

The Daily Star Pre-Budget Roundtable

The Administration and the Judiciary be Reformed

Continued from page 6
ness is not prevalent not only in Bangladesh, but all over the world.

I would strongly suggest that a high-powered team be constituted to find out how the industrial sickness can be taken care of. Because without that, in the long term, the Bangladesh economy is likely to face disaster. The report, produced by Bangladesh Metropolitan Chamber of Commerce, tells that most of the sectors are not showing any growth -- stagnancy or even retardation of development is there.

The Indian textile industry was a sick sector. Indian government had put up a fund for rehabilitation. By 90s the textiles has been an export-oriented sector in India. I would request the secretary of finance to form a team to find out the strategies to rehabilitate this sector. Because, the textile is deemed to be as the mother industry. Initially, the garment sector is looking at the development of the textile sector. The truth is, if you really want to bring about industrial development, we must establish backward link with the garment sector. We are exporting 3 billion US dollars worth of garments -- but over 2 million is outflow. What is the net retention? Budget must reflect the net retention of various sectors. I think there are lot of distortions and information gap. We must tell the people what is the actual value of garment sector. The industrial sector like jute, frozen food are not getting adequate support and compensation in terms of fiscal incentives.

Then, I would like to touch on human resource development. Other speakers have brought up this point. I will request the finance secretary to kindly look into the possibility of matching funds of official trading. There are very good organisations working in this field. The UCEP is providing excellent services. Ninety per cent of the girls and boys who are graduating are employed. We should give more emphasis on vocational training.

Mahfuz Anam: Finance Secretary Akbar Ali Khan is one those extremely busy with preparing what we are talking about. It was agreed that he would be here as an observer. But as the discussions progress, it seems other participants are eager to hear him speak.

Akbar Ali Khan: I thought that I came to listen. I will start with the question which was raised about the honesty. Now, this is a serious question. But it is difficult to raise moral ques-



Akbar Ali Khan

tion with the budgetary process. The post of munsif was abolished and this was converted into the post of Assistant Judge. This was the conversation between an officer of the Law Ministry and that of the Cabinet Division. What has succeeded in taking away *insaf* from the judicial system? The response of the law minister officer was: "What you have is court of law, not court of justice." If you think about honesty and justice, these are absolute concepts. I think you can get hundred per cent honesty from Allah. So, no human being is absolutely honest. It is not possible.

Now come to the question -- what does the budget contains? It contains some descriptions and prescriptions. As far as descriptions are concerned, there can always be negative opinion. The matters of aspiration always there. What needs to be looked at is how far these are not impossible to implement. About the budgetary process, I would say, it is always the compromise show, and in a compromise document you always do some good things -- you always accommodate some bad things too. Otherwise it never becomes a compromise. So, we shouldn't judge the budget in terms of honesty or dishonesty. As a social scientist thinks about the process and ways of compromise... We are looking forward to private sector development. So, any sudden changes in the policy will definitely impair the development of the private sector. So much of government expenditure will crowd out the private sector investments. My suggestion is government should withdraw from the areas where private sector can make contribution. This is not possible. For additional resource mobilisation government will have to look toward making the present system more efficient. This is important in the context of Bangladesh. There are lot of questions about the government expenditure.

We have a Textile Mills Corporation, the salary of the staff is paid from the budget. Does it justify the existence of the pub-



M K Anwar

lic sector which cannot pay the salaries and *etd bonus* from the income. Mr. Shah Abdul Hanan was talking about health, education etc. We need more investment in these areas. What is the condition of human resource development? If resources are wasted away, then by raising allocation, we would not be able to achieve development. That is why we must have administrative reforms to ensure proper utilization of the resources. If that is not done, decreasing the size of the government would not benefit much. From the business point of view, you need to develop the physical infrastructure. The private sector need not only tariff protection, rather they need power supply and other facilities so that you can really work in the industry. These are the most urgent necessities. Whatever tariff reduction and protection you provide, if you want to reap the benefits, ensure the basic functions of the government.

In every country, there are differences of opinion about protection. In the last part of the 19th century the professors of economics of Northern industrialised countries had a different opinion. Protection is an emotional issue, even in the US. The problem is that we cannot predict the future. The economist is somebody who discovers tomorrow. For example, yesterday, I made some predictions, which might not be realised tomorrow.

