

Technical Assistance in Fiscal Policy and Tax Administration in Developing Countries: The State of Nature in Bangladesh¹

By Tapan K. Sarker and Prof. Yukinobu Kitamura. Mr. Sarker is an Assistant Director General at the Directorate of Inspection (Taxes), National Board of Revenue, Bangladesh. Prof. Kitamura is from the Graduate School of Business and Commerce at Keio University, Japan. The authors may be contacted at <sarkertk@yahoo.com>.

1. Introduction

Bangladesh, a relatively young country in the South Asian subcontinent, emerged with high expectations of establishing an effective system of government by resolving the problems that had been hindering its development as a province of Pakistan for twenty-four years. However at the end of thirty years of independence, Bangladesh is still facing many challenges that impede her from realizing her full economic potential. Among other things, good governance is expected to streamline the role of the government and public organizations. Strengthening the internal revenue collection and mobilization of internal resources is crucial component to mitigate the problem. The most significant feature of the Bangladesh tax scenario is its heavy dependence on indirect taxes. Nearly 80% of all revenue of the government comes from the indirect taxes while the balance is from direct taxes. The tax-GDP ratio in Bangladesh is less than 10% and is the lowest among the South Asian countries. However, in order to mobilise internal resources, a strong and efficient tax system is necessary.

There are a number of laws relating to both direct and indirect taxes. The major direct tax is income tax while indirect taxes are VAT, and customs and excise duties. There are other minor taxes such as travel tax, gift tax, etc.

The lion's share of the indirect taxes comes from customs duty at the import stage and the amount of tax collected depends on the volume of import. This again depends to a great extent, in the case of Bangladesh, on the flow of foreign aid. It should be noted that Bangladesh has signed the World Trade Organisation (WTO) agreement, and this entails scaling down and/or abolition of duties and taxes on a wide range of items. This will severely affect the present tax structure of Bangladesh resulting in a greater emphasis on revenue generation from direct taxes. Failure to do so will severely affect the attainment of various national priorities like poverty alleviation, industrialisation, human resource development, etc. and the following economic vulnerability will increase social unrest which amongst others, will jeopardise national security.

Understanding the facts, Bangladesh is now seriously trying to reform her taxation policies. The main objective is to facilitate new investment through both internal and

¹ This article has been written in an academic context. The research findings, comments and recommendations are made understanding the real situation of Technical Assistance in Fiscal Policy and Tax Administration in Bangladesh. The authors are grateful to the Government of Japan for funding the research.

external sources. To do so, Bangladesh is currently undergoing a major public sector financial management reform process and this is viewed as a very important and successful component of the overall public sector reforms in Bangladesh. Bangladesh is receiving technical assistance in fiscal affairs from international organisations like the World Bank, International Monetary Fund (IMF), etc. and also specific technical assistance from countries such as the United Kingdom, Norway, Japan, etc. Since its independence in 1971 and up to the financial year 1999/2000, the total foreign aid received by Bangladesh amounts to around USD 36,344 million (Appendix 1). Project aid has always formed the bulk of the aid at more than 50% and is basically used for infrastructure and agricultural development. Although the operation and role of such projects cannot be underemphasized, this article will concentrate on the segment of such technical assistances in respect of Bangladesh's fiscal affairs.

1.1. Data and methods

This article is written through compiling time series data relating to disbursements and commitment of foreign assistance and grants/loans in fiscal affairs in Bangladesh. Data compiled from secondary sources and via reports and journals of the Government of Bangladesh (GOB). Bilateral and multilateral assistance data available from the Economic Relations Divisions (ERD) are considered to have supporting information from OECD and other international organizations such as the Asian Development Bank (ADB) and World Bank reports. Finally data from all the sources are sorted from the bulk of foreign assistance projects for the last thirty years. For country specific analysis of foreign assistance, the case of Japan has been considered as always at the top in bilateral assistance and the case of ADB in multilateral assistance.

1.2. Technical assistance (TA) in fiscal affairs at a glance

The following table shows a summary of the projects in fiscal affairs and overall technical assistance in Bangladesh.

Table 1: Commitment and disbursement of grants to Bangladesh (in Fiscal Affairs)

