

## Under credit guarantee scheme for small investors

31 project loans amounting to  
Tk 387.48 lakh okayed till Nov

By Staff Correspondent

A total of 31 project loans amounting to Tk 387.48 lakh have been approved till November this year by the participating banks under the credit guarantee scheme for small investors administered by the Bangladesh Bank.

According to the central bank figures, 37 applications were received for loans totalling Tk 447.92 crore by the five participating banks since the scheme was launched in mid-1993.

The Tk 50 crore credit scheme for small investors is providing matching funds of up to Tk 25 lakh as loans to prospective small investors

without any collateral security deposits, with the loan amount being guaranteed under the scheme by the Bangladesh Bank.

The five participating banks in the credit scheme are Sonali Bank, Janata Bank, Agrani Bank, Bangladesh Shilpa Bank (BSB) and the Bank for Small and Cottage Industries (BASIC).

Up to November this year, Sonali Bank received 16 credit applications under the scheme for loans of Tk 243.24 lakh. Of which, 14 loans were approved amounting to Tk 222.47 lakh in credit.

Janata Bank received 16

applications for loans of Tk 128.89 lakh. Of which, 12 were approved for a credit amount of Tk 89.22 lakh.

Agrani Bank received just two applications for Tk 33.22 lakh in loans and both were approved by the bank.

The BSB also received two applications for Tk 41.40 in loans and both were approved while BASIC received one application and approved it for a credit of Tk 1.17 lakh in credit.

Both Sonali and Janata banks turned down two applications each seeking credits of Tk 20.77 lakh and Tk 18.34 lakh respectively. While

Janata Bank also has two applications for Tk 21.33 lakh credit under process for approval.

The credit guarantee scheme for small investors was launched by the Finance Minister to encourage re-trenched government employees to set up small ventures with their severance pay-package as capital along with matching funds from the banks as loans.

However, observers pointed out that the credit scheme has failed to take off because of the absence of adequate publicity and also due to the procedural complications in the approval of bank loans.

## EBL AGM held

The Second Annual General Meeting and Extra-Ordinary General Meeting of the Eastern Bank Limited was held at a local hotel on Saturday, says a press release.

The meeting was presided over by the Chairman of the Board of Directors, Nurul Husain Khan. The Directors of the Bank Anisul Huq Chowdhury, Ghazul Haque, Md Showkat Ali Chowdhury, Mir Nasir Hossain, A M Shaikat Ali, Quazi Baharul Islam, A T M Ifrukar Rahman, Acting Managing Director and Arham Masudul Huq, Secretary were present.

The government has nominated the former Secretary to the Government, Nurul Husain Khan as the Chairman of the Bank and the Vice Chairman of Export Promotion Bureau Anisul Huq Chowdhury as Director of the EBL under "KA" Group.

M Ahsanul Haque, Managing Director, Sonali Bank has been re-elected as the Director of EBL under "KHA" Group.

Mohd Noor Ali and Md Showkat Ali Chowdhury were elected uncontested the Directors of EBL under "GA" Group.

The shareholders have elected M/s Howladar Yunus & Co., Chartered Accountants, as the Auditor of the Bank for 1994.

49th auction of  
BB Bill held

Sixteen bids for a total amount of Tk 513 crore were received at the 49th auction of the 91-day Bangladesh Bank Bill held yesterday, says a press release.

Nine bids were accepted. Face value of the bids accepted was Tk 150 crore. The weighted average price of the accepted bids was Tk. 99.71 per 100 Taka. The corresponding yield is 1.18 per cent per annum.



A view of the second annual general meeting of Eastern Bank Ltd held at a city hotel on Saturday.

Economists see radical changes  
in world economic order

PARIS, Dec 26: A few dates in 1994 may go down into economic history as important landmarks, but economists say they saw few, if any, concrete advances towards radical changes in the world economic order reflecting new geo-political realities, reports AFP.

Five years after the collapse of communism, the major industrial powers, led by the United States, have still to find an answer to the crucial question of who should manage the post-Cold War world economy, and along what lines.

Economists said the key 1994 date to be remembered was the April signing in Marrakesh, Morocco, of a new world trade pact cutting tariffs by 40 per cent and creating a new, more muscular, World Trade Organisation (WTO).

