

IFA dwells on administrative fairness to check tax evasion

International Fiscal Association (IFA) yesterday said tax evasion could be checked by ensuring fairness in the tax administration and removing apprehension of harassment from the part of tax payers, reports.

Leaders of the Bangladesh branch of IFA told a news conference at Jatiya Press Club that the action, attitude and behaviour of tax officials in most of the cases are vindictive and there is little or no moral value of the assessee to the tax authority.

Replying to a question on wide-spread corruption in the tax administration, Chairman of IFA Bangladesh S H Kabir said: "This attitude must be changed keeping in view more and more tax compliance for better tax administration."

IFA Vice Chairman A K M Nuruddin, Secretary General A T M A Bari and other members of the association also spoke at the press conference.

The IFA also advocated for allowing investment of black

money upto Tk 50 lakh to unearth such fund. "This would help the country to industrialise, create employment and remove housing problems," said Kabir, also the managing director of Reneta Pharmaceuticals.

Referring to annual revenue collection budget for the deputy collectors of taxes, he said it makes the collectors blood hunt and they make wanton use of section 143 including attachment of assessee's bank accounts.

"Recently this has been done right, left and centre against demands most of which are disputed and appeal pending cases. A bank attachment simply means a direct blow to the nose of tax payer," he said.

Kabir alleged that the foreign investors are harassed in every single step not to speak of the bank attachment. "It does not only destroy the image of the country but blocks the investment opportunity altogether."

Citing examples of India and Pakistan where the collection of demand is automatically stayed once an appeal is filed against a disputed assessment, he said suggesting that the same should be incorporated in the Income Tax Ordinance 1984.

Turning to the rates of taxes on companies, which is now 50 per cent, the IFA leader said the private companies, mostly family or friend based, should not be charged more than 25 per cent, the maximum rate of individual tax.

Kabir, a former president of Metropolitan Chamber of Commerce and Industry (MCCI), also suggested that the public company rate of tax should not exceed 20 per cent.

"If rates are lowered assessee will feel comfortable and pay willingly. Collection of government will go up substantially and tax evasion will diminish," he said.

The IFA Bangladesh Chairman said fixing minimum tax

in "illegal" and suggested that minimum tax, which will hit the marginal and lower income group, should go.

Frequent changes of tax laws, he observed make the problems of tax payers more complicated and cumbersome. A substantial plan and programming should be made and amendments be made accordingly.

Terming SRO (statutory regulatory order) as a black law, he said it is like stabbing someone on the back. SRO, if at all necessary, should be passed by the parliament and be made public through newspapers, he said.

About the pay of 50 per cent tax to file appeal with the authority, Kabir said it is against the fundamental right of an assessee and also against natural justice.

"No fair and impartial judgement can be expected from an appellate authority which is within the control of tax department," he said.

Cargo handling at Ctg port on the rise

From Staff Correspondent

CHITTAGONG, July 6: Chittagong Port handled about 79 lakh metric tons of import and export cargo during 1993-1994 fiscal, an increase of around three lakh metric tons compared with the previous fiscal year (92-93).

But compared with 91-92 fiscal, the growth in volume of traffic handled by this major port of the country stood at around nine lakh metric tons, according to reports received from port here.

However, Chittagong Port officials expect to handle more volume of cargo in the new fiscal year (94-95).

They attributed the rapid growth in traffic to the rise in country's overall trade and commercial activities.

According to the official reports, in 93-94 volume of import cargo handled by the port recorded at 67,28,118 MT, an increase of 2,31,817 MT compared with 92-93, and similarly export cargo also rose to 11,69,186 MT in the 93-94 from 11,20,082 MT the previous year, showing a growth of 49,104 MT.

Besides, the number of containers handled by the port went up by 24,471 TEUs as the consignees now prefer container ships in carrying their goods, officials said.

Chittagong Port handled 1,74,958 containers during 93-94 fiscal as against 1,50,487 containers in 92-93. It handled during 93-94 fiscal a total of 1244 vessels, up from 1232 ships handled in 92-93 fiscal, the reports said. In 91-92 fiscal, Chittagong Port handled only 70,37,826 MT of import and export cargo.

