

# **REVENUE MOBILISATION: TRENDS AND CHALLENGES**

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### **Acknowledgement**

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## 1. INTRODUCTION

*The current issue of the Bangladesh Economic update attempts to assess the state of revenue mobilisation against the backdrop of declining rate of growth in total revenue collection since FY 2011-12 together with failure to achieve the potential of higher revenue mobilisation.*

The current issue of the Bangladesh Economic update attempts to assess the state of revenue mobilisation against the backdrop of declining rate of growth in total revenue collection since FY 2011-12 together with failure to achieve the potential of higher revenue mobilisation. The Update also examines the contribution of different sources to the total collection of revenue and analyzes the pattern of expenditure, deficit, and cost of deficit financing.

Revenue has fallen short of its target in previous two consecutive years where economic situation was comparatively good. So, considering the historical trend it can be predicted that the shortfall will persist affecting the trajectory of growth of the economy. Some structural problems are also responsible for increasing pressure on revenue collection. Tax –GDP ratio is very low. The tax base in Bangladesh is undoubtedly narrow. The wide opportunities of evading and avoiding tax along with structural weakness in the system and sporadic political turbulence have added further difficulties to this situation. A huge amount of capital is illegally flown out from country every year which is a big blow for the economy as it means lost investments and revenue income for the government.

Adequate revenue collection propels the growth of a country by providing adequate fund to meet the expenditure and decrease the dependency on aid. To achieve this goal government sets ambitious fiscal targets of revenue collection every year and has continuously been failing to achieve the target in recent years. Government cannot turn up its all the expenditure because of this shortfall. Revenue budget cannot be cut so the adjustment is made through lowering the public investment. Increased deficit in the budget of the government leading to slimming down of private investment on the one hand and retrenchment of development expenditure on the other hand, since the government borrows from abroad to finance deficit and has to repay the loan with large amount of interest payment that increases non-development expenditure and causes government to reduce its development expenditure.

## 2. COLLECTION OF REVENUE: TARGET VIS-À-VIS ACTUAL

Revenue has been falling short of target continuously since FY 2011-12 due to mainly fall in domestic consumption, sluggish economic activities and political uncertainty. In the present fiscal year the gap between the target and the actual will be further widen because of prevalent political unrest. First, domestic consumption has been falling for three years. In FY 2010-11, the domestic consumption was 79.30 percent down to 77.96 percent in FY 2012-13 and to 76.57 percent in FY 2013-14. Second, sluggishness in private investment along with very tiny public investment slows the production. Third, the most important reason in shortfall in FY 2013-14 is the political turbulence in 2013.

*The rate of growth in revenue mobilisation has been on the decline since FY 2011-12. Actual mobilisation of total revenue grew by 23.3 percent in FY 2011-12, whereas the rate of growth decline in the subsequent years and stood at 11.8 percent, 9.4 percent and 3.98 percent in FY 2012-13, FY 2013-14 and FY 2014-15 respectively.*

The rate of growth in revenue mobilisation has been on the decline since FY 2011-12. Actual mobilisation of total revenue grew by 23.3 percent in FY 2011-12, whereas the rate of growth decline in the subsequent years and stood at 11.8 percent, 9.4 percent and 3.98 percent in FY 2012-13, FY 2013-14 and FY 2014-15 respectively. In FY 2013-14, 85 percent of the total revenue was collected where actual revenue collection was 141603 crore against the target of Tk 1, 67,459; a shortfall of 25856 crore or 15 percent of the target remained uncollected. In the previous FY 2012-13, 92.33 percent of the total revenue was collected where the actual collection of revenue was Tk. 128823 crore against the target Tk. 139670 crore; a shortfall of Tk 10847 crore or 7.77 percent target remained uncollected. In FY 2013-14, the target of tax revenue collection was Tk. 130178 crore and the actual collection was Tk. 125125.47 crore - a shortfall of Tk. 5052.3 crore.

Furthermore, it is estimated that Bangladesh has the potential to increase the mobilisation of its revenue up to 22 percent of gross domestic product (GDP) whereas the total revenue mobilisation as percentage of GDP stood at 10.89 percent, 11.65 percent, 11.66 percent and 12.09 percent in FY 2011-12, FY 2012-13, FY 2013-14 and FY 2014-15 respectively.

