

Halt this Drift — Now

There appears widespread public support for the ultimatum issued by the Government on Sunday that it would make fresh recruitment in place of those office employees who would fail to return to their duties within three days. By our calculation, the deadline should expire tomorrow.

The move reflects a certain toughness on the part of the authorities to tackle an increasingly volatile situation developed over the implementation of the Pay Commission Award. It is a situation created as much by the government employees as by a policy of drift which, we feel obliged to say, has become somewhat characteristic of the administration of Begum Khaleda Zia. Whether this new tough move towards the striking government employees will mark an end to such a policy remains to be seen. Unfortunately, we are unable to take an optimistic position on this score. This scepticism relates largely to the chances of success of the ultimatum. The danger is, if the militant union leadership whose strength remains an un-known factor can maintain some unity in the ranks and keep even a half of striking employees off their duties, the authorities should feel compelled to implement the ultimatum, dismiss the offenders and start hiring their replacements. Would the government which is politically vulnerable and administratively inexperienced adopt such a course? We do not dare speculate on the answer.

While we are unable to contemplate on what lies ahead, we do know what went on, partly behind the scenes and partly in the open, before we reached the present untenable situation. Between the presentation and eventual passage of the budget in which Finance Minister Saifur Rahman had rightly explained why the government could not implement the Pay Commission Award and the strike launched by the employees, there were too many mixed signals sent out to the lower-level government servants, suggesting that the authorities could well change the position taken in the budget. Here, flexibility was confused with indecision, giving rise to unreasonable demands on the part of the employees, which, even when largely met by the authorities, did not produce a solution. What the government is now left with are, thousands of striking employees, a threatened wave of work stoppages in other sectors, a possible chain reaction in the private sector, signs of price hikes, a breakdown of an understanding with the World Bank and IMF that there would be no increase in unproductive expenditures and, above all, a committed additional Taka 419 crore this year alone for the country's largely unproductive and bloated bureaucracy. This is an unfolding scenario of a disaster.

In our view, the Finance Minister should have remained firm in his assertion that the government was unable to implement the Pay Commission Award. Alternately, he could have kept an escape route in his budget speech by announcing the setting-up of a high-level committee to study the matter in details. In our view, a marginal interim relief to lower-level employees would have been in order. In the case of mid-level officers, the authorities might have accepted the Pay Commission's recommendation of offering them government bonds, instead of immediate cash payments. We do not know if these options were seriously considered by Mr Rahman. However, we cannot help pointing out that by altering major allocations, without any consultations with the Jatiya Sangsad, the government has shown scant regard for budgetary discipline and poor consideration for the country's parliamentarians of all different parties, including the ruling BNP.

We are aware that the capacity of a newly-elected government to pursue a tough line, involving possible police action at some stage, is limited. On the other hand, as a democratic regime with powerful mass support, it can still maintain a channel of communication with the striking employees, perhaps at a political level, and explore all possible — and new — avenues for a solution. Last but not the least, let this be a learning experience for the BNP administration, especially for Prime Minister Khaleda Zia. Bangladesh can hardly afford to face such a crisis again.

The editorial was written before the announcement of withdrawal of all programmes by the government employees. The Daily Star welcomes the development.

Bustees on the Beach

Cox's Bazar has a wonderful beach. Not many people from any of the world's nations know that. It's only we who have been telling that to ourselves for long and in so many words. And not many of our own citizens do either care much for this unique gift of nature to our own poor nation. Our failure to attract a sizeable tourist traffic to Cox's Bazar is but a logical extension of a bigger failure on the home front — we have miserably failed to generate any enthusiasm in the whole of our nation for the best holiday resort of our nation. Barring a few lakh blessed souls, almost all of our 120 million people are quite ignorant of Bangladesh having a seafront, not to speak of there being such a beach — simply heavenly for bathing as well as viewing and to be just there.