The main import cargoes were food grain, cement, fertilizer, coal, salt, sugar, edible oil and POL while export cargoes included jute, jute products, leather goods, tea, garments, frozen goods, fertilizer and naphtha, the reports added.



Romanian President Ion Iliescu visited the Bangladesh Pavilion at the International Fair for Consumer Goods (TIBCO '94) held recently in Bucharest. Bangladesh Ambassador to Romania Maj Gen Rafiq-ul-Islam, and directors of Friends International, Dhaka, Golam Murtaza Chowdhury and Maqsoodur Rahmah are also seen among others.

DCCI suggests enhanced dev allocation in power sector

A delegation of the Board of Directors of the Dhaka Chamber of Commerce & Industry (DCCI) led by its president A Rob Chowdhury, made a courtesy call on the Minister for Energy and Mineral Resources, Dr Khandaker Mosharraf Hossain yesterday at his secretariat office, says a press release.

The delegation included Sajjatz Juma, senior vice president, Md Sirajuddin Malik, vice-president and directors A Y M Md Kamal, Mahbubuzzaman, Md Nasiruddin Khan, Alhaj Abdus Salam, Syed Zohirul Hoq and Abdul Malek.

The discussion with the minister was very fruitful. The DCCI president highlighted the problems of unscheduled and unpredictable power failures which have been causing serious problems for industries.

