

Inconsistencies in Revenue Collection

Finance Minister M Saifur Rahman recently spoke scathingly about leakages and inconsistencies in revenue collection. He was reviewing the performance of tax departments. As an agency report put it, the Minister observed that the government was being deprived of huge revenue earnings due to corruption by a section of officials and businessmen.

The Finance Minister's anxiety on this account is well understood. In this year's budgetary proposals, projected revenue collection had shown a deficit of Tk 328 crore in consequence of allowing various tax concessions. To offset this shortfall and also leave a bit of surplus, additional revenue of Tk 388 crore is to be raised through administrative and procedural reforms, rather than imposition of new taxes. In his budget speech, the Finance Minister had also called for spontaneous cooperation of the tax payers for the realisation of the target. In short, collection of the additional amount of revenue postulates not only a markedly improved level of performance by the administrative machinery but also a higher degree of voluntary tax compliance.

In what could be read as an oblique reference to the Finance Minister's observations, the Bangladesh Tax Lawyers' Association has since come up with some ideas of their own. As another agency report has it, the Association too wants the tax base expanded. However, it also voices concern at the woes of the existing tax payers. These problems have been ascribed to weakness of the tax system, unrest in tax administration and corruption by a section of tax employees. The Association also says that mostly inexperienced, inefficient and unskilled people are engaged in assessing and collecting taxes, adding to the woes of the taxpayers.

Read together, these two accounts provide a gloomy picture. Administration of the tax system waits to be tuned up. Meanwhile, the taxpayers would retain their apathy towards voluntary compliance. So, leakages would continue as before. But why single out the tax administration for perpetrating leakages? Is it not true that leakages have become a systemic problem to the economy?

The tax lawyers have suggested certain changes in the system to improve the environment for voluntary compliance. They want the tax appeal set-up to be transferred from the Ministry of Finance to the Ministry of Law. On the face of it, such a move would seem suited to ensure improved transparency in the administration of tax laws.

To encourage increased voluntary tax compliance, the system needs to be made more transparent. The government's action in expanding and streamlining self-assessment procedure for income tax is a welcome move in this direction. However, the tax payers have other grounds for complaint. Realisation of advance income tax at import stage is one such area. For instance, there is no gaining-saying that the owner of an industry would earn profit and taxable income on the product he would manufacture from the raw material he imports. Nonetheless, he has to pay income tax in advance at a fixed rate on the raw material he is importing. What happens if he actually incurs a loss on the sale of finished products? Getting a refund from the tax people in such an eventuality is easier said than done. Similar is the case with advance realisation of tax on goods supplied or services rendered.

These are but a few instances of inconsistencies in tax law and procedures which widen the scope for what has euphemistically come to be called negotiated assessment in tax parlance. Besides, such advance levy ties up the taxpayers' funds, on which he does not earn a return, at times for years together. This is hardly the way to induce voluntary tax compliance.

Systemic problems often originate at the micro level. However, left unattended, such problems can easily assume macro-economic proportions. Revenue leakage should not be read as an isolated phenomenon. Good governance demands that more care of the micro level issues is taken.

S. Africa's Transition to Democracy

The last bastion of apartheid is about to fall. Already, with the endorsement of a constitutional blueprint, its death warrant has been signed and this week has been set for delivering the final stroke through a parliamentary approval. The event of signing the blueprint by President F W de Klerk, African National Congress leader Nelson Mandela and other political leaders, hopefully to lead to multi-racial elections on April 27 next, is the beginning of a new history for South Africa where natives have been subjected to the worst form of racial discrimination at the hands of white minority government over the past 300 years.

At a time when history is being made in South Africa, the world must look in retrospect at the senseless, unscientific and aghast theory of a race's supremacy over the other. Hitler unsuccessfully had a try at this bizarre and megalomaniac concept only to learn its futility the hard way. South Africa's entrenched privileged white minority has also committed an unpardonable crime against humanity by suppressing the majority black people. President Klerk has at last come to terms with the reality and on this count his is a most admirable role. The fact that he has matched his deeds with the promise he gave at the time of taking over power makes him a respected leader.

Yet nothing could be accomplished without the commitment and sacrifice of the people who have suffered most all through. Nelson Mandela and a host of black leaders have only represented their cause and grievances. Sure enough, the international community has all along been by the side of the black people, although some of the more powerful nations were found wanting in their steadfast and unequivocal support. The demolition of racial prejudice in S Africa assumes more significance, particularly in the context of a reemergence of the ugly head of ethnic hatred and hostility throughout the world — Europe becoming the worst theatre for this new tension and friction.