<i>Donor/Category /Description/user agency/Agreement Date</i>	<i>Allocation</i>	<i>Pipeline On 1/7/99</i>	<i>Cancel & Adjust</i>	<i>Fresh aid Commit.</i>	<i>Total Available</i>	<i>Disburse ment</i>	<i>Pipeline on 1/7/00</i>
1. ADB Project Aid	USD						
1. TA for insurance, pension and provident fund reforms; 5 Aug. 1998	0.5	0.5	0.0	0.0	0.5	0.1	0.4
2. TA for the efficiency enhancement in fiscal management; 10 Sept. 1998	0.7	0.7	0.0	0.0	0.7	0.3	0.4
3. TA for capacity building for the Security & Exchange Commission; 18 Aug. 1998	1.1	1.0	0.00	0.0	1.0	0.5	0.5
4. TA for establishing a framework for sustaining micro-finance; 5 Nov. 1998	0.8	0.8	0.0	0.0	0.8	0.25	0.55
5. TA for institutional strengthening of privatization board; 19 Nov. 1998	0.44	0.44	0.0	0.0	0.44	0.04	0.4
2. IDA 1. TA for commercial banking restructuring project; 10 Mar. 1997	USD 0.93	0.43	0.0	0.0	0.43	0.23	0.20
2. TA for private sector infrastructure development project; 10 Nov. 1995 (Japanese Fund)	Yen 153.8	153.8	0.0	0.0	153.8	0.153	153.647
3. Norway 1. Capacity building for foreign aid management; 15 Nov. 1999	NKR 9.4	0.0	0.0	9.4	9.4	3.911	5.489
4. U.K. 1. Reforms in budgeting & expenditure control project (phase II); 13 Nov. 1994	STG 9.814	2.882	0.0	0.0	2.882	1.487	1.395
2. Enhancement training facility of financial mgt academy; 15 June 1999	2.92	2.920	0.0	0.0	2.92	1.328	1.592
3. Reforms in Govt. auditing project (TA); 7 Dec. 1999	0.865	0.0	0.0	0.865	0.865	0.523	0.342
4. Strengthening and modernization of VAT admin.; 14 Nov. 1999	1.02	0.0	0.0	1.02	1.02	0.221	0.799
5. Trade policy capacity building project (Ministry of Commerce); 30 Mar. 2000	0.56	0.0	0.0	0.56	0.56	0.0	0.560

5. UNDP	USD						
1. Support for monitoring sustainable human development in Bangladesh: 24 Nov. 1994	1.660	0.146	0.77	0.0	0.84	0.0	0.84
2. Support to public administration reforms; 30 Oct 1997	1.304	1.044	0.0	0.0	1.044	0.27	0.774

(Amounts in million)

Source: Economic Relations Division, Ministry of Finance, Government of Bangladesh (Official Data Compiled by author)

1.3. Overview of development projects in taxation and fiscal affairs in Bangladesh

ETAC (Excise, Tax and Customs): This was a data computerization project started in 1990 funded by the World Bank and continued till June 1999. As per the Technical Assistance Project Proposal (TAPP) the total project expenditure was BDT 245.11 million, which was finally reduced to BDT 195.21 million. The project budget allocation was 15.92% for consultants (international), machinery 27.75%, manpower 17.83%, foreign training 12.49%, local training 8.17%, local consultants 2.02% and other costs 15.82%. In 1998 the project was revised and additional activities for data base management of VAT with the name of ASYCUDA (Automated System for Customs Data), was included.

The main outcome of the project was the:

- establishment of VIS (VAT Information System) cell, CIS (Customs Information System) cell and R&S (Research and Statistics) cell for the National Board of Revenue(NBR);
- establishment of TIN (Tax Identification Number) cell to allocate TIN for each taxpayer;
- establishment of ITIS (Income Tax Information System) for income tax purpose and to efficiently manage information, return processing and monitoring; and
- computerization of the R&S cell, etc.

The project had several shortcomings which were identified as:

- an unsuccessful VAT revenue mapping which was required by the TAPP;
- the failure to establish a valuation cell and a computer network among the tax offices.

The above shortcomings were caused by a number of reasons which include:

- delays in obtaining concurrences from the World Bank which resulted in obstacles in respect of the purchase of computers and accessories;
- insufficient manpower to manage the project;

- lack of coordination among the different levels and resulting weakness of the project activities; and
- administrative failures in respect of the coordination of the activities of related Ministries and divisions.

CAM-1 (Customs Administration Modernization Project-1): The project was under the purview of the Bangladeshi Ministry of Industry and funded by the International Development Authority (IDA). The project is one of the main components of Bangladesh Export Diversification Programme (BDXDP) and simultaneously the first step of the Revenue Administration Modernization Programme (RAMP). The CAM-1 project commenced in August 1999 with a budget of USD 9.61 million.

The main objectives of the project were to:

- reform and simplification of customs procedures regarding export;
- shift to post entry audit for bonded warehouse imports;
- co-opt the private sector as a partner of export reform through awareness programmes such as training, seminars and publications; and
- adopt a systematic approach to facilitate the diversification of exports by having electronic information to support speedy processing, effective post event audits, risk management and policy decisions.

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

RIBEC's achievements to date are the;

- computerisation of the National Budget preparation;
- computerisation of all chief accounts offices and implementation of an accounts consolidation system;
- new classification of the national budget is in line with GOB requirements and also the IMF requirements have been developed and implemented;
- creation of the Financial Management Academy (FIMA) to train senior and mid-level government officers in fiscal matters;
- updating of core financial rules and regulations; and
- orientation of 7000 government officers of various levels on the need for reform, training in accounting and budgeting under the new classification. In addition, a further 500 officers were trained in IT skills.

