The Daily Star
FOUNDER EDITOR: LATE S. M. ALI

A huge blow for our economy

Govt must critically examine Moody's credit downgrade and respond properly

We're alarmed to learn that the US-based global credit rating agency Moody's Investors Service has downgraded Bangladesh's sovereign rating by one notch from Ba3 to B1. The disclosure, coming as it does just before the unveiling of Bangladesh's national budget for FY23-24, represents a huge threat to its post-Covid economic aspirations with the experts calling it "one of the worst incidents" in the recent history of our economy. And it couldn't have come at a worse time.

In simple terms, the downgrade – the first since Moody's began rating Bangladesh in 2010 – means a blow to our creditworthiness. Not only will it tarnish the country's image abroad but it will also have tangible effects on local businesses. Businesses will likely face higher borrowing costs for loans from foreign sources, while foreign investors may be wary of the increased credit risk associated with investing in Bangladesh. The fallout may extend beyond loans and investments as well. The cost of doing business may go up as banks may increase charges for import payments, known as letters of credit (LCs). Moreover, local banks may face tougher negotiations with global lenders regarding commissions and charges for settling foreign exchange transactions.

The question is, what prompted the downgrade? Reportedly, Moody's assessment is that Bangladesh's heightened external vulnerability and liquidity risks are persistent, as are its institutional weaknesses. "Despite some easing, ongoing dollar scarcity and deterioration in foreign exchange reserves indicate continued pressures on Bangladesh's external position, exacerbating imports constraints and as a result energy shortages," it said. Additionally, the government's failure to fully reverse import control measures and unconventional policies, such as a multiple exchange rate regime and interest rate caps, is contributing to market distortions, according to a report issued by the agency. Persistently low revenue generation and rising interest payments have also resulted in weakening fiscal metrics, especially debt affordability.

In the coming days, there will be a lot of discussion about the downgrade and its implications. But as things stand, this is indeed a wake-up call for Bangladesh. To get back up from the downgrade or prevent further downgrades, it is imperative that the government takes this seriously and restores confidence by addressing our economic vulnerabilities through effective policy measures. The future trajectory of our economy will hinge a lot on how it responds to this latest threat.

What's the point of having hajj teams?

Govt must prevent selection of unqualified staff for hajj operations

It is astonishing how corrupt practices continue to mar just about any government operation. As a report by this daily has revealed, of the 218 officials that the religious affairs ministry is sending to Saudi Arabia to assist Bangladeshi medical and technical teams during the upcoming hajj, at least 200 have neither any technical training nor a background in medicine. Instead, you have cooks, cleaners, chauffeurs, bodyguards, staff connected with high-up officials, office assistants, and administrative officers. Clearly, they are unqualified to perform the listed roles of their respective teams: to provide assistance at health clinics, ensure prompt services for patients, assist the hajj technical team, and find missing pilgrims.

Unfortunately, government programmes for hajj have been repeatedly subjected to such corruption and favouritism in the past. For instance, under the government's subsidised hajj programme last year, more than half of the 254 pilgrims were found to be associated with the ruling party. How fair is it to spend a huge chunk of public money for the hajj of solvent, politically connected people? This year, Biman is reportedly set to spend crores to send 100 of its officials to Saudi Arabia in the name of assisting pilgrims, as it did before too. Again, we cannot help but ask: is such a delegation at all necessary when Biman already has several fully-fledged offices in Saudi Arabia for this job?

In light of the latest report, it is clear that the selection of hajj delegates was not done based on their capability to serve pilgrims. It is more than likely that they bought or powered their way into the teams, and it is the ordinary pilgrims and taxpaying citizens who will have to bear the cost of their transgressions and that of ministry high-ups. This is totally unacceptable. We urge the government to hold to account those overseeing hajj operations for their mismanagement and irregularities. It must properly investigate all such cases of corrupt selection and recruitment as well as the role of ministry officials behind it.

LETTERS TO THE EDITOR

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The rise of concert business

After a long time, the concert business in Bangladesh is seeing a remarkable surge, bringing about a significant impact on our culture and economy. In recent years, the number and scale of concerts, featuring both local and international artistes, have soared. These events contribute to job creation, boost tourism, and nurture the entertainment industry. The enthusiasm among Bangladeshis for live music experiences highlights a strong demand for concerts. To harness this potential, policymakers must recognise and support concert events. Investments in concert venues, sound systems, etc will attract renowned international acts and enhance our country's appeal as a concert destination.