No doubt, Africa has come a long way but still there are worrying symptoms in that the rightist conservative whites as well as the black Inkatha Freedom Party appear to be unhappy about the attempt of re-writing South Africa's political history. They are expected to cause enough trouble for the transition of the country to democracy in an orderly manner. It is essential that they were convinced of the merits of the new deal. Even if it requires international mediation, the problem should be resolved across the table.

Why Responses to Reforms are Yet to be Encouraging

by Abdul Bayes

In absolute terms, openness of the Bangladesh economy and incentives for industrial development increased over the years but relatively speaking, as compared to even the neighbouring countries, openness and incentive package are still not sufficient to invigorate the somnolent private sector investment.

An observer of the current economic situation of Bangladesh is likely to vacillate between hope and despair. Hope could be adduced to the macro-economic management that tend to depict signs of improvement to put the economy on an even keel. The domestic savings rate as a share of GDP shows an improvement upon the most recent experience although the rate lies far behind those of the neighbouring countries and the desired level. The steep rise in governmental current expenditure is now on the wane, inflation rate slowest ever, exchange rate turned to allow the growth of the tradable etc.

The most disconcerting event — the cause for despair — is, however, the growth rate of the economy that averaged only about four per cent per annum spanning over a decade or so. The linchpin of growth i.e investment constitutes only 12-13 per cent of GDP (net investment 2-3%) posing a serious bar on raising the growth rate in the near future. The burning question is: why is not investment (and for that matter growth) responding to the arsenal of policy reforms underway in today's Bangladesh? In fact, a panoply of factors contribute to this ironic state but a few can be mentioned for the time being.

Policy Changes and Confidence

The investment climate in Bangladesh has long been shrouded with uncertainty of changing policy parameters. Over the years, a host of government policy changes have pitted investors, of home and abroad, against putting money into industrial ventures in Bangladesh. Immediately after independence, the policy of nationalization shook investors and private investments came to a virtual halt. From then on, even a 'U'-turn of economic policies, especially those relating to industry and trade, could hardly make a dent in

the impasse. The impetuous trade and industrial policies in Bangladesh, it is being argued, opened the gate of bank money without accountability (defaulters), gave birth to a class of rent-seeking mandarins, helped the growth of an inefficient import substituting industries thriving behind the walls of protection and so on so forth. The policies, if not by intent but in practice, seemed to have driven good investors out of market, produce an environment where trade and commerce grew more profitable than manufacturing and above all, notions of Spanish conquerors (big fortune by a single stroke) and 'brief case' culture seemed to have pervaded the arena of investments. Then came the much-avowed structural adjustment programmes with the objectives of downsizing public sector and promoting a robust private sector, import liberalization, export-led growth etc.

Given the background of such short-lived and short-sighted policies, the domestic investors are likely to be on the sideline and cautiously watch the staying power of the current maize of policies while the foreigners would spare no time to look for opportunities in other countries. Although the present elected government as well as the major opposition political party committed to the idea of a market economy, suspicion still looms large as to whether the administration has teeth on those policy reforms or wether a reversal of some policies might take place in future. Unless the adjustment policies are clearly owned by both the government and the opposition and made transparent, uncertainties would continue to gripe the investors and thus slow down

(or even negate) positive response to policy reforms.

Sequencing of Reforms
The sequencing of policy reforms is an issue of capital importance. For a poor country like Bangladesh, available studies suggest that massive institutional reforms, including legal and judicial reforms and financial sector reforms are *sine qua non* of a move towards building a modern economy. In fact, these should have been enunciated before exchange rate, trade policy and other reforms are undertaken to improve productive and allocative efficiency. Unfortunately, the sequence got dishevelled round and the most disheartening episode is that although moves are on, very slow pace of progress is in evidence in obtaining those reforms. The sooner the aforesaid reforms are addressed, the quicker the responses are likely to be.