FIMA (Financial Management Academy): FIMA was created to meet the auditing and accounting educational needs of officers from the Bangladeshi Audit and Accounting Department. Since its inception FIMA has been providing training, to government offices from various departments and ministries, in matters such as financial management training, budgeting and accounting skills, accountability skills and knowledge, etc.

RIGA (Reforms in Government Audit) : This project commenced in April 1999 and is intended to update and improve the Audit Code of GOB, local government audit manuals, audit techniques, introduce value for money audits, and, improve the skills of auditors at various levels.

Further areas of financial sector reforms: The key stakeholders in GOB have on many occasions identified the following further areas of reforms:

- improvement in the quality of Government Commercial accounts;
- macro level finance;
- food accounts, railway accounts and defense accounts;
- simplification and computerization of civil service payroll
- pension and provident funds;
- updating financial rules and regulations of other departments;
- improvement of other departmentalized accounts; and
- reforms in banking sector.

2. Country Specific Technical Assistance

2.1. Japan's ODA to Bangladesh

Japan recognized the independence of Bangladesh in 1972, well ahead of other developed countries, and has consistently maintained friendly relations with it since that time. Since then, the two countries have shared common values such as freedom, democracy, a market economy, and have been cooperating on global issues, such as world peace, development and human rights, at the United Nations and other international organizations. A study on the net disbursement of Japanese ODA in South Asia shows that Bangladesh has maintained a consistent position as a one of the top recipients. The following table shows a comparative picture of net ODA received by the South Asian countries.

Table 2: Japanese ODA/OA in South Asian Countries (1994-2000)

Country	1994	1995	1996	1997	1998	1999	2000	Total	Average
India	886.5	506.4	579.3	491.8	505	634	368.2	3971.2	567.31
Pakistan	271	241	282.2	92.2	491.5	169.7	280.4	1828	261.14
Bangladesh	227.6	254.9	174	130	189.1	123.7	201.6	1300.9	185.84
Sri Lanka	213.8	263.7	173.9	134.6	197.9	136	163.7	1283.6	183.37
Nepal	118.8	127.6	88.8	86.1	56.9	65.6	99.9	643.7	91.95
Myanmar	133.8	114.2	35.2	14.8	16.1	34.2	51.8	400.1	57.15
Bhutan	27.5	21.9	11.6	16.2	8.5	17.8	7.2	110.7	15.81
Maldives	12.9	18.6	10.1	11.9	13.2	19.2	8	93.9	13.41
Afghanistan	0	0.1	0	0	0	0.1	0.2	0.4	0.06
Total	1891.9	1548.4	1355.1	977.6	1478.2	1200.3	1181	9632.5	1376.07

(Amount in millions of USD)

Source: *Geographical Distribution of Financial Flows to Aid Recipients, OECD 2002*

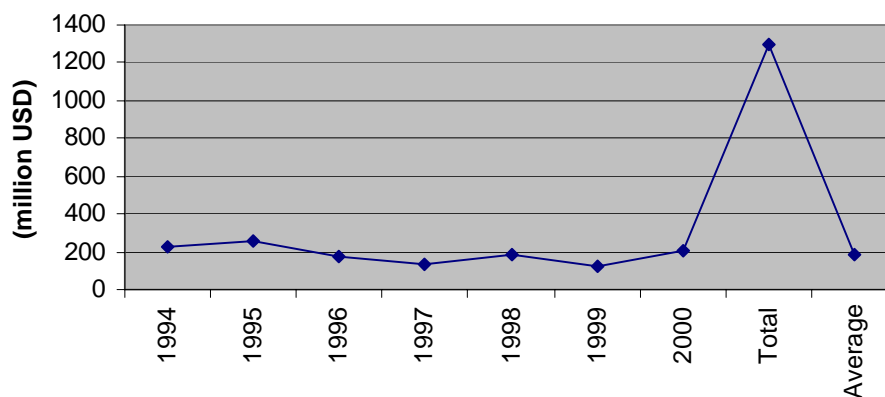
2.2. Bangladesh's position in Japan's ODA

Bangladesh is the sixth largest recipient of Japanese bilateral aid (based on cumulative net disbursements up to 1998) and Japan was the largest provider of bilateral aid to Bangladesh in 1997. Japanese assistance to Bangladesh, takes into account the following factors:

- the traditionally friendly relations between both countries;
- Bangladesh has the largest population (about 133 million) of the Less Develop Countries (LDCs) and has a large demand for aid;
- Bangladesh is often hit by floods, cyclones and other natural disasters; and
- Bangladesh has been moving ahead with structural adjustments, including democratization and economic liberalization since 1991.

The amount of ODA received by Bangladesh from Japan peaked in 1995 but since then, the amount of annual aid received, although lower, has remained consistent.