Even after all that we had always consoled ourselves by saying that maybe it is good that Cox's Bazar is what it has been for centuries or even millennia — preserved in its pristine natural purity that instantly gives you the feel of the whole planet and its great grand beauty of power and expanse, colour and movement. But there is very disturbing news from the place.

A national vernacular daily reports that there have recently developed on the beach sands extensive bustees — taking up enough area to house seven villages comprising more than a thousand families. And it hasn't taken much time for the corollaries to follow, exactly as we have it in some of Mamunur Rashid's plays — an *astana* of a *pir*, criminal gangs and a mini red-light district. Sucking the blood of residents of the ballooning bustees, these have between them developed wonderful interdependence leading to prosperity.

These bustees are all in the most 'strategic' of the 'tourist country' earmarked by the government. The 1000-and-odd families must be moved elsewhere before they become five times and more of that squeezing nature and beauty and a silent yet eloquent peacefulness out of the beach. The district administration's resolve to see to it should be enough to clear the beach of the bustees in a matter of days. If we have nationally failed to sell our cute piece of beach to travellers from abroad, that cannot be an excuse for us to ruin it.

THE conceptual foundation for VAT is expressed in Article 2 of EEC directive 67/227/EEC issued on 11 April 1967 as follows:

"The principle of common system of value added tax involves the application of goods and services of a general tax on consumption exactly proportionate to the price of goods and services whatever the number of transactions which take place in the production and distribution process before the stage at which tax is charged. On each transaction, value added tax is calculated on the goods and services at the rate applicable to such goods or services shall be chargeable after deduction of the amount of value added tax borne directly by the various cost components."

This system of tax was originally conceived and introduced in France, for the first time in 1936, after many years' of academic and practical experimentation, as a single stage tax. It was extended to wholesale stage in 1954 and to the retail stage in 1966. In a highly developed country like France, it took 30 years for this tax to be fully implemented to cover all manufacturing, trading and service industries.

VAT was adopted by EEC as a system of indirect taxation in 1967 and it is now fully prevalent throughout the Community. Approximately 50 countries including most of the countries of OECD have adopted VAT in some form or the other. The standard rate varies between 5% and 25% and different rates are applicable in different countries. Furthermore rates also vary from product to product and from service to service. Exemptions and zero rating are also adopted by different countries to suit their special needs. The only exception is perhaps New Zealand which allows apparently no exemption or zero rating. Complex though it is both in perception and application, no country apparently went back on it after having adopted it. This probably speaks of its success.

Simply put, VAT is a tax on the firm's contribution to the market value of the product it produces or services it provides. Contribution is measured by the value addition in

FOCUS ON THE ECONOMY

Is Timing Right for VAT?

by Jamal Uddin Ahmad

financial terms, to make it a saleable commodity. Rather than the tax being levied in one stage, VAT gets accrued at every stage where there is any value addition until the product or the service is ultimately consumed. The fact that it is accrued and collected over a wide spectrum, it naturally becomes difficult to establish efficient administrative and collection machinery. The problem is further compounded by the inherent credit system which is vital to the scheme of VAT. To understand and fully put into practice the modalities of value addition at each stage as well as giving effect to credit for tax already paid, re-

explain the system and from their television appearances, one gets the feeling that VAT was really a very simple form of taxation which was easy and very cheap to administer as well as to comply with, even by unlettered people. As if, in fact, it needed no education, no training and no orientation. To the informed, however, nothing could be farther from truth. Either they were too naive to spell out all its essential pre-requisites or they were in a hurry to push it down the throat of the nation, regardless of the consequences. Without trying to undermine the great

process because of lack of guidance and availability of training materials. People in the second group seem confident that they would discover escape routes to evade wholly or get away with paying only token amounts as they presently do for other taxes e.g. Income Tax, Custom Duty, Excise Duty, Sales Tax etc. They just could not be bothered to spend time to know about the intricacies of any tax law, let alone VAT. They are people who can always buy their way through. But the fact remains that there is genuine fear that VAT would probably

provided to use presumptive tax on business enterprises which do not maintain proper books of accounts to bring them in line with the highly qualified professionals like doctors, engineers, lawyers etc. How on earth a sophisticated system of taxation like VAT is going to succeed in Bangladesh where nearly all the business transactions are conducted without documentation or with false or forged documentation? How about those businessmen who maintain no accounts? How does, for example, one account for smuggled goods? Or, for that matter hoarded goods sold at a high price for which VAT was

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quires a high degree of education and understanding of the complex taxation system. This is the reason why VAT has so far remained restricted in countries where literacy rate are high and there are strong business traditions and fiscal awareness.

