

# Bangladesh has ADB's rapt attention

The Daily Star was in Nadi, Fiji for the 52nd Annual Meeting of the Asian Development Bank's Board of Governors at the invitation of the Manila-based multilateral lender. During the five-day event, the newspaper's senior reporter Rejaul Karim Byron sat down with Hun Kim, ADB's director general for South Asian operations, for an interview. Kim is sanguine about Bangladesh's future and affirmed the ADB's continued support upon the country's graduation to the middle-income bracket.

Bangladesh has performed well on many social and economic indicators. What has been the role of the ADB to this effect?

Over the last five years, the Bangladesh economy has grown by an average of 7 percent a year and recorded 7.9 percent growth in fiscal 2017-18, the fastest in Asia and the Pacific.

We have forecast 8 percent gross domestic product (GDP) growth in fiscal 2018-19 and fiscal 2019-20, which is likely to be the highest growth in Asia-Pacific in the next two years.

Since Bangladesh became a member of the Asian Development Bank (ADB) in 1973, our partnership has extended to almost all areas of the economy.

By the end of 2018, the ADB had committed a total of \$22.9 billion for 282 loans, \$269.18 million for 429 technical assistance, and \$931.5 million for 44 grant projects.

In 2018, the ADB committed its highest level of support to Bangladesh, with eight sovereign projects totalling \$2.1 billion in loans and grants, \$16.5 million in technical assistance and \$1.9 billion mobilised in co-financing.

Soon after the partnership began, the government and ADB began to focus on reconstructing infrastructure damaged during the war of independence, and on boosting the rural economy to feed a new but impoverished nation of 70 million.

In the first decade, agriculture and natural resources received 37 percent of ADB assistance. This expanded farmers' access to credit and inputs such as seed and fertiliser and strengthened irrigation, drainage and flood protection, natural resource management, fisheries and livestock, and market and rural development. A concessional loan in 1975, for example, established the Ashuganj fertiliser plant using natural gas.

In 1974, the ADB extended its first loan for a rail project, which repaired and improved the Dhaka-Chittagong line and other parts of the national rail system. Support for infrastructure eased the movement of basic

commodities such as food. In the 1980s, the focus turned to policy and institutional reform across sectors, in keeping with the government's shift in emphasis toward a leading role for the private sector. Transport and electric power became high priorities, together receiving 55 percent of allocations.

The ADB also added gas development to the portfolio of large energy and transport projects. Support for education, health, urban development and other social infrastructure development started to pick up to serve the overriding objective of poverty reduction.

Since 2000, the ADB has expanded support for smaller-scale infrastructure such as for water supply and sanitation, small and medium-sized enterprise development, primary education and health, disaster risk management, and improved governance through capacity enhancement and policy advice.

**ADB has been providing financial support for sub-regional cooperation in South Asia for the last several years. It would be great if you please share the progress on sub-regional cooperation. What are the challenges in strengthening sub-regional cooperation?**

ADB indeed promotes regional and sub-regional cooperation and integration (RCI) as a strategic priority in helping countries benefit from each other's strength and take advantage of the complementarities amongst them. Aligned with the strategic development priorities of the countries in the region, the ADB has supported cooperation in South Asia at the regional, sub-regional and interregional levels.

We are proud that we are supporting 3 power grid interconnection projects between Bangladesh and India.

After a grid connectivity project between Tripura in eastern India and Bangladesh is completed in a couple of years, a total of 1,500-megawatt electricity will be traded between the two countries.

Transport connectivity and motor vehicle agreement among Bangladesh, Bhutan, India and Nepal are the other milestone achievements under our South Asia Sub-regional Economic Cooperation (SASEC) initiative.

Our future RCI interventions aim at broader issues including trans-boundary river management, disaster management, climate change and environment.



Hun Kim

You are aware that Bangladesh, Bhutan, India and Nepal signed the motor vehicle agreement earlier to expedite trade and connectivity. Would you please comment on this? How would Bangladesh be benefitted through the agreement?

