

Two cheers for the taxman

Specific initiatives such as separating tax collection from officials by allowing payment through banks or online can go a long way in meeting the target. And articulating such an agenda is certainly worth a cheer.

JYOTI RAHMAN

TYPICAL debates surrounding our budgets focus on the expenditure side, particularly the size and implementation of the annual development program, forgetting the other side of the ledger. As it happens, it's the revenue side where there may be some reasons to celebrate in the near term, and a closer observation is warranted into the medium term.

Let's start with the first possible reason to celebrate. Much like the development program, our budgets used to be characterised by ambitious revenue targets that were revised down subsequently, with the final outcomes missing even the revised targets. In more recent years, targets were revised up, but the outcome continued to underperform.

As is shown in Chart 1, revisions to 2009/10 (FY10) revenue targets have been minimal. And according to analysts, buoyant household consumption is generating enough revenue such that there is a very good chance that these targets will be met.

That's cheer number one. But there are reasons to fret too.

The first concern is that revenue in Bangladesh has been far lower than other comparable economies in the region (Chart 2). This is not news. But it is always worth repeating the fact that our government does not collect enough revenue to pay for our teachers, nurses, and police officers, not to mention the public investment needed to achieve 7%-8% economic growth and cut poverty.

It is also worth stressing that it is possible to have significantly more revenue relative to the economy without draconian measures underpinned by radical political changes --

India raised revenue by 4% of GDP in the past decade, for example.

A relatively lesser-known cause of concern is about where our revenues come from.

Other than non-tax revenue such as asset sales, there are three broad classes of tax that fill the public coffers; income taxes, consumption taxes and import taxes.

Income taxes, whether levied on wages and salaries, profits, or capital gains, are equitable, particularly if they are on a progressive scale, because the relatively affluent pays more. However, these taxes can discourage wealth creation, and thus stifle prosperity, if levied at too high rates.

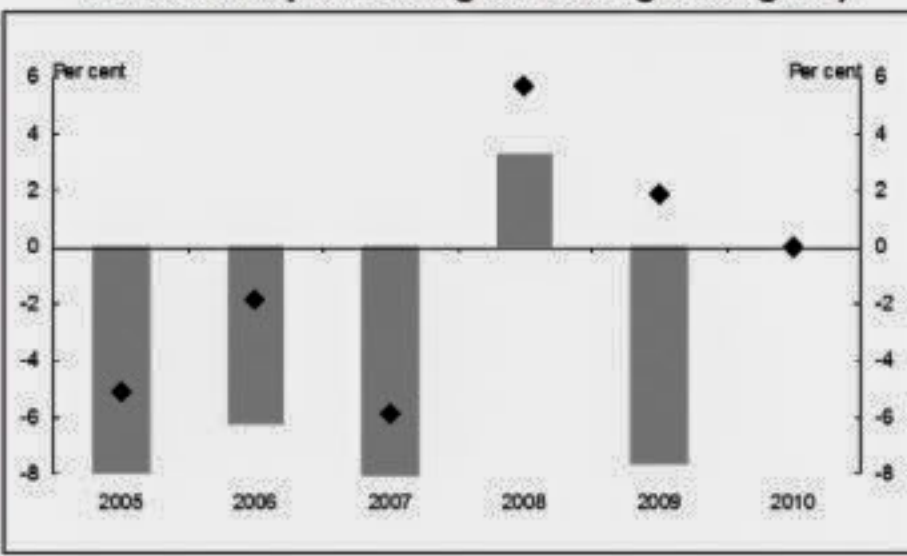
Consumption taxes such as the Value Added Tax that are levied on goods and services are the least distortionary in terms of economic impacts. But they can be inequitable as they can impact more heavily on the less affluent.

Taxes on imports -- tariffs and customs duties, or VAT on imports -- are inequitable, and distort economic activities by sheltering domestic producers from competition. The result is often inefficient production and resource allocation, the cost of which is ultimately borne by the (often poor) consumer.