Md Julhash Rahman Akash
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To end inequality, stop pandering to plunderers

THE OVERTON WINDOW

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ERESH OMAR JAMAL

There is a genuine concern among Bangladeshi experts that at a time when the country is experiencing some of the toughest economic challenges in years – persistent high inflation, unemployment (particularly among the educated youth), etc – fulfilling the IMF's loan conditions without making the necessary policy adjustments could fuel inequality. As per the Bangladesh Bureau of Statistics' (BBS) recently published Household Income and Expenditure Survey (HIES) 2022, the Gini Coefficient has gone up to 0.499. In the HIES 2010, the Gini Coefficient was 0.458, and rose to 0.482 in HIES 2016 – indicating that over the past decade and more, inequality has been on the rise.

Numerous studies over the years, including the ones carried out by the IMF, have consistently shown that inequality tends to rise during IMF programmes or as a result of its conditions. That is not to say that the policy reforms prescribed by the IMF for Bangladesh are wrong or unnecessary. On the contrary, most local experts agree that the majority of reform measures built into the IMF loan were long overdue.

For example, experts have been calling for the government to use a flexible interest rate – allowing the rate to adjust with the market – which the IMF has also recommended. However, due to the prevailing circumstances, they have also called on the government to provide specialised and subsidised credit schemes for the disadvantaged, such as those involved in agriculture, small and medium businesses, and others.

Another delicate matter that the government needs to handle tactfully is the IMF's condition of reducing tax exemptions. One would assume that the primary reason why this is necessary was the government's limited fiscal space, driven largely by Bangladesh's woeful tax-GDP ratio.

Bangladesh has one of the lowest tax-GDP ratios in South Asia – at 7.9 percent, whereas the ideal benchmark is 15 percent. The country needs to collect an additional tax revenue of Tk 250,600 crore to raise it to 15 percent.

The State of Tax Justice 2020 report calculated that Bangladesh is losing more than $703 million every year because of tax abuses committed by multinational corporations and private individuals. Multinational corporations alone cost the country $674 million annually. This year, the Centre for Policy Dialogue (CPD) estimated that Bangladesh was losing potential taxes from as low as Tk 41,800 crore to as high as Tk 223,000 crore yearly because of tax evasion. The amount of tax losses rises when tax avoidance is taken into account (between Tk 55,800 crore and Tk 292,500 crore), and much of this happening with the "unethical support from tax practitioners."

Aside from the fact that many people do not pay income tax, data from the Registrar of Joint Stock Companies and Firms and the NBR shows that 45,000 out of 213,000 registered companies and firms filed returns, meaning only one in five registered businesses pays tax. Hence, the CPD advised the government to "withdraw all kinds of non-transparent tax-related provisions, including provision for whitening black money" (which contradict tax transparency efforts) from the national budget.

In an interview a few days ago, Planning Minister MA Mannan said sustaining development and curbing inequality were key major challenges facing the economy. In that case, clearly the government should increase its budgetary allocation for social safety net programmes. But that alone will not suffice because of the rampant corruption involved in government aid programmes.