The ADB is proud to be able to support the Bangladesh-Bhutan-India-Nepal motor vehicle agreement under the SASEC initiative. This will certainly expedite trade and connectivity among the countries and boost economic activities in the sub-region.

The ADB earlier identified some challenges and bottlenecks to implement development projects in Bangladesh. And it is said that the problems still persist. What is your take on this?

Faster implementation of development projects is critical for delivering development benefits to the people. Lengthy internal business processes often delay project approvals. Limited capacity of few executing and implementing agencies often lead to delays in project implementation. In 2018, we conducted extensive outreach for stronger support for ADB operations, enhanced business and more efficient procurement

accomplishments. These include special initiatives to help strengthen the implementation capacity of the government, finance project preparatory works to improve project readiness, and enhance technical design covering environment, land acquisition and involuntary resettlement.

The ADB's new procurement policy and regulations were rolled out and operationalised in 2017. The new policy ensures faster procurement and consultant recruitment as well as simpler and more effective fiduciary systems throughout the project cycle. We will continue to work closely with the government in this area.

In recent times, Bangladesh has borrowed from China, Russia and India. Can this become a risk for Bangladesh?

Bangladesh needs huge investment for infrastructure and social sector to achieve higher growth and development. The recent bilateral borrowings are mostly being used for mega projects that are expected to generate employment, income and export and thus be beneficial for the economy. Bangladesh's government debt is equivalent to around

27 percent of the country's GDP. This rate is sustainable, and it poses no risks to the economy.

Bangladesh's revenue collection in terms of GDP was the lowest in Asia. As per the ADB Outlook 2019, Bangladesh's revenue collection was 9.6 percent of GDP in 2018, whereas among the other South Asian countries revenue collection was 13.4 percent at least and 32 percent at most. Despite higher GDP growth in Bangladesh compared to other Asian countries, why do you think that the revenue collection in Bangladesh is low? How can Bangladesh increase its revenue collection?

Bangladesh needs to significantly increase revenue collection to become a developed country by 2041 as envisaged by the government. Bangladesh's tax-GDP ratio is below 10 percent, which is very low for a booming economy like Bangladesh.

There are many reasons for low revenue collection, including high tax evasion, high tax rates, multiple tax rates and complexity of tax laws. Good governance in tax collection and efficiency of tax authorities also need to be enhanced.

Bangladesh needs to take multiple measures to increase revenue collection. The entire revenue collection system needs to be made more transparent, friendlier and supportive.

The possible measures for raising revenue collection include cuts in tax rates, simplifications of tax laws, removing loopholes in the tax system and proper processing of information available under the annual tax return. Raising awareness on tax issues and creating taxpayer-friendly environment are also needed.

Bangladesh's loans from ADB have been growing steadily and last year it was among the top three recipients. What is the reason?

The country's absorptive capacity is high and tax-GDP ratio is low. The country needs a lot of investment for socioeconomic development. We are happy to provide funds based on readiness of suitable projects. I feel Bangladesh can borrow more from institutions like the ADB if the project implantation can further be improved.

Bangladesh is set to become a middle-income country. How will the graduation affect the ADB's lending and assistance in short, middle and long term? Bangladesh's middle-income country status will not affect its partnership with the ADB. The strong partnership will rather be strengthened as the country grows.

## China backtracked on nearly all aspects of US trade deal



Members of US and China delegation stand for a group photo after a meeting in Beijing, China on May 1.

REUTERS, Washington/Beijing

**T**HE diplomatic cable from Beijing arrived in Washington late on Friday night, with systematic edits to a nearly 150-page draft trade agreement that would blow up months of negotiations between the world's two largest economies, according to three US government sources and three private sector sources briefed on the talks.

The document was riddled with reversals by China that undermined core US demands, the sources told Reuters.