As is shown in Chart 3, we rely far more on taxes on imports than our neighbours do, while income taxes make a smaller contribution to revenue in Bangladesh than in other similar economies.

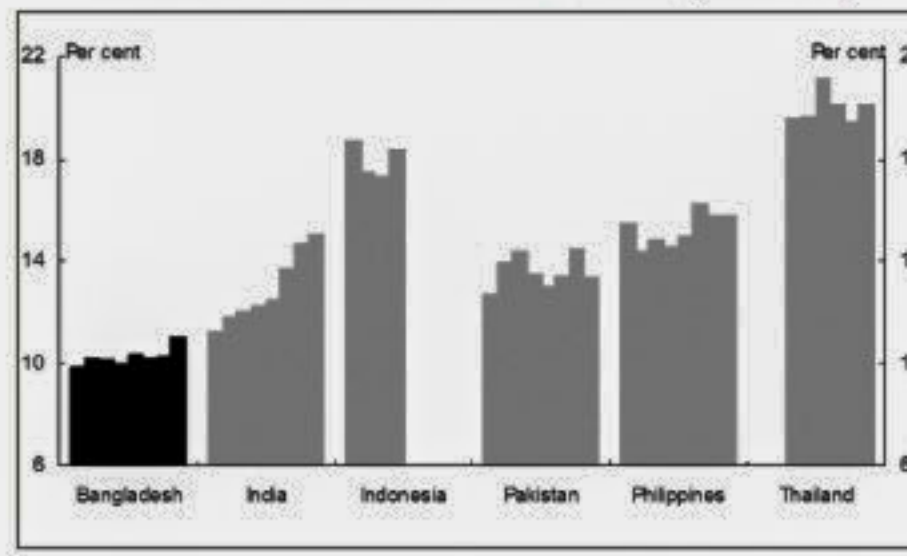
The government is well aware of the first concern, acknowledging it in budget documents. The government's medium term target is to raise the revenue-to-GDP to about the same level as that achieved by India and Pakistan currently. This is going to be achieved through tax administration reforms

Chart 1: Revenue performance (revisions and actuals as percentage of budget targets)



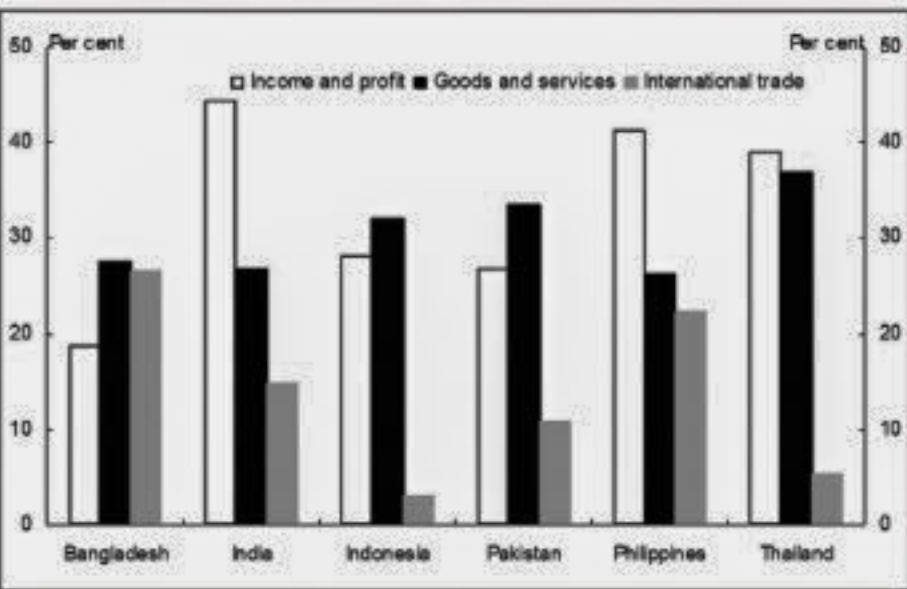
The dots represent revisions as percentage of budget targets; the columns represent the deviation of actuals from budget targets as percentage of budget targets. Source: Ministry of Finance, author's calculation.