Bangladesh Scenario

VAT has been talked about and discussed on and off in some quarters for about a year more as an academic curiosity than as a serious matter. Apart from a few professionals trained abroad particularly in the EEC, hardly anybody was found who knew how VAT worked in all its forms. The National Board of Revenue has a few senior officials who claim that they have had enough training and expertise in this system of taxation. To my knowledge, none of them have, however, had any practical experience in working with the system. All they know, is mostly from various seminars, workshops and guided tours they have undertaken in various countries at the cost of the national exchequer or trips financed by UNDP. From their talks at some of the workshops in which they attempted to

open up another big channel for widespread corruption. Secondly, and most importantly, the success of VAT depends entirely upon maintenance of reliable and detailed documentation and on accounting system. VAT content of each input and output will be required to be shown on the invoices and the tax liability computed as the difference between the amount of tax collected from customers less the amount of tax paid to the suppliers. While on the subject of keeping accounting records in Bangladesh, the less said, the better. How many business enterprises in this country maintain books of accounts, let alone correct accounting records? A review of the Income Tax assessments on a natural scale will reveal that excepting for multinational companies, sector corporations, government companies, banks, financial institutions and some nationally known companies, there are not many tax payers who maintain any form of accounting records. Nearly all income tax assessments are made on national or presumptive income basis. Even in the 1991-92 budget proposals, measures have been

neither paid nor collected. Thirdly, as earlier said, the network of VAT is bound to be very much larger than any other form of taxation. There will be literally millions of people, when it will be in full operation, who will be either paying or receiving VAT which would be needed to be accounted for. What kind of bureaucratic machinery will be needed to handle VAT administration to deal with inspection, filing of returns, collection of tax, appeals and their adjudication etc? Instead of a small government promised by the Finance Minister, the nation might finally be landed up with another monster.

Last but not the least, VAT presupposes a certain amount of honesty and integrity both for the people who will be subjected to this form of taxation as well as those who will provide efficient administration of the system. Without trying to be unfair to anybody, let us all ponder seriously if we, as a nation, have attained that kind of refinement.

Indian Scenario

India has a system which is known as MODVAT. It is a system of granting credit for the

excise duty paid on materials used in the manufacture of other exempted final products. It is incorrect to describe it as VAT. A study group recently appointed by the Government of India has come to the conclusion that India is still not ready for VAT. But there are serious academic and professional discussions going on for introduction of VAT after preparing suitable grounds.

Pakistan Scenario

National Taxation Reforms Commission in Pakistan had examined the VAT system for introduction but came up against certain basic problems. These were: (a) The exemptions envisaged would make it difficult for the system to operate satisfactorily. (b) Lack of proper documentation and accounting records, audit and inspection etc. (c) Incredibly large number of tax payers would make the existing revenue administration incapable to cope with the situation. (d) Lack of public awareness. The system presupposes a high degree of education and an orientation towards maintaining proper accounting records which did not presently exist in the country.

However, an expert study undertaken in 1988 had advocated a broad based tax in the nature of VAT but to be known as Goods and Services Tax (GST) to be introduced. Although this measure has been accepted in principle by the Government, it is yet to be implemented.

Conclusion: Let me end this write up with a quotation from Adam Smith on what he thought to be right criteria for an effective levy of tax.