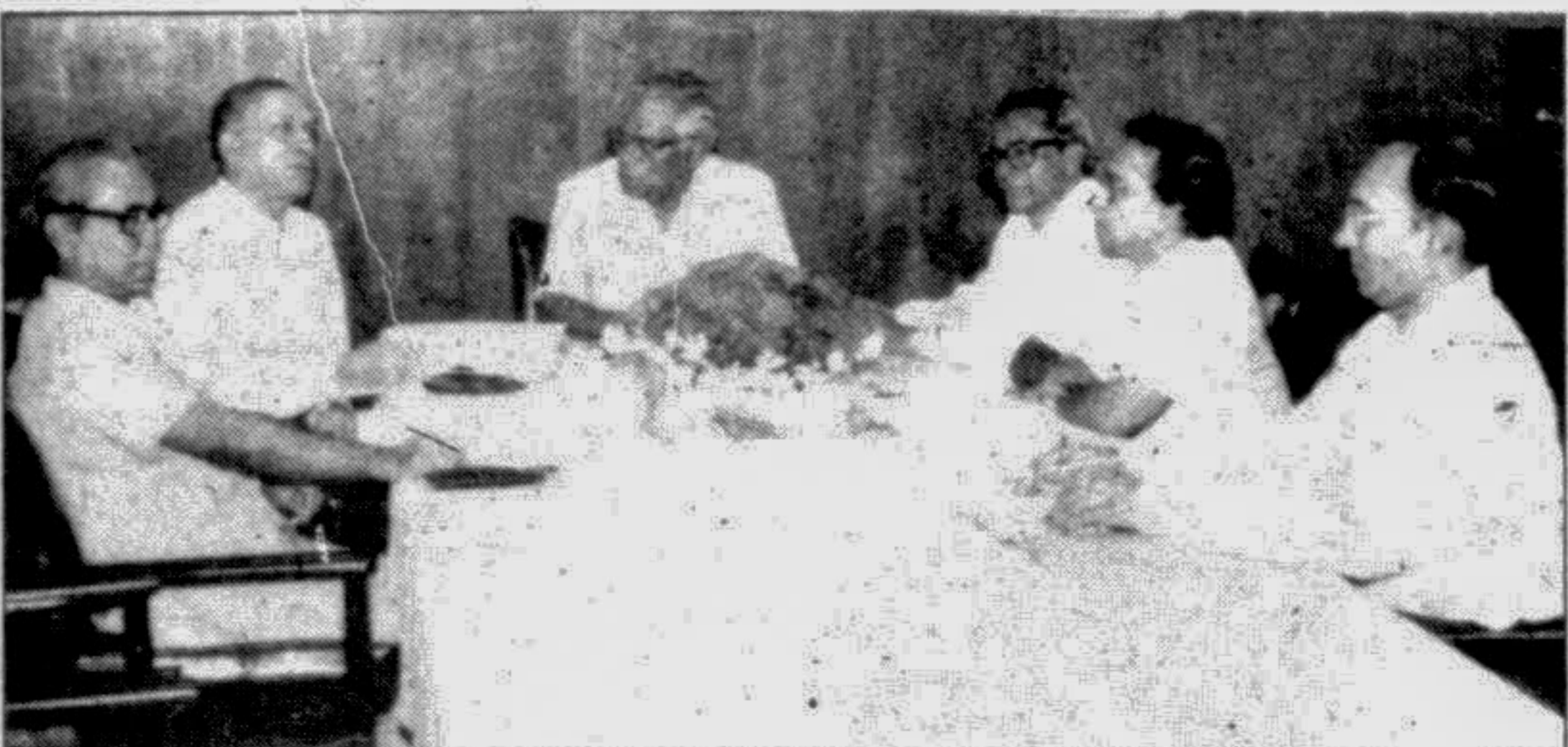
The DCCI president pointed

out that sensitive machinery, chemicals, raw materials, manufacturing inputs, perishable goods and frozen commodities worth inestimable amounts become vulnerable to inadequate and unreliable electricity supply. He also said that system losses in the power sector is about 40 per cent of gross generation of electricity in the country, more than all of our neighbouring countries. Corruption, irregularities and abuse of power are perennial problems in this sector.

The delegation of the DCCI suggested that the government should increase its development allocation in the power sector to meet the shortage of 400 to 500 megawatt electricity on a priority basis. The government should take drastic measures to eliminate corruption, wastage and inefficiency in the power sector. Above all, the government should take

immediate steps to allow private firms to operate in the power sector. A number of domestic and international companies are waiting for such permissions. Government's inactions and indecision are causing delays in this regard. Privatisation can ensure competition, create scope for greater accountability and reduce chances for such power failures. Chamber representatives also strongly urged for early announcement of the country's 'Power Policy.'

The Chamber believes that along with opening the power sector to private domestic and international investment, government can also take the advantage of flattened oil prices by allowing duty-free import of oil for generation of electricity. This will help in saving the nation's reserve of gas for future uses. At the same time, power generation from coal, solar sources, windmills, etc should be encouraged.



Dr Abdullah Farouk, Chairman, Board of Directors of the Bangladesh Shilpa Rin Sangstha (BSRS), presided over the board meeting at its head office in the city on Monday. Al-Ameen Chaudhury, Managing Director, BSRS, seen on his right.

Short supply of LPG in Barisal

BARISAL, July 6: Short supply of Liquefied Petroleum Gas (LPG) in the district has been causing much inconvenience to the hundreds of consumers, reports UNB.

Consumption of LPG per month is about 2,000 cylinders in the town area. Four dealers of Meghna and four of Jamuna Oil Company are supplying the cylinders to the consumers.

When contacted the oil companies said at present the supply of LPG is running short slightly but it is not as much as reported by the dealers. They said some problems in transporting the cylinders from Chittagong were causing the suffering.

Bangladesh at crossroads in its quest for social, economic development

by Shekhar Shah

(Following is the third instalment of the article published on page 10 of our yesterday's issue).

Effective Deregulation: Meeting the Challenge of an Export Push by the Private Sector

Rapid growth in Bangladesh will require a substantial export push spearheaded by the private manufacturing sector. Both to keep pace with its competitors and to raise the confidence of the private sector in the reform process, there is now an urgent need to take the high road of accelerated pro-private sector reforms. Economic liberalization in South Asia, rapid change in China and the high performing East Asian economies, and emerging competition from low labour-cost countries such as Vietnam, pose a challenge that Bangladesh must meet. There is likely to be intense competition among these countries for overseas export markets and foreign investment. To be well positioned, Bangladesh needs to offer the same or better enabling environment for the private sector as these countries do. While enjoying its window of opportunity, the government has successfully reduced overall macro-economic uncertainty. It must now rapidly reduce uncertainties relating to trade liberalization, availability of tradable and non-tradable inputs at world prices, investment deregulation, and efficient allocation of credit and labour. Action is required at the general level of the policy and business environments, and in specific subsectors where government policies or poorly functioning institutions constrain rapid export development.