Chart 2: Revenue-to-GDP ratio (2001-08)



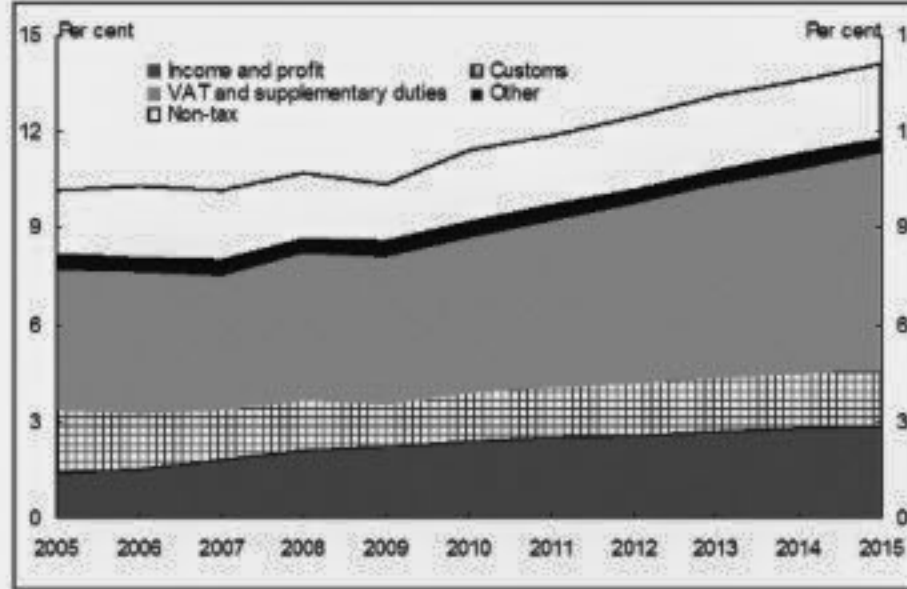
Data not available after 2004 for Indonesia and before 2003 for Thailand. Source: World Bank World Development Indicators.

Chart 3: Source of revenue (taxes by their base as percentage of total revenue)



Data for 2008 for all countries except Indonesia, which is for 2004. Source: World Bank World Development Indicators.

Chart 4: Revenue by sources actual and forecasts as per cent of GDP



Source: Ministry of Finance.

that seek to improve collection, help the taxpayer, and eliminate opportunities for tax evasion.

Specific initiatives such as separating tax collection from officials by allowing payment through banks or online can go a long way in meeting the target. And articulating such an agenda is certainly worth a cheer -- the second one.

But as shown in Chart 4, this projected revenue boost comes mainly from VAT and supplementary duties. The projection leaves the contribution of income taxes to total revenue unchanged. And if recent trends in VAT and supplementary duties from imports continue, we will still be heavily reliant on import taxes.

The government claims that it is looking

into the possibility of reducing the reliance on customs duties and ad hoc supplementary duties. We are told that there is a National Board of Revenue Taskforce on tariff rationalisation. And the government is considering the proposal for separating tax-policy-analysis functions from the tax administration functions of the NBR (this separation is the norm in most countries).

However, as things stand, these are rather vague notions. This budget has been described as an honest pro-growth one that is necessarily ambitious. For these views to be tenable, genuine tax reforms are needed. And for that, we can't raise a cheer quite yet.

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Is there a safe haven for Paul?

Whether his predictions are right or wrong, his enemies are likely to multiply. By now he must have realised that he can make only part of the men happy for part of the time, not all the men for all the time.

ABDUL MATIN

BELIEVE it or not, the venue of the World Cup final has shifted from Johannesburg Soccer city to an aquarium in Oberhausen in western Germany, where a British-born octopus oracle called Paul lives. He has triumphed by correctly predicting the results of seven matches Germany have played so far. His present grade is seven out of seven. He has thus become more famous than Villa of Spain or Sneijder of Netherlands without ever kicking a ball! Just google "octopus Paul" and you get 7.71 million results!