In each of the seven chapters of the draft trade deal, China had deleted its commitments to change laws to resolve core complaints that caused the United States to launch a trade war: theft of US intellectual property and trade secrets; forced technology transfers; competition policy; access to financial services; and currency manipulation.

US President Donald Trump responded in a tweet on Sunday vowing to raise tariffs on \$200 billion worth of Chinese goods from 10 to 25 percent on Friday – timed to land in the middle of a scheduled visit by China's Vice Premier Liu He to Washington to continue trade talks.

The stripping of binding legal language from the draft struck directly at the highest priority of US Trade Representative Robert Lighthizer – who views changes to Chinese laws as essential to verifying compliance after years of what US officials have called empty reform promises.

Lighthizer has pushed hard for an enforcement regime more like those used for punitive economic sanctions – such as those imposed on North Korea or Iran – than a typical trade deal. "This undermines the core architecture of the deal," said a Washington-based source with knowledge of the talks.

Spokespeople for the White House, the US Trade Representative and the US Treasury Department did not immediately respond to requests for comment.

Chinese Foreign Ministry spokesman Geng Shuang said a briefing on Wednesday that working out disagreements over trade was a "process of negotiation" and that China was not "avoiding problems".

Geng referred specific questions on the trade talks to the Commerce Ministry, which did not respond immediately to fixed questions from Reuters.

Lighthizer and US Treasury Secretary Steven Mnuchin were taken aback at the extent of the changes in the draft. The two cabinet officials on Monday told reporters that Chinese backtracking had prompted Trump's tariff order but did not provide details on the depth and breadth of the revisions.

Liu last week told Lighthizer and Mnuchin that they needed to trust China to fulfil its pledges through administrative and regulatory changes, two of the sources said. Both Mnuchin and Lighthizer considered that unacceptable, given China's history of failing to fulfil reform pledges.

One private-sector source briefed on the talks said the last round of negotiations had gone very poorly because "China got greedy". "China reneged on a dozen things, if not more... The talks were so bad that the real surprise is that it took Trump until Sunday to blow up," the source said. "After 20 years of having their way with the US, China still appears to be miscalculating with this administration."

The rapid deterioration of negotiations rattled global stock markets, bonds and commodities this week. Until Sunday, markets had priced in the expectation that

officials from the two countries were close to striking a deal.

Investors and analysts questioned whether Trump's tweet was a negotiating ploy to wring more concessions from China. The sources told Reuters the extent of the setbacks in the revised text were serious and that Trump's response was not merely a negotiating strategy. Chinese negotiators said they couldn't touch the laws, said one of the government sources, calling the changes "major."

Changing any law in China requires a unique set of processes that can't be navigated quickly, said a Chinese official familiar with the talks. The official disputed the assertion that China was backtracking on its promises, adding that US demands were becoming more "harsh" and the path to a deal more "narrow" as the negotiations drag on.

Liu is set to arrive in Washington on Thursday for two days of talks that just last week were widely seen as pivotal – a possible last round before a historic trade deal. Now, US officials have little hope that Liu will come bearing any offer that can get talks back on track, said two of the sources.

To avert escalation, some of the sources said, Liu would have to scrap China's proposed text changes and agree to make new laws. China would also have to move further towards the US position on other sticking points, such as demands for curbs on Chinese industrial subsidies and a streamlined approval process for genetically engineered US crops.

The administration said the latest tariff escalation would take effect at 12:01 a.m. Friday, hiking levees on Chinese products such as internet modems and routers, printed circuit boards, vacuum cleaners and furniture.

The Chinese reversal may give China hawks in the Trump administration, including Lighthizer, an opening to take a harder stance. Mnuchin – who has been more open to a deal with improved market access, and at times clashed with Lighthizer – appeared in sync with Lighthizer in describing the changes to reporters on Monday, while still leaving open the possibility that new tariffs could be averted with a deal.

Trump's tweets left no room for backing down, and Lighthizer made it clear that, despite continuing talks, "come Friday, there will be tariffs in place."