Chart 1: Japanese ODA/OA in Bangladesh(1994-2000)



Source: *OECD, 2000*

2.3. Objectives of Japanese aid to Bangladesh

Both the countries have enjoyed friendly relations centered on economic and technical cooperation. Bangladesh is engaged in vigorous diplomatic activities in the United Nations, Non-Aligned Movement, etc. and also on strengthening ties among South Asian countries. Japan's relations with Bangladesh will contribute to Japanese relations with other developing countries, and to the political stability in South Asia. However, in implementing aid, full cognizance of the enormous demand for aid in the recipient country and its capacity to service the debts is necessary.

2.3.1. Priority Areas for Japan's ODA

Based on studies and research concerning development conditions and tasks in Bangladesh and its development plans, as well as policy dialogues between Japan and Bangladesh, Japan has given priority to assistance in the following areas:

- Agriculture and rural development, and improvement of agricultural productivity;
- Social sector improvements;
- Improvement of the base for the promotion of investments and exports; and
- Disaster prevention and management.

As related tasks cross these four priority areas, the result will also be a strengthening of efforts to address environmental issues, human resources development and institutional building.

2.3.2 Matters for Consideration

In addition, the following items should also be taken into consideration:

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

2.3.3. Current situation

Agriculture, which is the largest industry in Bangladesh, is very susceptible to weather fluctuations and the country is still not self-sufficient in food. Bangladesh depends on foreign aid for more than half of its annual development plan budget (ADP). The present administration is moving ahead with economic reforms while it is working to restore the country's production capacity, which was slowed by a general strike, to attract foreign investment and control inflation. Bangladesh was also devastated, in July and August 1998, by what was said to be the worst flood damage of the century (amounting to 10% of the country's GDP). Following this, the tasks of the Bangladesh government will be to restore infrastructure and increase food production.

2.3.4. Tasks to be addressed

In order to achieve its long term goals, Bangladesh needs to address the following:

- eliminate the budget deficit and free itself from its dependence on foreign aid;
- boost and diversify agricultural productivity in order to achieve food self-sufficiency;

- implement measures to further alleviate poverty and control the country's high population growth (which averaged 1.75% annually in 1996/97);
- promote private investment;
- promote the privatisation of state-owned enterprises, liberalise trade, institute financial reforms and other structural adjustment measures, and cultivate export oriented industries; and
- maximise administrative efficiency and simplify procedures.

2.3.5. Orientation for Japanese aid

The flow of Japanese aid to Bangladesh has been largely oriented based on the:

- strengthening of the linkage between technical and economic cooperation;
- Yen loan request for infrastructure building projects of appropriate size will be considered individually in light of the country's debt service capacity and economic effects of each project;
- aid will basically be in the form of grants and technical cooperation, as Bangladesh is an LDC; and
- alleviation of poverty is given a high priority with a greater emphasis being put on the quality of aid. Aid will be provided to encourage self-help efforts so that Bangladesh does not develop an excessive dependence of foreign aid, taking into account (i) the demand for resource in the country, (ii) its ability to absorb aid, and (iii) its ability to service the debt.

2.4. Partnership

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

2.5. Japanese aid and Bangladesh

Donor wise details of aid flows in Bangladesh show that Japan's has always been the largest donor. However the aid pattern and other assistance are heavily composed of food aids, commodity aids and grants. A summary of the commitment and disbursement of Japanese grants to Bangladesh shows that most of the sanctions are as debt relief grant and infrastructure development. However, the issue of human resource development and other information technology related technical assistance, which could lead to countries forming their own resource generation and maintenance capability, are ignored. There is real scope of criticism on these aspects. Hopefully, Japan can take the initiative in restoring a balance in respect of the human resource development of Bangladesh as a timely policy alternative.

3. ADB Technical Assistance to Bangladesh

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

Rationale of the Project: The banking sector was basically insolvent and estimates of the outstanding loan portfolio in default ranged from 30% to 50%. This is attributable mainly to the financial status of the four Nationalized Commercial Banks (NCBs) and 8 Development Finance Institutions (DFIs), which together hold about two-thirds of the total loans outstanding. At this moment, there remains a robust demand for term local currency lending, which is essential for the development of private commercial activities. The primary beneficiary will be the industries and commercial undertakings, which are currently facing great difficulty in accessing term local currency funds. The secondary beneficiaries will be the Private Commercial Banks (PCBs), who will develop in-house term credit analyzing capabilities.

The ADB will lend over-the-counter funds to Bangladesh Bank and which will then be re-lent in the local currency for periods of up to 10 years. The unique feature of this project is the emphasis on the transfer of practical term credit analysis skills and practices from the well-established foreign commercial banks to the domestic PCBs. The technical assistant and other lending (in pipeline) for the financial year 2000-2002 in respect of the Finance and Industry sector in Bangladesh is about USD 1,200,000.