At the economy-wide level, the government's structural adjustment reforms are seeking to alter the incentive framework decisively in favour of the private sector's greater integration with world markets. This will provide the basis for an export push, as well as force efficiency more generally in the domestic economy. The current round of reforms has achieved much, but much remains to be tackled yet. Most non-tariff barriers have been lifted; investment controls have been largely swept aside; foreign companies can invest freely; the Taka is now

partially convertible. But the financial sector remains underdeveloped, caught between excess liquidity on the one hand and depressed private investment demand on the other; tariffs have been lowered, but, as argued above, there is a clear rationale for accelerating their further reduction; problems of service provision by power, water, and gas utilities are still a far cry from being solved; foreign investment is still a trickle; labour reforms have not yet gotten off the ground. Even where the rules have changed on paper, there is often a large effectiveness gap on the ground. Serious attention needs to be devoted to removing such effectiveness gaps where reforms relating to the private sector are being implemented poorly. For example, little progress has been made on improving clearance procedures, which continue to bedevil the import process. The 1992 voluntary pre-shipment inspection scheme (PSI) did not work, since it failed to require certified PSI values to automatically overrule customs assessments. The government has recently tried to improve the scheme to give it a green channel aspect. While this is welcome, the government must return to its original intention of instituting a compulsory, off-shore PSI scheme in order to break the essential problem of rent-seeking and delays in import clearance, and to enhance customs revenue.

There have been recent improvements in the export incentives relating to the access to bonded warehouse facilities and the simplification of duty drawback procedures. But, effectiveness gaps remain, with frequent delays reported still in obtaining duty drawbacks, and problems in using bonded warehouses outside the readymade garments industry. The rule attempting to force bonded warehouse users to raise domestic value added (by limiting the proportion of export value that can be imported) has been modified partially, but is not yet being implemented. This effectively prevents exporters from working with higher value inputs and targeting up-market exports. It also forces them to forego potentially lucrative export opportunities for high-volume exports that have a low domestic value added on a per-unit basis. Other rules on consignment sales, now rendered obsolete by the convertibility of

the Taka on the current account, need to be discarded. These lurking effectiveness gaps need to be closed by concerted, high-level insistence on clear and transparent action, and by random checks of effectiveness.

In attempting to put its private entrepreneurs on the same footing as their international competitors, rapid progress may not be possible on all fronts despite the best intentions of the government. It is therefore imperative that the government also explore the possibility of making more modest changes to the policy framework (akin to bonded warehouses and the back-to-back letters of credit for readymade garments) that can alleviate the one or more critical constraints that may be holding back the potential development of an export subsector. As the readymade garments sector has shown, effective deregulation of the private sector and a supportive policy environment can make a dramatic difference. An important principle that must be followed in supporting such private sector prospects is to first consider the possibility of establishing a firm export foothold, and only then moving upstream to exploit backward linkages. Industrial policy has often sought to go the other way, as in the case of textiles, with little success.

Public-Private Partnerships: Meeting the Challenge of State-Owned Enterprises

The gross FY 93 losses of all state-owned enterprises including the railways amounted to about Tk 20 billion, a staggering 27 per cent of the ADP, 45 per cent of external aid disbursements and 2 per cent of GDP. Such a vast public failure spanning both industry and finance has raised private industrial costs, stymied faster private sector-led growth, and hurt the banks and the Budget. The government needs to quickly develop, enunciate, and begin implementation of a policy vision to deal with this morass, building on the Industrial Policy of 1991. Such a vision should be based on a clear conceptual framework that pairs market circumstances (whether competitive, natural monopoly, or quasi-monopoly) with the desired sector structure, for example,