"Tax which each individual is bound to pay ought to be certain, and not arbitrary; Time of payment, quantity to be paid ought to be clear and plain to contributor and to every other person. Where it is otherwise, every person subject to tax is put more or less in power of tax gatherer, who can either aggravate tax upon any obnoxious contributor, or extort, by terror of such aggravation, some present or perquisite to himself."

The writer is a noted Chartered Accountant and financial consultant, who served as the Deputy Prime Minister and the Minister for Industries in the UNP government from 1977 to 1982.

Bush Sets Agenda for Talks on the Divided Island

Andreas Hajipapas writes from Nicosia

The stage is now set for new high-level talks on Cyprus. Some call the peace conference proposed by George Bush a kind of Camp David summit, since any discussions would be held in the US. The meeting would be under the auspices of the UN Secretary-General, who has been dealing with this intractable issue for many years. But many things still remain to be thrashed out before the reconciliation talks begin.

Cyprus: divided island

President George Vassiliou

Pop: 677,000
Area: 9,251 sq km
GDP per head: C£1,680

Turkish Cypriot leader Rauf Denktaş

claimed Turkish Republic of Northern Cyprus, wants to be accorded the same status as Vassiliou.

The Turks would like the meeting to involve only the four leaders. The Greeks want to include the five permanent members of the security

Council. This proposal is resisted by the Turks since it might lead to pressure on Turkey to comply with repeated UN resolutions demanding the withdrawal of some 35,000 Turkish troops and 50,000 mainland Turkish settlers now in northern

Cyprus. The proposed conference follows on the surprise announcement by Bush on August 2 that the leaders of Greece and Turkey had agreed to attend peace talks. Bush had visited Athens and Ankara in July during which he made repeated references to the need for a Cyprus settlement.

In Athens, he urged Greece and Turkey (both NATO allies but with bitter disputes over the Aegean as well as Cyprus) to help heal the "deep wound" that divides them. He said the US would be ready to act as a catalyst to help them settle the Cyprus problems this year.

UN sponsored talks between Vassiliou and Denktaş about possible reunification in a bi-zonal federation have broken down and remain deadlocked since January 1989.

Since then, UN Secretary-General Javier Perez de Cuellar has been trying to work out a formula to bring the two sides together in order to conclude an "outline agreement" setting out the main provisions of a settlement.

Denktaş says progress can only be made if Greek Cypriots recognise his community, which forms 18 per cent of the population, as politically equal.

But the main sticking point is how much land the Turks would be prepared to cede.

US officials hinted they had

discussed with the Turks the possibility of reducing Turkish-held territory to around 25-30 per cent. More specific reports speak of the Turkish zone being around 27.6 per cent.

Equally important is the number of Greek Cypriot refugees that would then have the right to return to their homes. Vassiliou himself is counted among the refugees, having fled south from Famagusta after the invasion.

People from picturesque Kyrenia in the north and citrus-rich Morphou in the northwest, would never agree to settlement that did not allow them to move back. Any settlement plan would have to be put to a referendum.

The Turks have not yet made specific offers on territory. They say any concessions on land must form part of a package. And they have a series of counter-demands that the Greeks find very difficult to accept.

They insist on "full equality," not just sharing power but also equal representation in the projected federal government and legislature. In addition they want a presidency rotating between Greek and Turk and strengthened guarantees from Turkey.

The Turkish Cypriots say they will feel secure only if Turkey maintains the right to

intervene unilaterally in Cyprus. Greek Cypriots counter that Cyprus should be completely demilitarised and placed under UN police supervision with guarantees from the Security Council.

A UN peace force has been on the island since 1964 when the first trouble broke out. Now the UN troops patrol a buffer zone dividing the island.

The UN Secretary-General has welcomed Bush's initiative. He repeated that the two sides in Cyprus must be brought "within agreement range" before the proposed meeting in the US takes place.

Two senior UN officials, Oscar Camillon and Gustavo Fetsel, who have been dealing with the Cyprus issue, planned a second round of consultations in Ankara, Athens and Nicosia in the second part of August, to try to do just that. The UN Secretary-General will report to the Security Council by August 30.