Reforms of our governance system is necessary. The pace of the reform programme should be accelerated. It has to be determined. What was the projection of revenue and development expenditure -- we need to analyse. Most of the resources are (54% of GDP) private sector contribution, 46% public sector. You are still in a majority.

Government is not competing with private sector, rather appreciates it. It is true that no effective policy has been devised to finance our industrial sector.

Mahfuz Anam: I think the distinguished representatives of exporters are getting impatient. I am sure they have a lot to tell us. I would like to start with Mr. Mostafa of Bangladesh Frozen Foods Exporters Association.

Golam Mostafa: At the moment what is very discouraging for the private sector is there are no effective policies. As a result, we find that the banking system is not supporting the way it should have been. I think the banking system as a whole needs total overhauling.

As far as the investment is concerned, our ratio is 11%, it has to go up by 25%. We must meet the growth projections we have... our investment has to go up. The policy has to be devised to reach that level.

Businessmen now say 'Give us guarantee that nobody (tax collectors) will disturb us'. There is a tremendous amount of leakage in revenue collection. Lot of duties you have charged, you cannot do it further. We hear that government is injecting Tk 200-300 crore to the capital market. The capital market cannot be improved unless the fundamentals are changed. The possibility of changing the core policies in DSE should be looked at. Other steps include ensuring transparency in DSE. Despite all steps the government is taking up, it must be speeded up. I think we should give some incentives to private entrepreneurs. We should also look at foreign wage earners. We can do something for them. Try and get them use the proper channel. The backward linkage to textile industry is an urgent need. We have captured the market of two billion dollars. We are not doing much. Other problems lie with NBR. When they want more revenue, they also have to demonstrate that they have good faith (in us). If they don't show it, they are not going to get support from private sector.

Then, we must move towards knowledge based industries. Education must be productive. We have so many graduates in political science and such disciplines, but the textile industry suffers from a lack of skilled manpower.

The other important problem which is indeed affecting our industries is arising from tariff and duty policy.

Mahfuz Anam: Now may I invite Mr. Qudus of BGMEA...



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of Bangladesh exporters by that time? Are we reflecting anything about those unfortunate citizens of the country who have involved themselves in the export business? If we are thinking about them, what are the areas we are thinking about? With regard to continuity of this sector, I would like to say, nobody is thinking about it. Some routine privileges and gestures have been shown and in many cases I have observed, being the president of BGMEA, I have begged mercy from the bureaucrats, from the ministers. I tell them these are the areas you can look into and (that) there is no financial involvement. Just you eliminate the bureaucratic shackles. I tried to convince them but I have failed.

This is one of the forums where I should speak very loudly. And I feel honoured that you have invited me. All of us are talking about the backward linkage industry for the textile sector. Unfortunately, our government has imposed taxes on the import of capital machinery. This is very important. What kind of linkage we are talking about?

In the budget speech, they are becoming hero saying that you have to pay obligatory taxes. If you want to remain in this country, you have to pay tax. Our competitors -- India, Pakistan -- have not only exempted the taxes on the machinery, they have also exempted the exporters from all kinds of taxes.

Bangladesh has made a little bit progress in the garment sector with the help of bank, with the help of the government. (But) I am frustrated about our workforce. The whole sector will collapse soon, if we don't pay attention to the development of our workforce. Due to political unrest, the buyers may not get any interest to come to Bangladesh. Because, in this country, there are discriminatory laws. The export-oriented industries inside the EPZs and outside are treated in two different ways. You will be surprised to know that one of the very important ministers said that, outside the EPZ, there is no 100 per cent export-oriented industry. So we have no courage and these people are devising laws in this country, without having adequate knowledge about the export-oriented industry.