Diplomats said it was still too early to assess the real long-term significance of US initiatives to build vast free trade areas around the Pacific rim and in the Western Hemisphere — played down by some as a US attempt to consolidate its super-power status.

In the view of some ranking economic diplomats, 1994 brought no clear evidence as to whether tomorrow's world economy will be dominated by powerful regional blocs, or underpinned by a multilateral order ensuring a fair deal for big and small players alike.

Trade experts recognized that one does not necessarily exclude the other, since regional groupings are broadly based on free trade as an engine of growth bringing higher living standards.

But they warned that increased regional integration must not be allowed to develop into a stand-off, between "fortress Europe," "fortress APEC" and "fortress Americas."

New developments abounded in 1994. The European Union will have 15 members from January 1, with Austria, Finland, and Sweden joining the twelve, as several East European ex-communist states

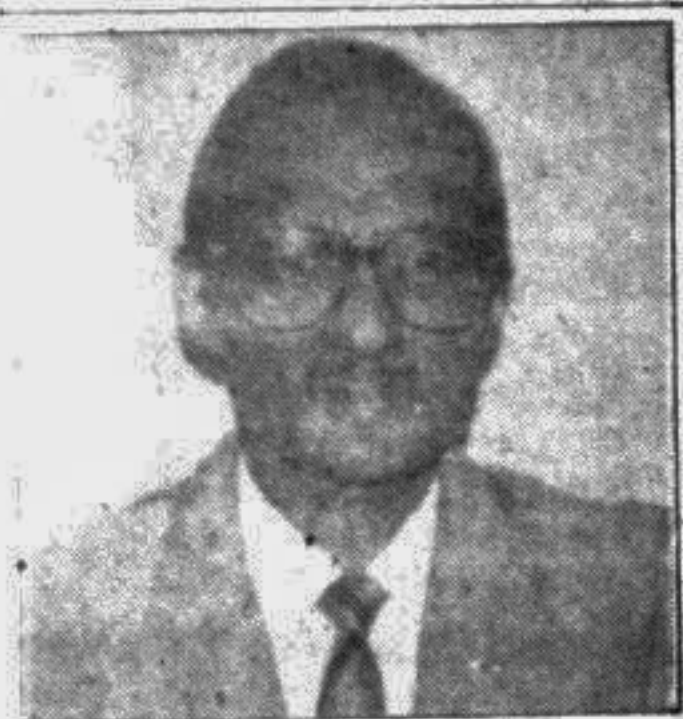
are lining up for entry.

At the November Bogor summit, near Jakarta, the US and its 17 partners in the Asia-Pacific Economic Cooperation (APEC), including Japan and China, pledged to scrap customs duties among themselves by 2020.

In early December, the Miami summit of the Americas, omitted leaders of 34 Western Hemisphere countries to building a continental free trade area within the next ten years.

And Argentina, Brazil, Paraguay and Uruguay have just completed arrangements to get the southern common market — off the ground on January 1, leaving the door open for Chile and Bolivia to join them.

While Western governments have been grappling with recession and mass unemployment, dynamic Asian economies have consolidated their position as an economic powerhouse, and will want a bigger say.

New MD of  
Renata Ltd

The Board of Directors of Renata Limited has appointed Dr Sarwar Ali Managing Director of the company, says a press release. He is former secretary general of Bangladesh Medical Association.

Renata Limited, the changed name of Pfizer Laboratories (Bangladesh) Ltd, is one of the top 10 companies engaged in pharmaceutical and animal health business in Bangladesh.

Chinese move to control  
influx of migrants

HONG KONG, Dec 26: China has introduced work permits to 25 million peasants working in rural areas in a move to control the influx of migrant workers into cities. It was reported Monday, says AFP.

The Chinese labour ministry has started issuing work permits which could still entitle rural labourers to find work in big cities, the Hong Kong branch of China News Service said.

The move will bring "positive benefits" by allowing the efficient management of the influx of migrants, it said.

Under temporary regulations issued by the labour ministry, labourers from rural areas have to get employment permits from local labour institutions before setting out to the cities where they will be issued another permit card by their employers.

The new regulation was in-

troduced ahead of the annual influx of migrant workers from the countryside during the lunar new year period. Prosperous cities, such as Guangzhou in southern China, have increasingly seen social order threatened by the rural exodus.