Meanwhile Nelson Ledsky, special co-ordinator on Cyprus at the US State department, who also held talks in the three capitals, dismissed suggestions from Turkish and Turkish Cypriot officials that a meeting in September was "too early" and that more time would be needed for adequate preparations for the peace conference.

"A September meeting is realistic and can be achieved," he said. But he also called for hard work and sincere effort, saying he believed differences were "bridgeable."

— GEMINI NEWS

ANDREAS HADJIPAPAS is news editor at the Cyprus Broadcasting Corporation and also a newspaper publisher.

Income tax survey

Sir, We are living in a condition where those who are not paying taxes are in a better position than those who are paying that, and in most cases payment of tax is more embarrassing than its non-payment. This is why there is huge evasion of taxes. External survey is not a new thing in the Income Tax administration. Door to door survey was made several times in the past but the result is that those who have taxable income but no income tax files, somehow remained outside the tax net in majority cases. Similarly, those who have income tax files but are under-assessed, remained in many cases undisturbed in spite of several survey operations in the past. So, we do not expect that present survey will change this trend overnight.

Moreover the period of time selected for survey operation is adverse to the programme due to present unrest in business environment of the country.

In the light of the above, we rather suggest internal survey where huge number of files may be started by taking list of all categories of income earners. This will help expand the tax base, reduce the tax burden on a few and remove the present headache of the government in relation to revenue collection.

Mahfuzur Rahman
Naya Bazar, Dhaka

Aricha-Nagarbari ferry ticket

Sir, The BIWTA is allegedly deprived of earning nearly 35 lakh Taka every year from

Aricha-Nagarbari ferry passengers. This is, reportedly, because of corrupt orcaulous practices of some workers and officers of the Authority. According to the rule of the authority, every passenger has to collect a ticket costing Taka 11, and those who do not collect it have to pay Taka 3 more as fine. But the Authority takes only Taka 5 to 7 from a passenger and that also not from all. Moreover, there is complaint of selling oil of the ships to some local oil merchants which, if true, obviously causes a considerable financial loss to the government.

We seek the kind attention of the proper authority to this matter.

Mirza Mamun Sadat
and
Ashfaqur Rahman
Dhalpur, Pabna

AIDS victims

Sir, Recent identification of three AIDS (Acquired Immune Deficiency Syndrome) victims in Sylhet has created panic among the Bangladeshis. AIDS is a disease; hence, persons attacked by AIDS should be treated like any other patients. The society should not reject them as unwanted persons. Rather it implies on the part of the society to arrange proper treatment for them. I think, the government should immediately set-up special clinics for isolating and treating AIDS patients.

AIDS victims definitely possess the right to live but an unfortunate AIDS victim should also have to consider the welfare of his fellow-beings.

AIDS is a disease and I am confident that there are some remedies of AIDS in the na-

ture, we are to find those out. Perhaps our herbal medicine research centres can contribute in this regard. We wish immediate discovery of an effective AIDS vaccine.

M. Zahidul Haque
Assistant Professor,
Bangladesh Agricultural Institute,
Dhaka 1207.

AIDS phobia

Sir, People need not be panic-stricken with AIDS as it does not easily transmit from one person to another as cholera and tuberculosis do. Transmission of AIDS takes place through: (a) sexual intercourse and kissing mouth to mouth with infected person; (b) transfusion of contaminated blood and blood products; (c) contaminated needles for injection.

tion, acupuncture, piercing nose and ear; and (d) from mother to new born baby if the mother is infected with AIDS.

Only it is necessary for the government to isolate all AIDS virus positive cases and full-blown cases so that the infection can not find way to be transmitted.

There may, however, be a number of AIDS infection cases also in our country because millions of Bangladeshis are working in the continents of Africa, America, and Europe as well as South East Asia where the disease is said to be endemic; but there is no effective scrutiny in our country.

Dr. M. A. Sattar
Senior Medical Attendant
Bangladesh Krishi Bank
Head Office