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

The ADB will also provide TAs to assist the GOB in speeding up financial market reforms. The TA programmes in 2000, in respect of capacity building for the SEC and Stock Exchanges of Bangladesh were designed to supplement and bring to closure some of the key elements that were not completed under other ongoing TAs. These include operationalisation of the central depository system and investor protection fund.

4. Overall external assistance

The following table shows the overall external assistance received by Bangladesh in recent years. Among the multilateral organization, the ADB was the highest contributor, however Japan was the contributed the most in the bilateral assistance programme.

Table-3: Overall External Assistance

<i>External Source (USD Million)</i>	<i>Past 3-5 years</i>		<i>1998 Approvals</i>	
	<i>Loan/Credit</i>	<i>TA</i>	<i>Loan/ Credit</i>	<i>TA</i>
A. Multilateral Assistance				
ADB	284.0		325.0	
EU	65.0		40.0	
UN	83.0		107.0	
WB	307.0		575.0	
Subtotal	739.0		1,047.0	
B. Bilateral Assistance				
Canada	32.0		24.0	
Denmark	22.0		19.0	
Germany	58.0		40.0	
Japan	304.0		299.0	
Netherlands	36.0		40.0	
Norway	27.0		18.0	
Sweden	17.0		50.0	
United Kingdom	36.0		26.0	
United States	67.0		107.0	
Others	78.0		200.0	
Subtotal	677.0		823.0	
Total	1,416.0		1,870.0	

Source: Ministry of Finance, 2000

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

Table -4: Lending programme by Type and Sector, 2000-2002

<i>Classification</i>	<i>2000</i>		<i>2001-2002</i>	
	<i>No.</i>	<i>%</i>	<i>No.</i>	<i>%</i>
I. By Type				
A. Economic Growth	3	50.0	2	15.4
B. Projects Directly Aimed at Social Concerns	1	16.7	4	30.8
C. Projects Directly Aimed at Environmental Concerns	1	16.7	3	23.1
D. Economic Growth-oriented Projects with Social and/or Environmental Concerns	1	16.7	4	30.8
Total	6	100.0	13	100.0

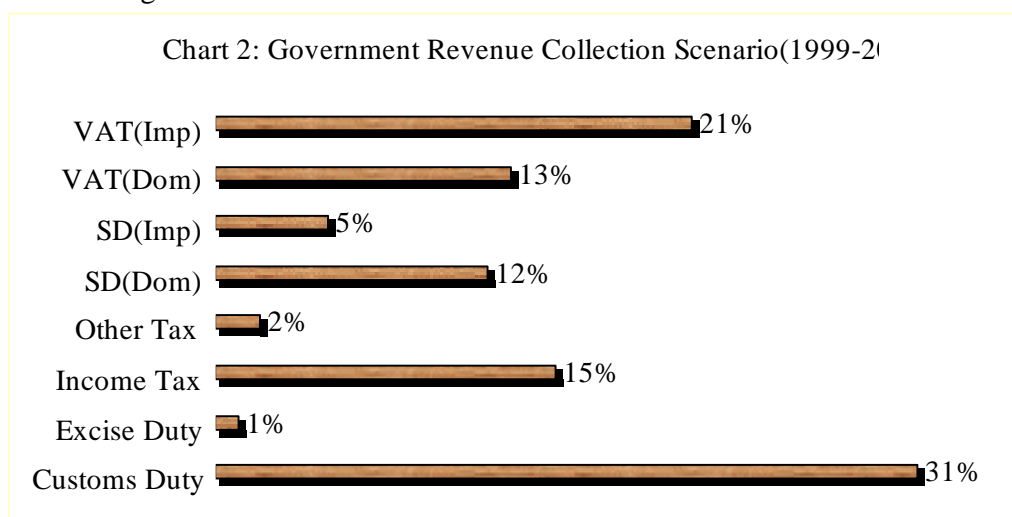
II. By Sector				
Agriculture and Natural Resources	2	33.3	4	30.8
Energy	1	16.7	1	7.7
Finance and Industry	1	16.7	1	7.7
Transport and Communications	1	16.7	2	15.4
Social Infrastructure	1	16.7	5	38.5
Total	6	100.0	13	100.0

Source: Ministry of Finance, 2000

5. Tax policy and administration in Bangladesh

In a large majority of developing countries, the government is principally responsible for the process of economic and social development. Since its independence 1971, Bangladesh has been striving to achieve economic emancipation for her people. One of the main cornerstones of this goal has been to attain self-sufficiency in providing for her various socio-economic objectives from her own resources. This requires the maximum mobilization of all available internal revenue while gradually diminishing the dependence on foreign assistance. Consequently, public expenditures have grown rapidly, and taxation has become the main source of finance. So if capital formation and higher growth rates are to be achieved, it is essential to step up the tax efforts.