Guidelines for  
bankrupt firms

Another report says: China's state administration of state property (SASP) has issued further guidelines for the country's rising number of state-owned bankrupt firms. Xinhua news agency reported Monday.

In a circular quoted by Xinhua, SASP states that companies must hand over a detailed analysis report on bankrupt enterprises should sell off property with audited asset evaluation as the reserve price.

Inflation rate  
shrinks in  
Argentina

BUENOS AIRES, Dec 26: Argentina's inflation rate for 1994 will be between 3.6 and 3.7 per cent, the lowest in at least 40 years, officials said yesterday, reports AFP.

The last time inflation was this low in 1954, when consumer prices rose 3.8 per cent.

But Juan Llach, Secretary of Economic Planning for President Carlos Menem, said austerity measures will likely continue in 1995 as the government seeks to pay down its public debt by one billion dollars.

## Recent reforms of indirect taxes in Bangladesh

(Following is the remaining part of the article published on page 7 of our yesterday's issue)

## Reforms of Customs Duty:

Steps have been underway to reduce the highly protective tariff regime that has remained in place for decades. This protective regime did not serve any useful purpose in terms of industrialization and employment generation but, instead, in most cases, inefficient industries incapable of international competition were set up as a result of this regime. In the process the country's export possibilities were adversely affected.

Under the programme initiated for reforming the country's tariff structure, the number and dispersion of customs tariff rates are being lowered thus reducing the average tariff rates to lower the distortions created by trade policy and moderating the high effective protection in the process. The process of simplifying the import tariff structure by reducing the level and variance in rates is expected to improve efficiency and simplify the administration of tariffs, apart from the pro-export bias which is a direct outcome of such actions.

Systematic reduction of tariff was undertaken in the 1992/93 budget which continued during the next two budgets. In the 1993/94 budget the highest effective rate was set at 100 per cent and the average tariff was reduced from 17 per cent in the previous year to 36 per cent in 1993/94. In the 1994/95 budget, the average tariff has been further lowered to 26 per cent and the highest effective rate has been set at 60 per cent.

The total number of duty slabs have also been reduced from 24 in 1990 to only 5, namely, 7.5, 15, 30, 45 and 60 per cent in 1994/95. The tariff schedule is being made as logical, as possible, in restructuring the tariff schedule, more or less a stage of processing approach has been adopted. Under this, basic raw materials attract a rate of duty of 15 per cent, intermediate inputs 30 per cent and final consumer goods 45 per cent, the highest rate of 60 per cent being protective in intent.

For improving administration and enhancing transparency, user defined rates and multiplicity of rates between similar products have been minimized. While consolidating the rates, care was taken to ensure that the tariffs on major inputs are not higher than the tariffs on corresponding outputs.

## Reforms of Domestic Goods and Services Tax:

The Value Added Tax was introduced in 1991 by replacing the sales tax at the import stage and excise duty in case of

most domestically produced goods. VAT has a wider tax base than the taxes it replace. Many items previously excluded from sales tax and excise have been brought under VAT. Many economic services have also been brought under the VAT. Thus there are fewer exemptions and exclusions from VAT than under the previous systems. Three items, two goods and one service have however currently remained under excise.

The VAT in Bangladesh has a single rate of 15 per cent. As indicated earlier, the average rate of taxes replaced by the VAT was around 8 per cent. Taking into account the element of cascading under the previous excise system and the corresponding mechanism for crediting of input tax under VAT, a rate of around 13 per cent would have been revenue neutral. Thus, the rate of 15 per cent has been moderately revenue augmenting. In fact, this feature and the base broadening mentioned above are indeed the immediate causes of a rise in revenue following the introduction of VAT. The single rate has certain administrative and accounting advantages. The problems of classification does not exist and calculations become much simpler with a single rate.

The VAT is widely considered to be a regressive tax, given the single rate. However, equity aspect of VAT in Bangladesh has been sought to be taken care of in the following way: goods that form the consumption basket of the poor, e.g., unprocessed agricultural products, fisheries, livestock and forest resources have been excluded from VAT. Further, supplementary duties at varying rates have been imposed in a trade neutral manner on luxury and non essential goods for imparting progressivity on the system.