Reforms with Control
In absolute terms, openness of the Bangladesh economy and incentives for industrial development increased over the years but relatively speaking, as compared to even the neighbouring countries, openness and incentive package are still not sufficient to invigorate the somnolent private sector investment. On the other hand, while trade and industrial reforms are underway, administrative dilly-dallying still constrains the smooth responses of economic agents. Those involved in exports and imports of inputs and outputs (and hence are subject to customs clearance) are likely to know where the shoe pinches. Available studies point to complicated and time-consuming process of completing the modalities. Procedural complexities with attendant premiums like bribe widen the

gap between interest rate and actual cost of credit. BOI originated to face some of these problems through providing 'one-step' service to investors but is alleged to have succeeded in providing 'full-stop' services. The bureaucratic spectre in administration with its ugliest appearance and the extent of red-tapism running with it are not in consort with the reform programmes, rather, work like weevils. It would not be an exaggeration to say that the present administrative and bureaucratic structure in Bangladesh is basically anti-reforms and to attract positive responses from economic agents, a radical overhauling in this respect is urgently called for, *ipso facto*.

Reforms with Ambivalence

While the government is keen on undertaking reform measures, certain degree of ambivalence is, nevertheless, discernible. For example, the public sector corporations are asked to improve performances and are provide with suggested tasks. At the same breath, sale of these units or transfer are being talked about. Now who is going to perform well presiding over one's own demise? Again, while protection of some commodities are promised in one budget (and thus influencing investors' attitude), the same commodity gets lower or no protection in the immediate next budget (e.g. milk and milk products), reflecting the government's hesitancy that ultimately tells upon the credibility of reforms. Likewise, the privatization process is very unclear. While there are many ways to privatize, one is not sure which way the government chooses and if so, why

the government is so slow to dispel uncertainties?

Infrastructure and Human Resources Development

Infrastructure and human resources development are key to increasing productivity of inputs and supply elasticity of output. The neighbouring countries are much ahead in this respect and in consequence, attract more investments. Noteworthy, the reforms might bounce back in the presence of underdevelopment of these two vital inputs. Massive investments on these scores are needed and for that to occur, a drastic cut in unproductive sectors are the need of the hour.

Neglect of Agriculture
Needless to mention that in a country like Bangladesh, the major actor in the whole adjustment process is likely to be the agricultural sector with about 40 per cent of GDP and a contribution of three-fourths of the total employment. The complacency relating to autarky in rice production could possibly be dubbed as mostly a response to good weather and a very little to reforms. The major agricultural product to respond to liberalization is jute that has been and still continues to be the victim of wrong policy prescription. For growth and employment to take place under the reforms, this sector with one of the highest forward and backward linkages revitalized with proper policies.

Socio-Political Milieu

Under this spectrum, fall (i) political stability; (ii) terrorism and (iii) labour unrest bedeviling the growth of investments. One can probably view that Bangladesh has a political stability not that much unfriendly

to investments but terrorism and labour unrest appear to continue as positive threats to the expansion of investments. Terrorism, especially within campus, convincingly conveys the law and order situation of any country and it is believed that only materialization of true commitment by the government can arrest it. Application of rule of law, irrespective of party or groups, is the only answer to this malaise. Although both position and opposition are alleged to patronise hoodlums, only the government with the responsibility of maintaining it is to be responsible.

The current arguments against labour situation relate to oversize, low-productivity and indiscipline. The three elements equally apply to management also and unless steps could be taken against management, labour problem is very hard to tackle. As examples, WASA performance could be cited. If out of 100 gallons of water that WASA handles, 53 gallons get wasted, should labour only be blamed? How could management still go unpunished with such huge loss to society? Similar is the case with Power and other sectors. The demonstration of productivity and its relationship with earnings should start from the top. In the meantime, a national consensus is needed on de-politicizing the labour front.

Disconcerting Scenario

The pace at which reforms are being pushed in neighbouring countries and in consequence, the magnitude of investment taking place therein clearly point to an urgent need of more reforms. The massive inflow of foreign investment in India, when that flow is very thin in Bangladesh, would soon make this country totally dependent on India because investors know no caste and creed but only profitable environment which is a function of commitment of policy-makers. The writer is a Professor of Economics, Jahangirnagar University.

Turks Bank on their Turkic Cousins

John Carr writes from Istanbul

A West-weary Turkey is increasingly looking to its eastern neighbours for new markets and investments. Turkish banks, private and state-run, are trying to exploit ethnic and cultural affinities for economic gains. The market potential represented by the 60 million Muslims in the five former Soviet republics of Central Asia offer vast opportunities for Turkish finance.

Time to end westward journey?

Since the proclamation of a republic in 1923 under the leadership of Kemal Ataturk, Turkey has tried to westernise. It joined Nato, followed secular democracy and a market economy. Yet it has been denied the membership of the European Community.



the republics, whose market economies are still rudimentary, would want to look up to a Turkish big brother experienced in both democracy and advanced capitalism. Earlier this year Ziraat started up KZI Bank in Alma Ata. A third joint ven-

ture, Uzbek Turkic Bank, based in Tashkent, is about to open its doors, according to Ziraat officials.