As a matter of fact, all over the world, we have to pay higher tax on raw cotton and fibre comparing to the other countries in the region. They are giving subsidy to their domestic manufacturers and they are selling at a higher price to us. So, all these factors indicate to a negative atmosphere, retarding the progress of our export. I would like to talk about bonded warehouse. This is specified area to keep the goods. We don't have much bonded ware facilities and we cannot keep outside the bonded area. If we could increase the territory of our bonded area, the export would have been 3/4 times more. Our cost of production is increasing due to tax on spares and thus losing the competitiveness. The Bangladesh garment exporters have quotas and we're paying advance tax. These exporters are travelling around the world and paying income tax in advance. No importers are giving tax, in advance. Our Prime Minister has given specific instruction to the Finance Ministry for the safety and protection of the industry. She couldn't wait a long time. It only happened when literacy rate reached 60 per cent. There is a strong view that we should start the socio-economic movement if the literacy rate crosses 60 per cent. Before that it will not happen.

Another important issue is that there is a vicious circle in the tax structure. What happens the policy makers stand in defense of increasing tax. My view is that the more you enhance the tax, the more there will be system's loss. This is true for telephone, WASA and many other sectors. For example the system's loss in PDB is not really the system's loss.

Every year you are increasing the tax. If you reduce the system loss by 5%, you need not to increase the tax. This is my view. There should be two-pronged attack on such a vicious circle. Well, this may be debatable. But again, I say, tax rates should be so low that the payers will pay willingly. I don't know whether it could be a long-term strategy -- but I would say let's try it. We have tried so many things.

Simultaneously, there should be another attack on tax collection system. It can be simplified. Just like you pay it in the bank or post office so that no body finds it difficult. There should be a strong pun-

ishment system for the tax collectors to make the tax system free from dishonest people.

Another very important point is good governance which we are talking about these days. Without changing the service rule of the government, good governance cannot be ensured. My suggestion is that all appointment should be on a two-year contract basis with very clear-cut target and objectives. If you can establish this service system, instead of the present one, good governance may come.

I want to raise some important points about social movement. At present the ethical standard is so low and the ignorance level is so high among people. There is absolutely no resistance from the public, nor do they think about it.

The democracy cannot be simply election. There must be watchdog to monitor the system. The society should have honest people. Those who are sincere and have the obligations are very silent.



Abdul Haque

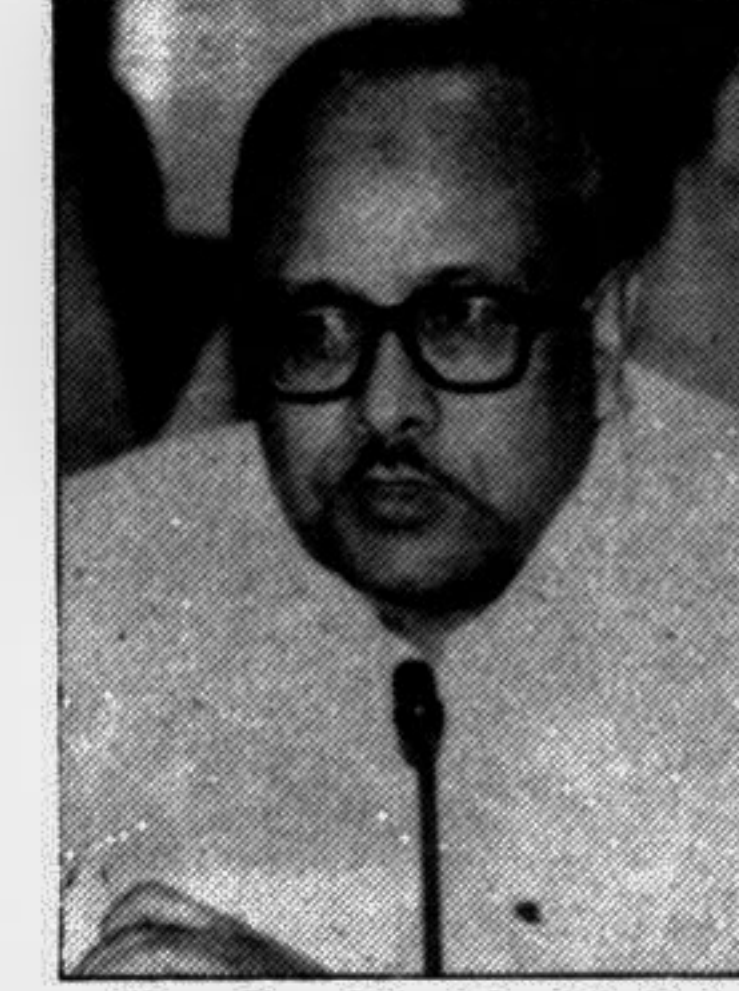
I am saying all these things because people want to give tax. But they don't find ways to pay. Who should be paid? What are the benefits I will get if I pay?

