

The Daily Star Pre-Budget Roundtable

Plug Collection Loopholes, Don't Raise Tax

"Plug collection loopholes, don't raise tax" was the key message coming out The Daily Star pre-budget round table held on April 25. The distinguished participants also made a serious case for education, human resources development and agriculture. All of them said it was important that the administration and the judiciary be reformed.

The Star idea was to bring people with divergent background and views who would generate suggestions ahead of the national budget. The participants focused on issues that concerned specifically the forthcoming Budget in the context of such national priorities as private sector development, generating investment, improving governance and social development. The five-hour open discussion, was held at the FBCCI boardroom. Following are excerpts of the deliberations.

into -- in the budget, we want to see reduction of tax on the raw materials, not on the finished goods.

Mahfuz Anam: I would like to propose that the chamber leaders speak first. May I now invite Mr. Abdul Awal Mintoo of Bangladesh Association of Banks.

Abdul Awal Mintoo: I would like to congratulate The Daily Star for (organising) this kind of discussion. We must decide on policies first -- whether we want a tax and tariff-oriented economy or we want an employment generating, more liberalised tariff structure and export-oriented industry. We (to) want the combination of the both, but it doesn't go together.

Because if you are going to burden the whole business by simply tax or tariff structure at the beginning, and if the cost of business is so high, hardly any industry can survive in this country. I agree with the FBCCI president that we have liberalised enough. I am thoroughly in favour of liberalisation but the point is it is not the single thing you have to do. At the same time, you have to do it in many fields, if you are going to liberalise. If you shift our emphasis from import substituted policy which has been the ideal for many years in our country -- if you want to change that we all agree with you -- it must be supported with other reforms. The reforms of administrative forces, judiciary and many other places. Without these reforms, if the red-tape and all the cost of production remains the same, if we are burdened with extra taxes now ... they are saying that they are reducing the taxes, but it is not in all places. You see the difference between tariff and taxes. I think it has to be changed fundamentally. Because, now in many cases, the tariff between the raw materials and finished goods simply is not enough to support us. So, we have got to ensure -- whatever we are proposing here -- I don't need to have the tariff burden or protection whatever -- that there should be enough difference so that local industry can survive, and flourish. On the other side, we have a very high amount in our expectation on the revenue collection. Obviously, if too much collection is needed or expected, if you have to increase tax. The tariff structure is so bad ... so raw ... it doesn't seem realistic. What is happening (as a result)? Our export and import are coming down and the gap between tax collection and development budget is increasing.

As we all know, revenue collection this year has fallen behind projections. I think the one of the key questions is: how do you ensure the continuity, and keep the hopes of high growth alive? So, the nation is in need of ideas and directions. We're trying to get past stagnancy as much as possible. It is more of a dialogue than a speechmaking. What I have done is to set the ball rolling. I would like to start with the President of FBCCI, Mr. Yussuf Abdullah Harun.

Harun: Thank you very much Mr. Mahfuz Anam. The Daily Star has been organising seminars and dialogue regularly. This (one) has been very much timely. I am sure today's discussions will result in many important recommendations. We have a meeting tomorrow with the finance ministry -- sort of a wrap-up meeting -- (where) all the chambers and associations will join.

The only thing I would like to say at this stage (is that) we have suggested the Ministry of Finance first do an assessment of the situation before going into the budget details. But I think the critical issue today is -- after seven years of liberalization -- where do we stand? If you look at the recent figures ... the export-oriented private industrial sector, no doubt, has been playing a very satisfactory role and 3-4 government sectors could be named.

Most of the other sectors are showing negative trends. One of the biggest reasons for that, of course ... over the last 2-3 decades ... the liberalisation process has had a tremendous effect. Our industries had actually nice set-up and that was heyday; but today, by and large, the industries are faced with severe crisis. The was a period of import substitution techniques. Then, rapid liberalization without any reforms has pushed the industries into a very difficult situation. It is very difficult to keep pace with increasing competition that is coming in. Many of them fell sick.

I'm not against liberalisation, but I think the liberalisation must go ahead with reforms. Because, once you open your economy for foreign competitors we have to make available the factors of retention for our own investors, industrialist at the same level as the other industrialists are likely to enjoy.

Therefore, the other things we're looking at are reforms, which have been done or overdone. These might have serious impact on the budgetary allocations and other fiscal measures. Now, we would like to see the revenue gap. Why has the revenue gap increased in the current years? I think analysis is an important exercise in preparing this budget. Because budget need not be very secret of the secrets. It should be discussed more openly. People should know what is happening and I think the most important thing we have to do this time is reform. The other factor is in the income tax area. We are increasing the tax-base but because of the corruption at the grassroots level, a big chunk of our revenue is lost. There is a vast reservoir of revenue that should be tapped. And on part of the business community, we have volunteered many measures to strengthen tax-base, for example, introduction of tax identification numbers. We ourselves advocated last year for that tax registration number. This is very important.