For administrative and accounting reasons, small and cottage scale firms have been kept outside the VAT. The threshold limit for small firms was initially Tk 5 lakhs which was first raised to Tk 7.5 lakhs and then to Tk 15 lakhs in order to align it with the turnover limit for the cottage industries. With regard to the exports, there are no taxes on the outputs, in addition, all input taxes involved in the exported goods are refundable.

## Results of the Reform:

It is too early to make any meaningful assessment of the reform that has been underway. However, it is possible to make use of certain numbers that are available to assess the direction, if not the magnitudes of the changes. Thus, the

## Dr Zahid Hussain

rate consolidation of customs duty and the compression of duty differentials are evident from the fact that 62 per cent of all H.S. codes have duty rate of either 45 per cent or 30 per cent. Duty rates of 15 per cent, and below apply in case of 23 per cent of the H.S. codes, while the rate of 60 per cent apply to only 15 per cent of the H.S. codes. The coefficient of variation has also been steadily declining as it was 72 per cent on 1991/92 but has come down to 55 per cent in 1994/95.

The distribution by H.S. codes indicated above is also seen to correspond to the distribution of customs duty collections by slabs. Thus around 49 per cent of customs duty collected during July 93-June 1994 came from items with duty rates of 45 or 30 per cent. Around 21 per cent of customs duty collected came from items with duty rates of 15 per cent or below, while 28 per cent of the customs duties came from items with duty rate of 60 per cent during the same period.

With regard to the impact of the introduction of VAT in respect of reducing resource misallocation and the reduction of cascading no study has been done so far. It has not also been possible to ascertain if tax elasticity has increased following the introduction of VAT because of a shortage of data points or observations. However the Tax-GDP ratio which remained more or less stagnant before, is found to have increased from 8.00 in 1989/90 to 9.40 in 1993/94.

NBR tax collection is seen to increase in real terms following the introduction of VAT and the onset of the comprehensive reform process. Thus, whereas tax revenue grew at 17 per cent in 1989/90 over 1988/89 and 16 per cent in 1990/91 over 1989/90, the same grew at 19 per cent in 1991/92 over 1990/91 and 16 per cent in 1992/93 over 1991/92. Since these are expressed in current prices and the rate of inflation was much higher before 1991/92 than at present, it is inferred that tax collection has grown in real terms after the introduction of VAT.

The share of customs duty in total taxes has been declining in recent years. For example, the shares were 35 per cent, 32 per cent and 33 per cent respectively during 1991/92, 1992/93 and 1993/94, compared with 40 per cent in 1986/87 and 38 per cent in 1987/88. It is also observed from the table below that the collection from VAT (and supplementary duty) at

the import stage is lower compared with the domestic VAT (plus supplementary duty and excise duty).

In spite of this, however, the share of trade taxes in total indirect taxes would still be higher than the domestic taxes as customs duty still weighs heavily and tilts the balance in favour of trade taxes. Thus, although the dependence on customs duty as a source of revenue is to be reduced by design, it still remains a major source of revenue. On the one hand, it seems that imports are growing to offset part of the effects of rate reduction and on the other, there has been some administrative improvements as a result of the simplification and transparency brought about by the reform. Given the revenue imperative, customs duties cannot however be reduced further in the near future unless the domestic indirect taxes and the direct taxes take over bulk of the revenue roles now performed by customs duty.

## Scope for Further Reform and Conclusions:

Certain improvements could still be brought about in the customs tariff structure to increase simplicity and enhance transparency. For example, the remaining user specific rates and the multiple rates may be abolished without any further delay. There is also no justification for keeping positive duty rates below 15 per cent. Further, unless dictated by health, education or religious grounds, the present zero customs duty rate may also be raised to 15 per cent.

In addition, the duty rate of 60 per cent could be brought down to 45 per cent with appropriate downward adjustments of the duty rates on principal inputs.

In case of VAT, however, no further structural improvement or base expansion seems to be possible in the medium run. But there is a lot of scope for increasing collection through improving the compliance position. Although, the legal base of VAT in the domestic manufacturing and service rendering is quite large, because of significant non compliance, evasion and avoidance, especially in case of the services, the due amount of revenue is not collected.

Education of the taxpayers and tax collectors through continuous training is expected to improve revenue collection. Timely manual and computer based auditing would also enhance compliance and safeguard revenue. VAT collection on presumptive basis could

also be tried for a larger number of hard to tax groups of taxpayers.