These are the crucial questions. How to increase the government income? We would like to request the government to arrange a seminar on this issue.

We, the business people, will show you the ways how to increase and how to double the income. In India, the tax is not applied to 100 per cent export-oriented industry. But here the export-oriented industries will have to pay tax.

Mahfuz Anam: A lot has been said about the banking system. Mr. Ibrahim Khaled, a career commercial banker and now a deputy governor at the central bank, I am sure, is one of the best persons to respond.

Khondker Ibrahim Khaled: As a citizen I will speak on the general aspects of the budget. I will speak on my personal capacity. The business community is persistently talking about tax-reduction -- which is arithmetically not possible. That is what the budget maker faces. And a popular budget may not be a good budget. This is my honest observation. 'Popular' means popular to those who can shout. The silent majority never talks. In my opinion, allocation should be the basis of return and it might be a social return. For example, the most beneficial sector is education. We should not mix up the purpose of the sector and management of the sector. But we must



Khondker Ibrahim Khaled

invest in the education sector. I think, without education, there will be no progress. Remember, French revolution was crystallising for quite a long time. It only happened when literacy rate reached 60 per cent. There is a strong view that we should start the socio-economic movement if the literacy rate crosses 60 per cent. Before that it will not happen.

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The democracy cannot be simply election. There must be watchdog to monitor the system. The society should have honest people. Those who are sincere and have the obligations are very silent.

My suggestion is: they should pioneer the social movement, may be other people will join them. The leader must be absolutely honest. Our people should have the sense of respect. You start the movement, Mr. Mahfuz Anam has started.

Rushidan Islam Rahman: I shall talk about social sectors and poverty alleviation. The farmers are not really organised. They don't have a formal

organization like FBCCI and other bodies. They are entirely unrepresented in this sort of discussion. And I think, this could be one of the reasons that, in recent times, the allocation for agriculture is declining. In fact, during the last budget ADP allocation for agriculture has declined. The agriculture, in our country, has not really been a sister in industrial growth of the economy. Industrial growth must be based on stable agricultural production and stable food price. In order to achieve this goal, agriculture requires more attention. In fact, the annual development expenditure will contribute to resource mobilisation in the long run.

So, in the long-run, we must think of maintaining agricultural investment level since it will contribute to the industry. In fact, in the last two budgets, they could raise the allocation comparing to what they have allocated. I mentioned the example of last year. Due to drought condition the production has gone down. As a result government had to spend resources on food.

The employment opportunities in the rural areas, is crucial to keeping their entitlement to buy food. Otherwise only by importing rice and stabilising the food price may not help the poor or agricultural wage labourers. So, there is a need for planned allocation of resources. In fact, this type of ad-hoc expenditure in the agricultural sector may not be good for us in terms of economy of the resource use and food management. Weather is another important factor for the agriculture. If market forces face an uncertainty due to weather, it will produce unfavorable results. For that matter, I shall suggest few areas which demands priority in the government assistance. The first suggestion is to develop drought-resistant HYV and to augment non-rice production. Government must come forward for R&D.

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There may be a technical committee which can analyse and consider the timing and adequacy of rainfall and they may



Omar Haider Chowdhury

decide about crop plantation etc. There should be promotional and extension services to increase the awareness about balanced use of fertilizer. At present, there is an excessive use of urea. Because, urea is subsidized. There should be some support to other fertilizers too. This may be provided as a lump sum for transportation. This will increase the supply of the fertilizer in the market. As a result, there might be some balanced use of fertilizer. The other important factor is crop diversification, to be targeted at increasing the production of other vegetables etc. This will give us the comparative advantages. Tax related incentives may be given for processing industries. We should provide support fund and I have just provided a list of items and priority may be set by the agricultural scientists, not by the social scientists.