The following chart shows the government revenue collection scenario as a percentage of revenue sharing:

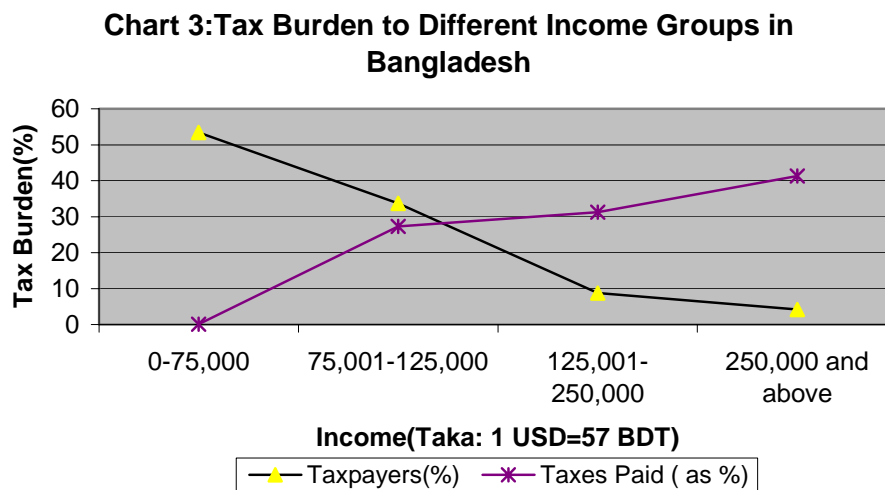


Source: National Board of Revenue (2001), Note: SD: Supplementary Duty

The above figures indicate the reality in the Bangladeshi revenue structure. The tax policies should be reformed to: (i) raise enough revenue to finance essential expenditures without recourse to excessive public sector borrowing; (ii) raise the revenue in ways that might be equitable and could minimize its disincentive effects on economic activities; and (iii) do so in ways that do not deviate substantially from international norms.

However such a reform although suitable, is rather difficult to implement in practice due to the low literacy and low human capital in Bangladesh. The structure of the economy is such that it is liable to impose and collect taxes using the limited capacity of the tax administration and the political set up, and is also less amenable to a rational tax policy.

Still less than one percent population out of 130 million people of the country are under the tax net. However, the main tax burden is shouldered by a low percentages of the registered taxpayers. The chart below shows that not more than 4% of taxpayers' pay almost 40% of the tax revenue while more than 50% of the taxpayers' are paying less than 1% of the total tax revenue.



5.1. Direct taxes

Currently, the main problem areas of the income tax system in Bangladesh can be categorized as:

- Narrow tax base;
- Tax evasion;
- Inadequacies of law; and
- Inadequacies of administration.

5.1.1 Narrow tax base

The tax base in Bangladesh is one of the lowest in the world. Out of a population of 130 million, only about 1.2 million or about 0.92% of the population are registered taxpayers. Of these registered taxpayers, only a few actually file a tax return and pay tax. Urgent steps are needed to expand the tax base. These steps would include:

- The broadening of the concept of income;
- The reduction of rebates and exemptions;
- Extensive survey work to ensure the tax regime is capable of meeting its aims; and

- An expansion of taxpayer education and assistance.

5.1.2. Tax evasion

Tax evasion in Bangladesh has reached alarming proportions and the immediate victim is government revenue. It also leads to a parallel black economy, which in Bangladesh is said to be to the tune of USD 1.2 - 1.5 billion. The causes of tax evasion are numerous and include complex tax laws, lack of social security, coordination deficits among different government agencies and financial institution, inefficiency and corruption. In order to curb tax evasion, it is necessary to:

- Simplify tax laws and procedures;
- Ensure a proper collection and referencing of data and information;
- Increase taxpayer education and motivation;
- Review banking and accounting practices; and
- Increase penal provisions for tax evaders.

5.1.3. Inadequacies of law

The current Bangladeshi Income Tax Ordinance dates back to 1984 and since then it has undergone numerous changes that the laws, now need to be rewritten. To bring the legislation inline with current practices and requirements thus making it more effective, the following measures to be undertaken:

- Simplicity and clarity should be the guiding principle;
- Tax rebates and exemptions should be minimised;
- Tax holidays and exemptions for industrial undertakings should have a limited lifespan;
- A self-assessment system should be introduced and the post assessment audit procedure strengthened;
- The penal provisions for tax evasion should be increased, and the tax authorities ability to initiate investigations and prosecution should be enhanced;
- Withholding tax zones should be created to enhance collection; and
- The VAT regime should be administered by the income tax authorities.

5.1.4. Inadequacies of administration

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

- The system of recruitment, training, remuneration and promotion must be re-examined in order to be able to employ and retain capable employees;
- The administration structure should be divided between assessment/audit, and tax collection;
- The tax authority should be provided with increased logistical support;
- The internal audit checks must be strengthened;

- The pace of computerization and the creation of databanks must be quickened; and
- Revenue officers should be provided with incentives that will encourage the efficient collection of taxes (for example, revenue officers in Japan receive, on the average, a higher salary).