Improving administration is a very essential complement to any tax reform. In case of customs duty collection in Bangladesh, side by side with the structural improvement of import tariffs, direct administrative improvement needs also be initiated. Computerization of the customs administration is a step in the right direction. But it has to be made more comprehensive and the process has to be expedited. Since valuation of imported goods still remains the most contentious part of customs assessment, some means have to be evolved to minimize disputes. The adoption of transaction value in the wake of the Uruguay Round Agreement, while adversely affecting revenue to a certain extent, would reduce valuation disputes significantly.

Tax laws and procedures, both for customs and VAT have to be further simplified and streamlined, because a major contributing factor for weak administration is the overly complex tax laws and the burden placed by it on the limited enforcement capabilities of countries like Bangladesh.

Well coordinated programme has to be drawn up for VAT computerization, which so far has not done any noticeable progress. VAT collection and payment control are unlikely to improve unless a well orchestrated computerized system is put in place. Unless the VAT officials are in a position to readily interface the provisions of VAT law with the numbers received by way of input-output relationships and the VAT returns, no one would be certain about the collection scenario.

Side by side, activities such as registration, submission and processing of returns, payment and credit control have to be significantly geared up for realizing the due amount of VAT revenue.

Dr. Zahid Hussain has done his Masters and Ph. D. from the School of Economics, University of the Philippines. His specialized area of research was International Trade. He now works in the Research and Statistics Wing of The National Board of Revenue as Deputy Director.

He is a member of the Bangladesh Masters and Excess Cadre. He has widely published and attended a number of seminars on fiscal policy and issues. The paper was presented at a seminar last week organised by BCS (Customs & Excise) association.

## Government of the People's Republic of Bangladesh

## Office of the Chief Engineer

Construction and Maintenance Management Unit (CMMU)  
House No. 80, Road No. 11, Block-E, Banani, Dhaka

Memo No. MOHFW/CMMU/Bid/94/3541

Dated: December 26, 1994

## THIRD AMENDMENT OF BID NOTICE

The following amendments of Bid Notice published vide the Chief Engineer, CMMU's office memo No. MOHFW/CMMU/Bid/94/3499 dated 20-12-1994 for Repair & Renovation Works of different Thana Health Complex, Rural Health Centre and Hospital under GOB fund have been made for unavoidable circumstances:

1. The date of receiving the Bid will be on 01-01-1995 instead of 28-12-1994.
2. The date of opening the Bid will be on 01-01-1995 instead of 28-12-1994.
3. The Bidder who purchased the Bidding documents shall collect another Amendment/Errata of the Bidding Document from the Office of the Chief Engineer, CMMU, Dhaka; Executive Engineer, CMMU, Dhaka Division and Office of the Consultants M/s. Sthapati Sangshad Limited, Dhaka failing which the Employer shall evaluate the bid after making necessary corrections.
4. Other terms and conditions of the Bid Notice will remain unchanged.

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Chief Engineer  
CMMU

## Government of the People's Republic of Bangladesh

## Office of the Chief Engineer

Construction and Maintenance Management Unit (CMMU)  
House No. 80, Road No. 11, Block-E, Banani, Dhaka

Memo No. MOHFW/CMMU/Bid/94/3543

Dated: December 26, 1994

## AMENDMENT OF RE-BID NOTICE

The following amendments of Bid Notice published vide the Chief Engineer, CMMU's office memo No. MOHFW/CMMU/Bid/94/3429 dated 14-12-1994 for Repair & Renovation Works of different Thana Health Complex, Rural Health Centre and Hospital under GOB fund have been made for unavoidable circumstances:

1. The date of receiving the Bid will be on 31-12-1994 instead of 27-12-1994.
2. The date of opening the Bid will be on 31-12-1994 instead of 27-12-1994.
3. The Bidder who purchased the Bidding documents shall collect another Amendment/Errata of the Bidding Document from the Office of the Chief Engineer, CMMU, Dhaka; Executive Engineer, CMMU, Dhaka Division and Office of the Consultants M/s. Sthapati Sangshad Limited, Dhaka failing which the Employer shall evaluate the Bid after making necessary corrections.
4. Other terms and conditions of the Bid Notice will remain unchanged.

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Chief Engineer  
CMMU