KZI Bank is attracting clients from around the world who want to tap into the Kazakh market of 17 million

people. The republic so far has absorbed about \$200 million of the total Central Asian credits approved in early 1992 by the Turkish prime minister of the time, and now President, Suleyman Demirel. The Turkish State Export Credit Bank (Textimbank), which channels the credits, has also granted \$250 million each to Azerbaijan and Uzbekistan.

Textimbank is partly financing a \$50 million business centre in Tashkent. The Kazakh authorities have asked the Turkish institution to finance three luxury hotels, various foodstuff and textile factories, and two sophisticated telecommunications centres, all for an estimated \$150 million. "It may be getting late for Turkish companies in the region," warns Mert Akanbas, of the private sector Impexbank, which has been specialising in casing Turkish investment in Central Asia.

Impexbank so far has invested about \$25 in the republics. Its most notable success has been in setting up a Coca-Cola bottling plant in Turkmenistan. Bank officials say a representative office in that republic will be set up

soon. If that happens, it will be the first concrete move by a Turkish private bank to keep a presence in Central Asia.

Turkey's private banks, in fact, have been the most reluctant to enter the uncertain field of the Turkic republics, preferring to concentrate on cooperation with the European Community and the United States. Typical is the reaction from a traditionally cautious Istanbul bank, Akbank. "We are eager but also cautious," says Akbank vice president Hayri Culhaqi.

There is plenty of reason for caution, say the hard-headed financiers. Inflation in the republics is running at several hundred per cent. Market economies are woefully undeveloped, and the ex-Soviet trade mechanism is in place so that all channels still go through Moscow.

All the republics' trade is done in roubles, though Azerbaijan has now introduced its new currency unit, the manat. Others too want to issue their own currencies. The bankers in Istanbul wonder if roubles might not be better in the short term. "We need to see how those new currencies would work out before setting up a bigger bank-

ing presence," says Impexbank's Akanbas.

The Moscow connection has actually benefited one of the oldest and biggest of Turkey's private banks, Yapı ve Kredi, which has had an office in Moscow for five years and has thus been well-placed to tap into the Turkic republics' economies. Another private bank Pamukbank, has already taken a fifty-part share of \$250 million in credits bound for Uzbekistan.

All Turkish banks, private and state-run, have been training prospective banking executives from Central Asia. Marmara Bank has trained eleven managers from Kazakhstan and Uzbekistan. Yapı ve Kredi is giving on the job training to six more: State-run Emlak Bankası is training a team from Azerbaijan. Turkey's bankers admit that there are still red tape and cash flow problems to be encountered by Turkish commercial firms operating in the new environment. But, according to Akanbas, if a firm is prepared to persevere, "there is no reason why returns cannot be high."

The republics, say government officials, are looking for commitment from the Turkish financial establishment rather than taking short-term advantages. The banks are aware of this, and plan to set up retail banking services in each of the republics' capitals when the commercial activities bear fruit. Says Akanbas: "The region is not good for short-term profits. You have to create something for them also."

— GEMINI NEWS

To the Editor...

Letters for publication in these columns should be addressed to the Editor and legibly written or typed with double space. For reasons of space, short letters are preferred, and all are subject to editing and cuts. Pseudonyms are accepted. However, all communications must bear the writer's real name, signature and address.

Water tax

Sir, Your timely editorial (27-10-93) under the heading 'Gigantic Spurt in Water Price' was not only on eye-opener but also appeared to be a grisly news for the poor public. I thank you for your considered comments relating to the core issue. It is imperative for the people's Govt to come out with details of the water tax now to be charged at a very high rate (10% increased) and in advance of any service in the case. In this we should, in all fairness, have a Gallup survey to ascertain public opinion.

Relevant to this is the advance that Govt is forcing public to pay. When ordinary client asks banks for advance, they charge certain percentage for service. This 10% being an advance will the Govt pay a charge for this? Besides, if it is money they need for future WASA needs, why could not the Govt float, say, "water bond" for those affluent section to buy it.

It would be then a fair offer with some return. Now, Govt ask money for free. Would you call

it a legal piracy on the helpless public?