According to many football fans, with the departure of Brazil and Argentina, the World Cup is over so far as Bangladesh is concerned. Now, since the oracle has predicted the victory of Spain in the final match against Netherlands, it is over for almost everyone!

A triumph is usually followed by a tragedy. Unhappy with the outcome of the quarter-final against Germany, Argentine chef Nicolas Bedorrou wants to beat Paul to death and boil it in water for a meal. Four goals by Germany failed to satisfy his appetite!

The Germans were happy with Paul until he chose Spain over them. They hoped against hope that Paul's prediction would be wrong in the semi-final. No, it wasn't. "Paul for the pan," the Germans are shouting now. Some are suggesting that Paul should be fried, barbecued or turned into a seafood salad or paella! What a punishment for him for telling the truth!

What is Paul's fault? Well, there is always an excuse against a defenseless enemy! Paul's prediction demoralised the Germans, and so they were beaten! It is a pity he can't protest. Human rights group will not interfere in this inhuman treatment of Paul since he is not a human being. He has, of course, superhuman qualities in predicting the future correctly. So what?

Bravo for Spain. They have come forward to rescue Paul. According to available information, Spanish Prime Minister Jose Luiz Rodriguez Zapatero expressed concerns for his safety. "I am thinking of sending him a protective team," joked Zapatero on Radio Cadena Ser. His Industry Minister Miguel Sebastian has called for his immediate transfer to Spain for his protection.

Spain will be a safe haven for Paul if they win. I am wondering what his fate will be if Netherlands beat Spain in the final. Surely, they too will become hostile to him and the Spanish chefs will come out with new recipes for Paul. Why? Well, they could argue that Paul's prediction made the Spanish players complacent and so they were beaten! Again, he will not be able to defend himself.

If Bangladesh offers asylum to Paul, he is most likely to decline the offer, knowing the fate of the inmates of the Mirpur Zoo in the recent past! What about Mandela's South Africa? Well, even human life is insecure there according to available reports. Who will protect an octopus there?

Whether his predictions are right or wrong, his enemies are likely to multiply. By now he must have realised that he can make only part of the men happy for part of the time, not all the men for all the time.

So, is there a safe haven for poor Paul anywhere in the planet? After the World Cup is over it is Paul who should decide his future. He should be given two options to choose from. In one box there should be the flag of Germany, his present home, and in another a picture of a sea, his natural habitat. I am sure Paul will choose to go back to the sea, away from human anger and, of course, away from the reach of the chefs hostile to him!

Dr. Abdul Matin is a former Chief Engineer of Bangladesh Atomic Energy Commission.

Land, infrastructure, and affected people



Owners must be compensated for acquired land.

The principle of "demand rationality and efficiency" should underpin all land transactions related to infrastructure development. In other words, minimisation of project footprint should be ensured at all cost, looking for alternative solutions whether by project design or technological innovation.

FABIO PITTALUGA

ON June 29 and 30 an International Conference entitled "Land Acquisition and Resettlement: Balancing Development with Social Justice" was held in Dhaka. Delegates from developing countries met with government of Bangladesh officials, academics and civil society representatives to understand how the much-needed infrastructure could be developed without necessarily creating impoverishment risks for those affected. Citing Shakespeare, one of the delegates put it vividly: "Can a pound of meat be taken without drawing blood?"

There is broad consensus on the need to develop infrastructure to sustain economic growth in Bangladesh. There is also no doubt that physical infrastructure requires large amounts of land, i.e. a "footprint." And in a land-scarce and overpopulated country, people often stand in the way of development and need to be resettled. This is true for expropriation cases, as well as for squatters on public and private lands earmarked for development projects.

that limits its ability to implement projects in a fast and, above all, fair manner. The 1982 Land Acquisition ordinance is the only legal instrument for obtaining land for infrastructure development, and no cohesive resettlement policy is in effect at present.

Nevertheless, Bangladesh can showcase world-class examples of responsible land acquisition and resettlement programs; the Jamuna Bridge more than a decade ago and now the Padma Bridge.