All the time, the business community participated in budget discussion, but participation of other professionals is also needed. As far as our import policy is concerned, I think that the business community is arguing (should be looked

At the same time, to make-up for the revenue shortage, the government is introducing new instruments at a lot higher interest rate than the normal bank rate. For example, recently, the government came up with a new instrument where interest rate is 14 per cent. Now tell me, who is going to put their money in the bank. What government is doing right now is going to put a lot of pressure on the banking system.

There would be hardly any money available in the banks to support the working capital or any kind of project loan. The small savers are the backbone of the commercial banks. They are going to shift from the normal bank and going to buy the instruments issued by the government. That means bank would be under pressure and they wouldn't be in a position to give any loan for projects. You are taking the money out of the system.

Mahfuz Anam: Now, let's hear another business view. The view of the foreign business community. May I invite Mr. A K M Shamsuddin of Foreign Chamber.

A K M Samsuddin: Thank you Mr. Mahfuz Anam. Thank you for organising this roundtable -- which is timely. Thank you also for setting the tone of this roundtable. You said, in your letter, that emphasis should be given on the priorities like private sector development, investment generation, improving governance and social development etc. Let me start by asking a basic question: Why do we do a budget?

We can say from our experience in Bangladesh, that we do budget for revenue collection and give some outline for the development of the country. But, today also in the budget exercise, we have to keep in mind the globalisation and



2005 by which time we have to implement the WTO recommendations. If we come to the first one -- the revenue collection exercise in Bangladesh, it seems to me that revenue collection, to some extent, is in contrast with tax rate. If you look at our revenue collection scenario over the years, we will see, in real terms, it is all failure.

We gave very good incentives to the black money holders in this year's budget. But this didn't succeed. Why? Whereas in India, they did the same thing and with very big success. Why? We reduce the tax and hope that tax horizon will be widened. What is the guarantee that tax rate will not be revised, not even in the next budget but the next day? This is very important situation in our case. So, I think, the first priority of the government in this year's budget should be to earn trust of the people. To make sure that once the budget is passed in the parliament, no deterring changes will be made. To do so, it should be done through parliament, not through tax department. Let there be assurance that tax rate remain static, if not going down and will not be increased during the tenure of the present government and thereby generate trust. So the people will not be afraid to come under tax net. In the language of law minister and new finance minister of India, Inspector Raj should be abolished. If I pay 20,000, I am scot-free and I don't even need to submit a return. Therefore, the tax administration needs to be completely simplified. The number of controllers should be reduced to reduce the control. We have to have a different revenue administration system, long-term policy assurance and reduction of rates.

There is an utter need to downsize the bureaucracy and thereby reduce the revenue (spending) for the unproductive purposes -- and divert the surplus for development purposes. The second point of the budget, to me, is development. We have a long-term perspective plan and we have a budget as part of this.

The fundamental question is whether the budget is actually made to meet the need of the Constitution or a traditional way of addressing the financial measures. Anyway, at this stage, I think two main broad issues need to be covered. The chamber leaders and leaders of the industries have all made formal proposals for tax cuts, which they think, might be an intermediary step, which are likely to have a remedial effect to move forward. The Government has admitted some of those proposals which are being incorporated in the budget. Now, I think the real question for the government is how to generate more revenue -- the revenue that is needed to finance the necessary state expenses.

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hind projections. I think the one of the key questions is: how do you ensure the continuity, and keep the hopes of high growth alive? So the nation is in need of ideas and directions. We're trying to get past stagnancy as much as possible. It is more of a dialogue than a speechmaking. What I have done is to set the ball rolling. I would like to start with the President of FBCCI, Mr. Yussuf Abdullah Harun.

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Most of the other sectors are showing negative trends. One of the biggest reasons for that, of course ... over the last 2-3 decades ... the liberalisation process has had a tremendous effect. Our industries had actually nice set-up and that was heyday; but today, by and large, the industries are faced with severe crisis. The was a period of import substitution techniques. Then, rapid liberalization without any reforms has pushed these industries into a very difficult situation. It is very difficult to keep pace with increasing competition that is coming in. Many of them fell sick.