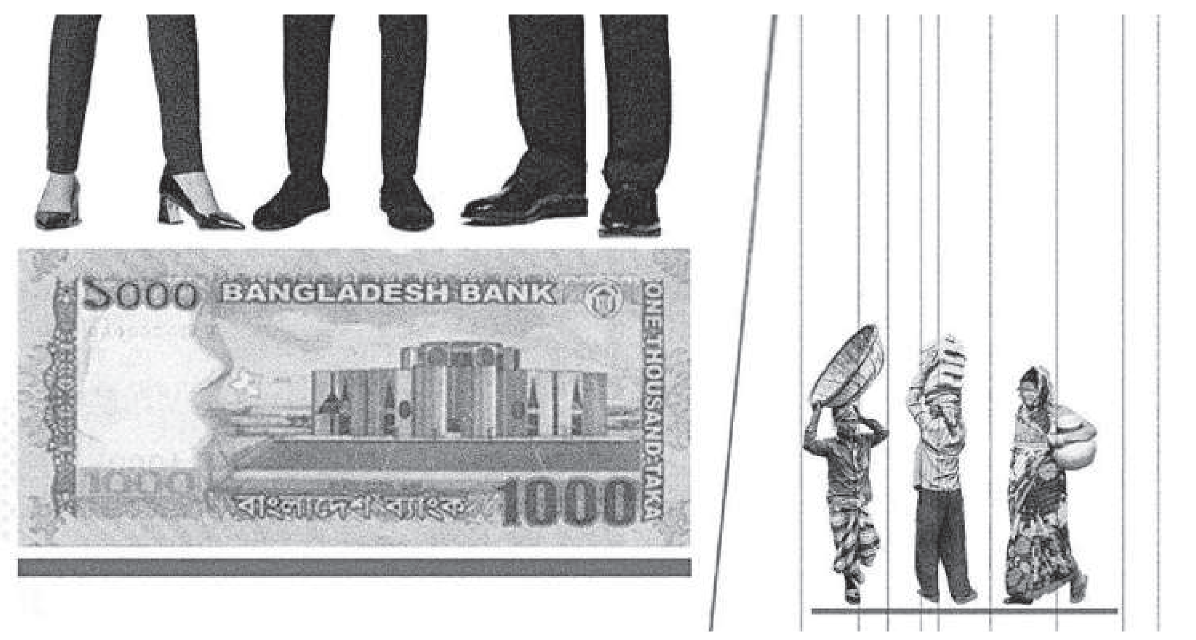
A number of studies over the years have uncovered how nepotism, corruption, and political bias in enlistment have weakened the safety net plans intended to help the poor and other vulnerable groups. For instance, a World Bank report in 2016 found that about 60 percent of safety net programme beneficiaries did not qualify as being vulnerable.

More recently, a CPD survey found that almost 30 percent of old-age allowance beneficiaries and 33 percent of widows allowance beneficiaries were not eligible for the grant. And this is happening while 3.3 million elderly people and 2.5 million widows who are eligible for the benefits remain outside of the programme. Thus, about Tk 1,500 crore is wasted in only two schemes. What is even more reprehensible is the fact that eligible beneficiaries are made to pay Tk 2,653 on average in bribes for the benefits. The survey further alleged that the authorities, despite knowing about the irregularities, have done nothing to stop them.

The complete lack of conscience one has to have to deny the elderly and widows from accessing such facilities might not be easy for ordinary people to relate to, but it seems to have become common among government officials responsible for implementing and monitoring such schemes. And it is one of the main reasons why social safety net programmes have continuously failed to somewhat negate the inequality problem in Bangladesh.

To his credit, the planning minister did admit this earlier, as well as the fact that vested groups had gotten themselves in an advantageous position, which is leading to the poor being deprived. But what is worrying is that he himself questioned whether his government was capable of taking action against these groups as that might put the government in trouble.

This brings us to the crux of the matter. At this point in time, addressing many of our economic problems is proving to be difficult not mainly for economic reasons, but because of political ones. And they are largely to blame for why and how we have gotten here as well. So, we can debate all we want over how wise or unwise the government's budget allocation (and implementation over the next fiscal year) will be. But should it continue to fail to address the issue of inequality, it is high time we recognised that the failure is not a result of innocent mistakes or miscalculated economic policies, but the government's willingness to pander to the wishes of special interest groups who are plundering the wealth being produced by the hard-working (majority of) people of this country.



VISUAL: **REHNUMA PROSHOON**

BOOK REVIEW

Can a city be smart without adequate finance?

Dr Nawshad Ahmed, *a former UN official, is an economist and urban planner.*

NAWSHAD AHMED

Although Dhaka and Kolkata, two major South Asian cities, are just 240 kilometres apart and share a common history and culture, not many comparative studies on these cities have been undertaken so far. Kolkata is the second largest city in India, while Dhaka is the largest city in Bangladesh. A book titled *How Smart are Cities without Adequate Finances?* attempted to improve our understanding about financing patterns of these two South Asian cities. Three university professors from Bangladesh and India – Simanti Bandyopadhyay, Firdousi Naher and Aishna Sharma – have compared recent city-level financial trends in Dhaka and Kolkata, which is not only refreshing, but can also lead to further research in the future. Bangladesh and India's West Bengal share a common history, heritage, socio-cultural norms and environment. Both Dhaka and Kolkata are densely populated and face similar challenges in delivering civic services to its citizens. Therefore, comparing the two local governments' financial situations makes perfect sense.

