expenditure is absolutely undesirable. Though the dependence on external funding has been decreasing gradually, there is an enormous opportunity to finance the development projects with the internal resources if sufficient attention and efforts are put. To achieve this goal, overall reform in the revenue mechanism is imperative.

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