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The parliament doesn't approve of our ADP, if I am not wrong. So what is required? If we look at our neighbouring countries -- their view is (that) reform should go on and there should be some sort of protection too. But it should not be overdone. Because if we defer demands for increase of taxes in some areas, I feel that Mr. Mahfuz Anam can make a lot of recommendations. It is not possible for the government to accept most of the recommendations coming from chambers. Because, even if I am honest, and in fact, study all the recommendations instead of reforms in NBR and other areas ... (they) always propose to reduce 7-8-9% tariff reduction. These are national calculations. So, I feel that government has limited capacity to accept all the recommendations. I would say, there are (some valid) points raised here to mobilise resources. There is an urgency to raise revenue. Certainly you cannot raise revenue by removing the impediments only. I would say, you cannot do mobilization, it depends on time and determined policy.

The important question is some broad issues have come up in the discussion. Removing corruption is one of them. The international organisations continue to tell us to remove corruption and to augment internal resource mobilisation. My suggestion is that our industries are in a serious situation and protection must be there. What will be the protection? I accept almost 90 per cent (of what is being said). The interest of the local industries must be taken into account. (However), further reduction in custom duty is not justified at this stage.

I also urge we must not surrender before international bodies. There is a large demand to reduce 10%, 12%. I don't accept believe it -- it is not possible for the government to accept it. On the procedure side, the duty is subject to serious distortion. Because, we have to avail more resources. On the expenditure side also, I would like to say something, which has also been highlighted. For example -- I am not an expert (though) -- what should be the size of the revenue now?

Expenditure in some areas is very poor. Revenue expenditure and development budget ... I think we should now reduce the annual development budget, now that the private sector is expected to take up much of the responsibility. For example in science sector the allocation is only Tk 93 crore. If you want to go forward, you will have to make progress in science and technology. How will I do it? I would say vision of our expenditure is not appropriate. We introduced the so-called privatisation policies.

Beyond that, why the minister should be concerned for a posting in the airport? Why should the NBR chairman receive phone calls for such requests? A stubborn policy is needed to fight corruption. How does this (posting) concern a minister? Bad lobbying (tabdir) must be stopped.

Salahuddin Kashem Khan: I would like to come to the point. I think the budget should reflect the fundamentals of national

development. Mr. MK Anwar agreed that the sickness of the industries has been due to the policies of the previous government. Today the industries are sick. This is due to liberalisation without taking into account the national interest. In Chittagong, we had a meeting with WB president Mr. Wolfenson and talked about the impact of liberalisation. In India, tariff reduction on raw cotton is 65 per cent and in Bangladesh the government reduced only 25 per cent. We are not seeking excessive protection but we are talking about adequate protection. Every country in the world protects its local industries. Sick-

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PARTICIPANTS

1. Dr. Akbar Ali Khan, Finance Secretary, Government of Bangladesh.
2. Mr. Yussuf Abdullah Harun, President, Federation of Bangladesh Chambers of Commerce and Industry
3. Mr. Shah Abdul Hannan, former Secretary, Internal Resources Division and former Chairman, National Board of Revenue
4. Mr. A K M Shamsuddin, President, Foreign Investors' Chamber of Commerce and Industry
5. Dr. Omar Haider Chowdhury, Research Director and Chief of General Economics Division, Bangladesh Institute of Development Studies
6. Dr. Zaid Bakht, Senior Research Fellow and Chief of Industry Division, Bangladesh Institute of Development Studies
7. Mr. Salahuddin Kashem Khan, former President, Bangladesh Textiles Mills Association and former Director, Chittagong Stock Exchange
8. Mr. Abdul Haque, President, Bangladesh Reconditioned Car Importers Association and Chair, Standing Committee on Duty, Tax and Tariff, FBCCI
9. Mr. Alauddin Ahmed, Convener, Sick Industries Rehabilitation Parishad
10. Mr. Golam Mostafa, President, Bangladesh Frozen Food Exporters Association
11. Mr. Khondker Ibrahim Khaled, Deputy Governor, Bangladesh Bank
12. Mr. M A Mumin, former President, Sylhet Chamber of Commerce and Industry, and Member, Executive Committee, FBCCI
13. Dr. Rushidan Islam Rahman, Senior Research Fellow, Chief of Agriculture and Rural Development Division, Bangladesh Institute of Development Studies
14. Mr. M K Anwar, MP, former Cabinet Secretary and former Commerce Minister
15. Mr. Syed Nizamuddin, The World Bank Resident Mission, Bangladesh
16. Mr. Abdul Awal Mintoo, President of Bangladesh Association of Banks
17. Mr. Rezaul Karim Khan, Economist, Asian Development Bank
18. Mr. Enayet Ullah, Moulvi Bazar Babosayee Samity
19. Mr. Mostafa Golam Quddus, President, Bangladesh Garment Manufacturers and Exporters' Association
20. Mr. Matiul Islam, former Finance Secretary, Government of Bangladesh
21. Mr. Onu Jaigirdar, Councillor, Dhaka Stock Exchange

Moderator
Mahfuz Anam
Editor, The Daily Star

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