I want to come back to the issue of allocation of the resources for poverty reduction and poverty alleviation. In fact, poverty reduction has been emphasised by the government. If I go back to 1993-1994 budget, the budget statement says, "Our new development perspective is focused on bottom 80 per cent of the population." And during the budget speech of 1997-98, our finance minister said, more than half of the population is under poverty line and the present leadership dedicates itself to bring smile on the faces of the poor. Would smile be everlasting one, rather than one-shot one?

Syed Fahim Munaim: Let's now have turn to the donor representatives who are here with us today. I would like to invite World Bank's Syed Nizamuddin.

Syed Nizamuddin: Thank you. I am part of the economists team at World Bank's Dhaka office. I have listened to these learned people. They have made very good points. So, I guess I should make my points in few such areas -- where much has not been said. One of the issues was how to accelerate resource mobilisation process. All of us know, revenue is very low, even by the standards of low-income countries. In fact, more efficient resource mobilisation (you can underline this) can be established. The World Bank has given suggestions on that. We



Syed Nizamuddin

also focus a lot on public expenditure issue. Our analysis and advice on that issue has been given. Over the years, more tax is coming in, and more expenditure is there. So we have Public Expenditure Review Report. I just want to give the background. While you agree that resource mobilisation effort in Bangladesh is inadequate, I must say, the resources need to be mobilised in an equitable and efficient manner. So, this is the problem of level, not structure. Little over hundred thousand people are contributing to income tax. You can develop the direct tax system. I think the incidence of tax evasion is in fairly large scale. The direct tax system is inequitable and evasion is pervasive. Moreover, the tax base has been eroded by the long list of exemptions. In the last budget, some criteria were announced which didn't work mandatory for the people of certain group. The government is emphasizing on raising tax. Don't lose the distinction between the raising and combining the existing rate. Nobody is talking about it. Of course, the rates could be further rationalised. Duty should be reduced on raw and intermediate goods to rationalise tariff structure.

Munaim: Mr. Zaid Bakht of BIDS is one of the top experts on industry. As head of the division at our premier research institution, we think he is in a better position to discuss the issue in relation to the budget exercise.

Zaid Bakht: I think I will get into the trade liberalisation issue. As Finance Secretary has rightly mentioned that protection is an emotional issue and lots of emotion have already

been expressed at this stage. I think the trade liberalisation issue is very important in the context of budget. It has got revenue implications. It is an important issue of economy and it has an effect on whole economy.

Trade liberalization has to be done, but the question is at what pace and what additional things need to be done. We have discussed a lot on what additional things need to be done -- such as infrastructure, export capability, credit access etc. The issue is, the trade liberalisation is putting the pressure on the domestic economy. The idea is that you do it gradually, then intrinsically the efficient one pierce through the pressure and come out successfully.

Now, the question is, is the trade liberalisation done in Bangladesh? Has it been done at a faster pace? During 1980s the liberalization was somewhat gradual. We see a spring in 1990s -- no doubt sharp trade liberalisation had taken place (at that time). In India, 31 per cent of tariff price is under quantitative restrictions. The trade deficit with India has been widening very fast. In the backdrop of this situation, the donors tell us you make it up in a multilateral trade balance. They are right in their theories, not in effect. Because, at the end of the day if traders see that there is a striking, blurring trade deficit, it will not work. On the one hand, we see the experts are saying that trade liberalisation is the main process. I think this is not correct in many respects. First of all, look at the export sector. One of the main argument behind trade liberalization is it is export-biased and it has to be taken into account that it is triggered by, non-price factors. The immediate export promotion measures that were put in place, that definitely facilitated the growth of export, not really

triggered. If we want to really make up the cause and effect of the trade deficit across the border by export goods, we find very little relationship with the measures being suggested. So the insistence of the donor agency that if you carry out more trade liberalisation for the purpose of phasing out the rest of entire export-bias, it is hardly feasible. Now, coming to the point of import substitution ... by the year 1995/96/97 the industrial sectors had slowed down. Lot of factors are responsible for slowing down the growth of export industry. Even if you take out the export industry, and look specifically at the import substituted industry this is suffering displacement.

The interest of the small industries needs to be looked at. We see, in the last budget, the government is little bit concerned about it. At the same time what had been done was import duty on capital or raw material was reduced. The tariff rates on intermediary goods should be reduced further. It will raise the level of protection effectively and give some space to the domestic industries.