On the one hand WASA (like other service stations), PDB, T&T, Railway, etc.) is falling in its efficiency and duty to do justice in supplying water — the basic and elementary need of the citizens, on the other, it is with its present set up asking for 10% extra money. It is a gross injustice to suffering water-hungry towns-folk. In this, it would have been better, had the Govt first cleaned up the WASA itself — of its indiscipline, corruption and system-loss. How unethical it is that with all the malaise of WASA intact, people are to support this awful service with yet another 10%.

We would request our Govt not to inflict this punishment. What with VAT, development charge, Jamuna Bridge levy (all nearly 22.5%)? Another 10% is like a last straw on the camel's back. Injustice, however inflicted, will have its repercussion and reaction. Will the Govt not reconsider this mighty load on emaciated people?

Amin Hafiz
Fakirapool, Dhaka

Rajuk "J" Block

Sir, This refers to the letter published in your esteemed Daily on 25th October '93 under the caption, "Activity Rajuk — hope for 'J' block."

In reply to a question in the parliament in June 1992, the Works Minister had announced that Baridhara plots in "J" Block would be handed over to the allottees in December 1992, but the Rajuk has been maintaining complete silence over the issue and the Minister might have forgotten it altogether because no action whatsoever has been taken to develop the area although the allotment was given in 1986.

Utara plots allotted in 1990-91 have been handed over. Will the Minister initiate some action to save the allottees of Baridhara plots from utter frustration and ensure that allottees, most of whom are aged and retired Government servants, could see the plots in their possession before their final passing away?

S A Bhuiyan
North Shajhanpur, Dhaka.

Reader's views

Sir, I do appreciate your gesture for introduction of new columns like learning English, computer etc. What we the readers of English daily do expect is more news from abroad first and next from home on the front and last pages and also in

report columns of the inside middle pages. I do like to suggest the following for favour of your as well as other readers' consideration.

TV and Radio being the vital media, analysis and criticism of their programme may be introduced once in a week.

A detail of TV drama and features etc of coming week will help us to open our TV sets on time and save time and energy.

Name of the stage plays at Mahila Samity, Guide House etc may save the readers from depending on any unreliable source. New video and audio cassette arrival list may also be introduced in a small column once a week.

The diary of poets, writers may be published in a series. Autobiography of great men may also published once a week.

On Friday a write-up on the spirit of religion may be included.

Abdul Malek Taster
West Ibrahimpur, Dhaka

Who is responsible?

Sir, Recently the Arab Bangladesh Bank advertised for recruiting some probationary officers. Accordingly, I applied for one of the posts. I, myself, dropped the application into the specific box. One of my friends, who is an officer at the AB Bank, was also with me. All of my friends, who also applied, have already got their interview

cards. Only I haven't.

I went to the Bank's office and enquired about it. But the concerned officer informed me that they did not receive my application. I became astonished why they would not receive my application, when I myself had dropped it.

Now, the question is, who is responsible for this? I, a University educated BSS (Hons), MSS (Public Admin, DU), unemployed young soul, submitted the application with the hope of getting rid of the curse of unemployment.

I request the Bank authority to look into the matter with sympathy and issue me an interview card.

Md. Saifur Islam
Staff Gits, Bldg 12/Chha
Dalpur, Dhaka-1203

Water price-hike

Sir, The cost of electricity, water, gas, sewage, telephone etc in Bangladesh is one of the highest in the world. This is not justified. At least the price of water in Dhaka should have been cheap. The cost of water supply (WASA) in Dhaka has been further enhanced w.e.f. 1st November 1993.

We strongly feel that the more the rise in the price of the utility services the more is increase in the so-called system loss in our country. This is our fool-proof practical experience. We are at a loss to under-

stand the meaning of financial discipline and the market economy, on the one hand, and system loss and increase in cost of water in the midst of financial year 1993-94, on the other.

We are also at a loss to understand the 'dal-bhat' policy of the government and the harangues of respective ministers. True we wanted the ouster of the autocratic government of H M Ershad and also the establishment of a democratic government. We did it. But it appears that the BNP government has failed to live upto the expectations of people.

We would like to tell our political leaders both in the treasury bench and in the opposition that democracy is a means to an end and not an end itself. Democracy is a means of winning or losing people's love and support by the political leaders by performing their works and deeds.

We believe that the very policy of the government, past and present, for supply of water to the city dwellers of Dhaka by digging deep tube-wells is wrong. Dhaka is surrounded on all sides by rivers and rivulets. WASA can easily supply plenty of river water to the city dwellers at a much cheaper rate by installing water treatment plants at different areas of the city — north, south, east and west.

O H Kabir
Dhaka-1203