in the power sector. Such a vision must also be tempered by the government's regulatory capabilities, preferring simple, rule-based structural regulation to much more demanding negotiated, conduct regulation. In line with such a vision, the government should adopt a three-pronged strategy to deal with the problems of the non-financial SOEs. First, the privatization of selected SOEs, initially in manufacturing, should be accelerated. Second, enterprises likely to remain in the hands of government over the foreseeable future should be pushed to commercialize and face the market. Third, private sector entry must be encouraged, particularly in power, gas, and water utilities, and in telecommunications and transport. The last prong of the strategy, and by far the most important for raising overall efficiency in the economy, will require new forms of public-private partnership designed to promote private entry in infrastructure and utilities, improve sector efficiency, and force existing public monopolies to compete. Such arrangements will require both an enabling environment and appropriate regulatory regimes.

Privatization: Progress on privatization has so far been tardy, and the government has been unable to meet its own divestiture targets. Delays have been caused by difficulties in setting up the Privatization Board, making it fully operational, and wavering political commitment. No concerted efforts have been made to build a political constituency for privatization, consisting of the public, labour unions, and SOEs. The choice of poorer performing units for initial privatization may have cooled the interest of potential purchasers. Rapid action is needed to correct all three problems, starting with the strengthening of the technical capabilities, decision-making authority, and transparent autonomy of the Privatization Board. Only then can the Board be well positioned to undertake the major, privatization of the just sector that is in the offing, and which will be a test case for the government's commitment to private sector development. A major public education campaign (particularly aimed at workers) to provide information on the benefits of privatization is needed, as is an expanded focus to include the early privatizations of the more successful

SOEs. There has been some modest progress on privatization during the latter half of FY 94, but this progress needs to be consolidated rapidly.

Restructuring: Progress on SOE restructuring during FY 93 largely took the form of increased retrenchment through voluntary separation to deal with the severe problem of overmanning, particularly in the railways and in the jute sector. While this needs to be continued and extended to other sectors, the overall uncertainties and delays surrounding SOE reforms have resulted in a loss of direction for many SOEs, and thereby worsened their performance. Therefore, while it pushes ahead with traditional SOE reforms such as commercialization and improved management autonomy, the development of a policy vision as noted above will help to clarify the transition from the current structure of the SOE sector to a largely private manufacturing sector, and to joint involvement with the private sector in the utilities and infrastructure.

Private Entry: The most urgent need for initiating private entry in the utilities and infrastructure is to formulate the regulatory frameworks within which such entry can take place. These regulatory regimes must emphasize the principles of procedural transparency, competitive behaviour on the part of both public and private entities, and simple rule-based regulation that will not exceed the regulatory capacity for monitoring and enforcement. Without such regimes, government agencies on occasion appear to be rudderless in their dealings with potential partners, at times acting at cross-purposes to each other. The actual forms such public-private partnerships can take (management contracts, leases, and concessions such as production sharing contracts and build-operate-transfer) are well-known, and there is a good base of international experience to build on once the regulatory framework is in place.

Financial and Labour Reforms: Meeting the Challenge in Factor Markets

Financial Markets: There appears to be a stalemate in commercial bank

lending to the private sector, caused by factors affecting the supply and demand for funds. On the supply side, the nationalized commercial banks (NCBs) are hesitant to lend because new prudential regulation has exposed their financial weaknesses and they face an uncertain future that may include restructuring or privatization. The NCBs also do not have the expertise to make project loans or develop new financial instruments. The two development finance institutions have been moribund for some time. On the demand side, the factors dampening demand for credit include the weakness of economic activity and the current problem of low aggregate demand, high real interest rates, low SOE activity due to the slow pace of privatization and their own uncertain prospects, and an apparent dearth of creditworthy borrowers with acceptable collateral. Tackling the demand-side problems is likely to be easier in the short run, as compared to the harder institutional problems of the supply side.