Mr. Rezaul Karim: I will talk about trade liberalisation and export growth. If tariff rate is very high, people will go for import substitution. They will not really go for export. Other thing is that we have lowered the level of protection on the imported products. Only two hundred thousand people pay tax in this country.

About the annual development budget ... of course, the implementation of the project is important. Allocation in agriculture sector has declined. The salary of the government staff implicated the tax. The progress of privatisation is also very slow.

Omar Jajgirar: I also agree with the view that it is not money that is the key problem for the capital market. But idle funds such as pension funds could be injected into the capital market. I also agree with contention that increasing number of brokers is also a necessity. I suggest there may be provisions for sub-brokers as practised in many stock exchanges in India.

Munaim: Our last speaker is former finance secretary Mr. Matui Islam who has long waited to listen to the discussions. Now it is time for him to wrap it up.

Matui Islam: At least an extra Tk 500 crore should be generated under the present tax structure without burdening people. Mr. Qudus of BGMEA is right as he said the bonded warehouse facilities could even be extended to outside the factory. If a family is given yarn to weave a clothing, it would create jobs and contribute to the export earning.

Regarding tax laws, I think these should be more friendly to payers. The tax law, as it stands today, presume a Deputy Commissioner of Taxes has

been proven otherwise, a taxpayer dishonest until the DCT decides otherwise but a suspect throughout his life.

There lies the problem. Of the 651,000 assesses on the tax roll, around 600,000 come under the slab system of tax rates which in 1996-97 budget were set at minimum 15 per cent and 25 per cent maximum. In the 1997-98 budget, the minimum was reduced to 10 per cent to encourage voluntary disclosure of income and submission of tax returns which was made compulsory for car owners and owners of buildings above a prescribed plinth area.

The government was fairly optimistic that these measures should have a favourable impact on the receipts from income taxes estimated at Tk 2,100.00 cr for 1997-98 as against actual collection of Tk 1,665.00 cr in 1996-97. The reported shortfall in collection is an indication that the optimism was misplaced.

Bringing down the minimum to 10 per cent and other adjustments of income-brackets for application of 20 per cent and 25 per cent tax rates in the 1997-98 budget have resulted in a substantial loss of revenue which may be more than Tk 100 cr whereas the benefit of reduction accrued to the individual tax payer is insignificant. For those in the income bracket of Tk 100,000, the 15 per cent rate would result in an additional tax payment of only Tk 160 per month. So, the reinstatement of the 1996-97 rate should receive serious consideration.

The impact on tax collection is likely to be very substantial with little resentment from the tax payers. In the US, the minimum starts from 15 per cent with no exemption limit. Even US\$ 5,000 of taxable income would attract US tax. The Tk 60,000 tax exemption bracket is high enough. An imaginative trade off will be to lower it to Tk 55,000 and eliminate wealth tax which is not cost effective.

Deduction at source coupled with an effective system of tax refund should clearly be the preferred tax collection system of which the most important is withholding tax on interest payment on bank deposits now collected at the rate of 10 per cent. In 1996-97, the reported collection of taxes through banks were Tk 157.18 cr. Total deposits excluding demand deposits of all banks which stood at Tk 35,000 cr in July 1997 rose to Tk 38,000 cr in December 1997.

It is suggested that deduction at source for bank interest be raised from 10 per cent to 15 per cent with an efficient and effective system of tax refund in place. With higher average interest rate prevailing now, collection of taxes from banks could easily cross Tk 300.00 cr. Taxes withheld at higher rates would encourage applications for refund and with 20 million depositors' accounts in the private sector. This would be a good source of identifying potential candidates for the tax roll.

Annual remittances for travels abroad and children's education now exceeds Tk 150 cr. Only persons of means and very high, people will go for import substitution. They will not really go for export. Other thing is that we have lowered the level of protection on the imported products. Only two hundred thousand people pay tax in this country.

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***We apologise the delay in publishing the excerpts of the discussions. Unfortunately, a faulty recording system, had away with much of the text. Sincere efforts by Fazul Huq Ripon of Masscom could only recover some of it.