In the latter case, not only is the government taking every measure possible to compensate fairly those affected by the project, it is also implementing an innovative approach to ensure that the monetary benefits arising from the project are shared with those affected by it.

Once the bridge becomes operational, part of the toll collected will be utilised to finance the maintenance of public services at the resettlement sites. However, a legitimate question arises from such excellent practices; why limit the positive impacts of proper and socially responsible resettlement planning to large infrastructure projects alone?

GOB implementing agencies (LGED, Wasa, GTCL, PGCB, Bepza, RHD, etc.) are facing the same issues, albeit on a smaller scale, on a daily basis. Is there ground to develop a national resettlement policy, building from such "homegrown" best practices that are by definition adapted to the specific conditions of Bangladesh?

Conference delegates carefully considered this, and concluded with a number of very concrete recommendations for Bangladeshi authorities and policy makers. These can be summed up in a few points:

The principle of "demand rationality and efficiency" should underpin all land transactions related to infrastructure development. In other words, minimisation of project footprint should be ensured at all cost, looking for alternative solutions whether by project design or technological innovation.

Countries such as India have established independent committees to verify that the actual land plots earmarked for acquisition are indeed necessary and are part of a viable project. Too often, authorities end up expropriating more land than needed, creating undue pressure on those affected.

The concepts of "public purpose" and "infrastructure," though they may be widely understood in the common use of the terms, require a stricter definition to avoid the risk of triggering expropriation laws to acquire land for dubious purposes under that garb (e.g. malls and commercial spaces).

In the absence of a clear definition of what is indeed "public purpose" the state risks favouring one or more citizens to the detriment of others, while the poor and voiceless are often silenced by larger vested interests -- thereby reproducing a structurally unjust society.

Legal instruments, processes and institutions dealing with land acquisition issues need modernisation. This includes a redefinition of land valuation processes, modernisation and constant updating of land records, clear and effective accountability mechanisms with penalties for fraudulent behaviour, establishment of effective grievance mechanisms, mandatory consultation, and disclosure of information to affected people.

A more effective and efficient land acquisition process requires the establishment of specific procedures for a set of typical scenarios -- e.g. small projects, bulk acquisition for large projects, strip acquisition for linear projects, and emer-

gency situations (as in the case of embankment repairs after cyclones). Having one single modality dramatically limits the effectiveness of the system and causes undue delays.

Establish a separate land acquisition settlement authority to avoid the lengthy delays incurred by lawsuits filed in civil courts.

Make use of Social Impact Assessments (SIA) mandatory, in a manner similar to what is currently done to avoid, minimise and mitigate environmental impacts via Environmental Impact Assessments (EIA). International practice shows that both can be combined in what is commonly known as ESIA.

While it is estimated that an average 20,000 to 30,000 people are affected on a yearly basis by infrastructure development projects, close to 1,000,000 are "involuntarily resettled" by river erosion -- the key driver of landlessness and rural-urban migration in Bangladesh.

Although the root causes of involuntary resettlement are significantly different, a national resettlement policy should address both cases to create an effective system to avoid impoverishment of many Bangladeshi families.

For effective implementation of land acquisition and resettlement processes, however, any revision of existing or any new legislation should be carefully harmonised with the complementary laws and policies on land use and management, urban planning, housing, and labour.

Effort will be needed in upgrading the capacity of responsible authorities, line ministries and project executing agencies in handling land acquisition and resettlement programs. And resources should be made available to ensure that the cost of "public good" or "public interest" is compensated fairly with public resources.

The positive impacts of fair and just land acquisition and resettlement programs can transform affected people from "victims" of development to "beneficiaries" and "partners" of development.

To that effect, revising the current legal framework and implementing an effective but flexible national resettlement policy will help to turn the Shakespearean dilemma of taking pounds of meat without drawing blood into the aspiration of development where the focus is on creating added value instead of limiting damage.

Fabio Pittaluga is Senior Social Development Specialist, World Bank.



The oracle's smugness knows no bounds.