The major barrier to financial sector development in Bangladesh has been the government's ownership of the main financial institutions, and, in the past, its interventions in credit allocation. This has led to an uncompetitive and oligopolistic financial sector, providing poor quality intermediation. Weak supervision by Bangladesh Bank in the past has allowed these difficulties to deepen, particularly in the private banks. The government has recognized that fundamental reform to increase competition in the financial sector is now inevitable. Past attempts to cure the sector have resulted in temporary alleviation of the symptoms of its malaise, but, without fundamental change, capital adequacy and other problems have reappeared. Progress on these reforms needs to accelerate, since much difficult and complex work of institutional sorting out lies ahead.

Using an integrated strategy comprising strengthened bank supervision, privatization, and new private bank entry, the long-overdue fundamental reform of the financial sector is now possible, but this will require a renewed political commitment for rapid implementation. Progress will depend on the speed with which the government can take the necessary steps to

privatize the NCBs (starting with the announced privatization of Rupali Bank, but taking care that the poor experience of the previous bank privatizations of Public Bank and Uttara Bank are not repeated), license new private banks, push the two denationalized banks to restructure and become an effective competitive presence in the market, and continue the strengthening of Bangladesh Bank. It will also depend on the speed with which it can tackle the reform of the non-financial SOEs. Imposing hard budget constraints and restructuring the SOEs (as proposed in the just sector) will vastly improve the portfolios of the NCBs and the two denationalized banks. Finally, progress will also clearly depend on the pace at which the economy can overcome the current weakness in aggregate demand. A pickup in the pace of economic activity, and therefore of private demand for investment funds, would ease the task of restructuring relative to the current lending standstill in the financial sector.

Labour Markets: Labour markets in Bangladesh are the crucial link in converting its comparative advantage in low labour cost into a successful export push. They are also the crucial link between productive job opportunities and the poor, whose only asset may be their labour. Experience in other low-income countries that have successfully achieved an export push shows that both these links require labour markets to be flexible. This implies that wages and employment must be free to adjust in line with productivity growth, skill requirements, and the market outlook for final products, and must not be held hostage to vested interests. It also implies that labour markets should send appropriate signals to workers and employers about the skill mixes that are likely to be required.

Excessive and misguided government intervention has prevented Bangladesh's industrial labour markets from playing this role. Public wage policies and minimum wage regulations have allowed real wages to increase faster than productivity, and the spillover effects of this on private sector wages have resulted in a loss of international competitiveness. Labour legislation concerned more with job security than job creation has hampered firms seeking to restructure their operations in response to

shifts in the market outlook for their products. The government has permitted an excessive political orientation of labour relations. In the absence of more conventional channels of negotiation between employers and workers, trade unions affiliated with political parties have come to use general strikes and political agitation to seek their demands directly from the government. The perception of militant labour activity, whether based in fact or not, has potentially acted as a strong disincentive to new investment, particularly from overseas.

Attention must also be devoted to medium-term concerns about the appropriate skill-mix requirements of the private sector in Bangladesh to mount a sustained export push. It would be highly desirable for the government to enter into a dialogue with the private sector to identify processes by which these skills may be supplied without waiting for the much needed, but longer-term, process of increases in the general educational attainment of the population. If real wages reflect productivity, then workers should be willing, barring specific market failures, to acquire training in anticipation of higher productivity and wages, and a market-based supply of such training is to be preferred. Where workers are cash-constrained to obtain such services, training credit and safety net programme can help alleviate the problem.

Bangladesh's comparative edge should be its low labour costs, adjusted for labour productivity differentials due to different capital-labour ratios. If real wage growth is allowed to outpace productivity growth in either the public or the private sector as a result of excessive and misguided government interventions, this edge will be lost. Thus, success in supporting rapid, private-sector led growth will depend on minimizing the extent to which public sector wage policies subvert a market-based wage determination process in the private sector. This link between public and private sector wages will be weakened the faster the government proceeds with worker retrenchment, privatization, and commercial restructuring of SOEs, including the dilution of its monopoly in the utilities and infrastructure through new partnerships with the private sector.

To be continued.