Like many other developing countries, the Bangladeshi tax system is plagued with various in-built socio-political and structural weakness. Bangladesh is at a crossroad today. Crucial steps have to be taken to modernise and update the tax policy and administration. Successive governments have taken some tentative steps, at times at the urging of the World Bank and IMF, in the desired direction but more vigorous efforts are needed. Certain urgent and crucial decisions will have to be made and a way must be found to make Bangladesh a thriving and self-respecting nation.

5.2. Indirect taxes

Some reforms have been carried out in respect of indirect taxes. The Customs Valuation department has been upgraded in order to augment revenue earning via the appropriate valuation which is then imposed using a modern valuation database. A Mandatory Pre-Shipment Inspection (PSI) system was introduced, for a trial period of three years, in the fiscal year 2000-2001 for the valuation and inspection of imported goods. The main objective of the PSI was to assist the customs authority ensure quick clearance of imported goods by bringing down the amount of physical examination to a minimum and increase government revenue earning by reducing misdeclaration about the description, value, classification and quantity of the imported goods.

6. Future needs

The National Board of Revenue (NBR) and the GOB must take the following steps to ensure that future needs are met:

- Plan a well organized and structured method to formulate the reform profile of each of its components (Customs, VAT, Income Tax and NBR);
- Select a team of experts from the NBR, private sector, external experts and the funding agencies to develop short, mid, and long term strategies covering the following areas:
 - organizational and administrative reform;
 - jurisdictional and policy reform;
 - institutional development (Infrastructure and Logistics);
 - enhancement of VAT and income tax nets, and progressive reduction of dependence on import duties;
 - initiate private sector tax education programmes;
 - develop information technology infrastructure to support the changes across all sectors;
 - establish computer and communication system for electronic submission, processing and posting of tax returns and bills of entry; and

- promote the use of the internet to bring the NBR in-line with today's information technology.

7. Others

7.1. Computerisation of the communication and filing system

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

The age old system of filing tax returns in tax offices needs to be replaced by a computerized filing system. The method of maintaining records, accounts keeping and references should also be modernized. To achieve this target, a programme should be initiated for training in computer usage and hardware and software should be procured. This goal can be achieved with the help of simple bilateral or multilateral financial aid and technical assistance.

7.2. Development of National Statistical Activities

A sound and comprehensive statistical system with an adequate organizational structure and network is an essential function that can be used in the country's tax administration planning and development process. Currently the institutional structure of the national statistical system of Bangladesh comprises the National Statistical Council as the apex body while the Bangladesh Bureau of Statistics (BBS) is tasked, mainly with the collection, collation and dissemination of official statistics.

Currently, a small sub-division of the BBS is working with NBR to research and develop tax related data. This must be strengthened to meet the various current and future needs, and such an organization should, ideally, be under the auspices of the Ministry of Finance. It must include the tax departments, banking and insurance sectors, SEC, etc.

At this moment, there is an urgent need to formulate a database of taxpayers with all their relevant tax information such as income, wealth, business and corporations and above all their standard of living. The various parties will also have to establish a good method of cooperation in order to ensure that the information in such a database is quickly and accurately updated. Such a database will play important role in countering tax evasion.

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

8. Conclusion

Tax regimes all around the world are constantly looking for ways and means to improve their tax revenue collections. Since tax revenue forms the major portion of the total revenue in countries like Bangladesh, the efficiency and productivity of the tax administrative system is very important in meeting revenue targets. The different organs of fiscal affairs policy and administration are so intricately related that there needs to be an improvement of the entire systems in order to obtain a sustainable revenue trend that can meet increasing demands.

In the case of Bangladesh, what is now needed is an emphasis on selected issues that are inherent and impede structural reform and the development of fiscal affairs. TAs for fiscal affairs in developing countries is crucial for the implementation of a better revenue system, and international organizations and donor agencies are giving such matters a high priority. .