## Large Taxpayers Unit deviating from basic principles



Af Nasaruddin

**T**HE idea of establishing a Large Taxpayers Unit (LTU) in Bangladesh originated from the government's desire to introduce modern methods of tax administration, although in a limited scale. It started functioning in 2003.

The unit has been given the special jurisdiction for assessment of all high taxpayers or potentially high taxpayers, including banks, insurance and leasing companies, mobile operators, pharmaceutical companies and all directors of the companies. It currently accounts for roughly 30 percent of the total collection of income tax.

The unit is working mainly with tax returns submitted under the self-assessment scheme. Auditing is very important in handling self-assessment returns. In the process of auditing, audit selection is the first step.

In the first few years of the LTU, the audit selection was done on a sample basis applying objective criteria. During the process of actual auditing, officers would take up specific issues for auditing and build up audit findings on substantial evidence and analysis. The assessee was also given adequate opportunities to controvert the findings and present views which were duly considered. An assessment made under such a procedure would be, to a large extent, objective and reasonable.

But over the years the situation has changed significantly. Now, like a normal circle, a large number of returns are selected every year mainly based on subjective choice of the officials concerned.

The notice containing audit issues do not mention specific points as before. It gives a long list of requisitions in a general manner similar to the list given in notices for hearing issued from tax circles in a traditional way. A stereotyped hearing takes place which clearly lacks the objective and effective interaction that tax officials used to have with audit subjects previously in the LTU. When a tax assessment is made following this process, it turns out to be quite similar to the assessments ordinarily made in the tax circles of traditional tax zones.

There are substantial disallowances and add-backs for alleged lack of evidence for expenses or alleged failure to deduct at source as per law. But in most cases these allegations are quite general in nature and they do not point out instances of default specifically. Moreover, in many cases these allegations are brought in the assessment

order itself. Before that the assessee is neither informed nor given adequate opportunity to controvert the allegations specifically.

It is also quite common these days that LTU officials resort to estimate of sales or receipts on weak and unacceptable grounds ignoring audited accounts. As a result, these assessments from the LTU necessarily lack rationality and objectivity which were previously distinctive marks of an LTU assessment. They become unjust and irrational, causing harassment to assesses and forcing them to go for litigation.

All the points indicate a trend that the LTU is gradually drifting away from its original principles of rationality and objectivity with regard to tax assessment. There is also slackness in the process of meaningful interaction with taxpayers. Thus, the unit is actually deviating from its intended role of being the pioneer of modern tax administration. In fact, it is becoming more and more like a traditional tax zone. This is not at all encouraging in view of the present government's declared policy of maintaining a forward-looking and taxpayer-friendly environment in the field of tax administration.

Over the last one decade, in spite of so many efforts, the National Board of Revenue has not been successful to expand the tax network. The main reasons are: taxpayers are identified by tax inspectors who probably compromise at field level and help tax evaders remain outside the tax network; and inadequate follow-up with new taxpayers for a lack of intension and resources and more attention is given to existing taxpayers, sometimes overdoing resulting harassment of taxpayers.

If the tax assessment in general is to be completed, the audited accounts are relied upon unless any gross lapses are identified. If any gross lapses are rejected, the conclusion should obviously be done based on another extensive audit conducted by tax officials, with or without external support. Based on the audit report, the assessing officer may conclude the assessment giving adequate opportunity in writing for requisition of information and documents in specific, not in general and impractical.

In essence, in order to reform the present tax systems, every circle should have a dedicated audit team comprising specialists, findings of audit team should be discussed with taxpayers, and the concluding findings should be the basis of fresh assessment. Mere completion of assessment following a bureaucratic attitude without any basis and a logical conclusion will rather increase hassles for taxpayers and existence of corrupt practices. Such a situation will never help grow a transparent and taxpayer-friendly environment. In order to take Bangladesh's economy to a middle-income category, such a reform is now overdue and the government should look at it very seriously.

The author is a chartered accountant and a senior partner of Hoda Vasi Chowdhury & Co.