A city needs to meet a number of fundamental criteria to become "smart," the catchword used internationally these days to characterise urban areas in terms of their use of information and communication technology, operational efficiency, financial prudency, cost-effective service delivery, time-saving public transportation system, and aesthetic and environment-friendly development, all done under a progressive urban planning philosophy. Smart cities should also aim to promote social inclusion and community engagement to ensure poverty alleviation, gender equality and resilient societies.

The authors of the book made an effort to look at the "smartness" of cities through the lens of financial sufficiency. The urban development context in both Bangladesh and India are truly comparable due to their poor basic services like housing, water supply, sanitation, waste management, roads and drains, etc, and therefore, according to the authors, "ensuring a sound infrastructure is the foundation for any smart urban agglomeration to emerge and this, in turn, hinges on the financial health of urban local bodies." Both in Dhaka and Kolkata, air and water pollution levels are alarming, and water supply, sanitation and solid waste management are poor.

While we recognise the importance of smart cities, there is very little empirical evidence on how they function. As such, the book raises a pertinent question on development of sustainable cities in South Asia. The authors point out that "most urban local bodies in developing economies suffer from insufficient generation of revenues and/or lack of financial power to invest in even the basic infrastructure."

The financial health of Dhaka North City Corporation (DNCC), Dhaka South City Corporation (DSCC) and Kolkata Municipal Corporation (KMC) are compared in the book. The urban local government bodies have legally defined areas of revenue generation, budgeting and expenditure for development of infrastructure and services, operation and maintenance. It also includes detailed historical, demographic and socioeconomic background of both Dhaka and Kolkata and the evolution of the local government structure in the two countries.

The comparative analysis of the two cities in terms of legal mandates for revenue generation and expenditure decisions, tax and non-tax collection situation, and urban economic strength are the most noteworthy aspects of the book.

The book argues that low revenue collection in Dhaka and Kolkata affect their level of expenditure, which is less than one percent of GDP, despite both cities contributing highly to their respective economies. Data from DNCC and DSCC shows that own revenue constitutes the bulk of total resources – 87 percent in DNCC and 79 percent in DSCC between 2012-13 and 2018-19. The government grant is relatively low, which comes from the Annual Development Programme (ADP). Property tax, called "holding tax" in Bangladesh, constitutes about 45 percent of total own revenues from both city corporations. There are some variations in per capita own revenue between the two city corporations, with DNCC doing better than DSCC. However, without further analysis, it is not possible to say what causes this variation – whether it is due to high tax effort of the DNCC or due its higher property value.

In Kolkata Municipal Corporation, own revenue constitutes 51 percent of total resources which comes from government grant, compared to DNCC and DSCC. But compared to Dhaka, Kolkata's per capita own revenue and property tax revenue collection are higher. Again, KMC's per person expenditure is $70 higher than the per person average expenditures in DNCC and DSCC.

The book tried to estimate own revenue to Gross City Product (GCP) ratios in both DNCC and DSCC. Using own revenue generated in 2017-18 in DNCC and DSCC at current prices, the own revenue to GCP ratio turned out to be only 0.3 percent in DNCC and 0.28 percent in DSCC. On the other hand, the GCP ratio in KMC has been 1.3 percent or higher in recent years. This implies that compared to the KMC, the DNCC and DSCC have higher potential for own revenue generation in future if property tax assessment can be improved, assessment to collection efficiency is raised, and non-tax revenue sources fully exploited.

If the DNCC and DSCC take note of the book's findings and make sincere efforts, they can increase tax revenue and utilise additional resources for better public service delivery. This will encourage city dwellers to pay taxes regularly and at higher rates. The book makes an excellent contribution towards filling an information gap in local resource mobilisation in the two most resourceful metropolitan cities in South Asia.

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