References

- Ali, A.(1998) Budget and Budgetary Process in Bangladesh , *Tax Chronicle*, Vol. 3, Issue-5 (special edition) pp 6-19
- Asher, G Mukul (1992) lessons from Tax Reforms in the Asia-Pacific Region, *Asian Development Review*, Vol. 10 No 2 pp124-143
- Bird, Richard M., and Oldman, Oliver. “*Readings on Taxation in Developing Countries*”(eds) Third Edition, The John Hopkins University Press (1975)
- Chia, Ngee-Choon (2001) Trends in Tax Structure and Fiscal Policy Issues in the New Millennium, *Tax Chronicle* (special edition) Vol. 6, Issue1 pp 1-21
- Chowdhury, O.H. (1994) Incidence of Indirect Taxation in Bangladesh: 1984/85, Bangladesh Institute of Development Studies, Research Monograph:16
- Hussain, Sazzad (2000) Taxation in Bangladesh: Measures for Improving the Income-Tax System (unpublished)
- Islam, R. (1999) Structure, Administration of VAT in Bangladesh with Special Reference to Evasion Control and Measurement of VAT Potential, National Board of Revenue, Government of Bangladesh.
- Khan, S. M. and Senhadji, S.A. (2000) Financial Development and Economic Growth: An Overview, IMF Working Paper WP/00/209
- Khan, Z.A., Thornton, N and Frazer, M. (2000) Experience of a Financial Reforms in Bangladesh, *Public Administration and Development*, Vol. 20 pp 33-42
- Rahman,H.S. and Shilpi F.J. (1996) A Macroeconomic Model of the Bangladesh Economy: Model, Estimation, Validation and Policy simulation. Bangladesh Institute of Development Studies, Research Monograph No.17 www.bids-bd.org
- Rao, M.Govinda (1992) Reforms of Indirect Taxes in Developing Countries: Selected Issues, Vol. 10,No 2 pp 144-158
- Tanzi, V. and Zee, Howell. H. (2000) Tax Policy for Emerging Markets: Developing Countries, IMF Working Paper WP/00/35
- World Bank (2000) Bangladesh Recent Economic Performance, Bangladesh Development Forum 2000, World Bank Resident Office Dhaka, Bangladesh. <http://worldbank-bangladesh.org>
- World Bank (1999) Bangladesh: Country Data At-A-Glance, www.worldbank.org
- World Bank (1999) The World Bank’s Assistance to Bangladesh, Partnership in Development <http://worldbank-bangladesh.org>
- (2000) Statistical Bulletin Bangladesh, Bangladesh Bureau of Statistics, Ministry of Planning, Government of Bangladesh
- (1998) The Fifth Five Year Plan (1997~2002), Planning Commission, Ministry of Planning, Government of Bangladesh
- (2001) The DFID Financial reforms Family of Projects Reports, Ministry of Finance, Government of Bangladesh

- (2000) Reforming Pension system in South Asia, Executive Summary Series, No S43/01, Asian Development Bank Institute, Tokyo, Japan
- (2001) CAM-1 News, A Quarterly News Letter of Customs Administration Modernization Project of National Board of revenue, Issue 2, Year 2, 2001
- (2000) Bangladesh: Recent economic Developments, IMF Staff Country Report No. 00/25, IMF Publication Services, Washington D.C. 20431
- (1999) Country Assistance Plan (2000-2002), Asian Development Bank, December 1999.
- (2001) Annual Budget 2001-2002, Ministry of Finance, Government of Bangladesh, Part I and Part II, 7 June, 2001
- (1999) Memorandum for Bangladesh Development Forum 2000-2001, Economic Relations Division (ERD), Ministry of Finance
- (1999) Japan's ODA Annual Report 1999, Economic Cooperation Bureau, Ministry of Foreign Affairs (Oct, 2000), 2-2-1 Kasumigaseki, Chiyoda-ku, Tokyo 100-8919, Japan
- (2000) Annual Report on Technical Assistance-FY 2000, International Monetary Fund, IMF External Relations Department
- (2000) Bangladesh Economic Review, Economic Advisors Wing, Finance Division, Ministry of Finance, Government of Bangladesh
- (1999) Annual Reports, Research and Statistics Wing, National Board of Revenue (NBR), Dhaka, Bangladesh. www.nbr-bd.org
- (1979) Final Report of The Taxation Enquiry Commission, Part I, Ministry of Finance, Government of Bangladesh
- (2000) Economic Trends, Published by Statistical Department of Bangladesh Bank, Vol-XXV No2
- (1998) Dialogue Report on "The State of the Bangladesh Economy in the Financial Year 1997-98, CPD Dialogue Report No.17
- (1999) Economic Reforms and the Poor: Unearthing New Linkages, Center for Policy Dialogue Report No. 11, www.cpd-bangladesh.org
- (2001) Privatization Commission Reports, <http://www.bangladeshonline.com/pb/>
- (2001) Ministry of Finance Reports, <http://www.gobfinance.org/>
- (2001) Implementation Monitoring and Evaluation Division Reports, <http://www.bangladeshgov.org/mop/imed/>

Appendix-1
Foreign Aid to Bangladesh at a Glance
(1971/72~1999/2000)

Purpose	Commitment				Disbursement				Pipeline (July 2000)
	Grant	Loan	Total	%	Grant	Loan	Total	%	
1	2	3	4	5	6	7	8	9	10
Food Aid	5,279.098	762.557	6,041.655	13.72	5,210.912	726.557	5,973.469	16.44	55.100
Commodity Aid	5,185.220	5,376.018	10,561.238	24.00	5,154.197	5,217.848	10,372.045	28.54	40.126
Project Aid	9,195.601	18,221.054	27,416.655	62.28	7,115.293	12,883.887	19,999.180	55.02	5,657.042
Total	19,659.919	24,359.629	44,019.548	100	17,480.402	18,864.292	36,344.694	100	5,752.268

(in USD millions)

Source: Ministry of Planning, Government of Bangladesh