The average revenue mobilisation as percentage of GDP during the last four years stood at 11.57 percent in Bangladesh compared to 19.4 percent in India, 18.9 percent in Nepal, 13.7 percent in Pakistan, and 13.4 percent in Sri Lanka. According to the latest statistics, total collection of

revenue during the first five months (July – November) of the FY 2015-16 has stood at Tk. 544.08 billion against the total target of Tk. 2084.43 billion. Taking account of the previous years' trend, it is forecast the total collection of revenue may fall short of the target by Tk. 375.91 billion in the current fiscal year.

Of the total tax revenue, National Board of Revenue (NBR) tax revenue grew by 20.16 percent in FY 2011-12, 12.82 percent in FY 2012-13, 7.83 percent in FY 2013-14, and 11.25 percent in FY 2014-15 while Non-NBR tax revenue grew by 9.33 percent, 13.43 percent, 11.84 percent, and 4.64 percent respectively during the corresponding period.

**Table 1: Revenue Collection: Target, Actual, and Growth (in billion Tk.)**

	FY200 9-10	FY201 0-11	FY201 1-12	FY201 2-13	FY201 3-14	FY201 4-15
Revenue Target as Per Original Budget	794.6	928.5	1183.9	1396.7	1674.6	1829.5
Revenue Target as per Revised Budget	794.8	951.9	1148.9	1396.7	1566.7	1633.7
Actual Mobilisation	759.1	929.9	1146.8	1282.6	1403.7	1459.6
Growth (%)	17.6	22.5	23.3	11.8	9.4	3.98

Source: Ministry of Finance, 2015a

### 3. COLLECTION OF REVENUE: DECOMPOSITION OF SOURCES

The revenue structure in Bangladesh is not so strong because of its high dependency on one or two sources. Revenue needed for expenditure purposes is collected mainly from three sources-Tax revenue, non tax revenue and the external source that is foreign aid and grants. Total revenue is collected either from tax or from non-tax sources. In total revenue, tax revenue consisted of 80.9 to 83.42 percent over the period between FY 2007-08 and FY 2012-13 and the remaining came from non-tax sources. Of the total tax revenue, nearly 95-96 percent is collected by National Board

of Revenue (NBR). NBR taxes mainly come from income and profit, value added tax (VAT), import duty, export duty, excise duty, supplementary duty and other taxes and duties. In contrast, non-NBR taxes consist of narcotics duty, motor vehicles tax, land tax and stamp (non-judicial). Non-tax revenue is collected from dividend and profit, interest, administrative fees, penalty and forfeiture, services, rent and leasing, tolls and levies, non-commercial sale, defense, non-tax receipts, railway, post office department, T&T Board, and capital receipts.

**Table 2: Sources of Revenue Collection (in billion Tk.)**

Revenue Sources	FY 2009-10	FY 2010-11v	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15
<b>Total Revenue (a+b)</b>	759.04	929.93	1146.74	1282.57	1403.73	1459.6
<b>a. Tax Revenue (a1+a2)</b>	624.84	795.48	952.27	1074.52	1160.31	1287.8
<b>a1. NBR Tax Revenue</b>	597.42	762.25	915.94	1033.32	1114.23	1239.6
<b>a2. Non-NBR Taxes</b>	27.43	33.23	36.33	41.21	46.09	48.2
<b>b. Non-Tax Revenue</b>	134.2	134.45	194.46	208.05	243.42	171.8

Source: Ministry of Finance, 2015a

*From FY 2007-08 to 2011-12, the NBR revenue collection surpassed the targets, but from FY 2008-09, non-NBR revenue started to fall short of the target, although it was above the target in previous years.*

From FY 2007-08 to 2011-12, the NBR revenue collection surpassed the targets, but from FY 2008-09, non-NBR revenue started to fall short of the target, although it was above the target in previous years. Total tax collection has started to fall below the target since 2012-13. In case of collection of NBR and non-NBR taxes, the actual collections were Tk. 120819.8 crore and Tk. 4612 crore in FY 2012-13 against the target of Tk. 125000 crore and Tk.5178 crore. Moreover, in FY 2012-13 both NBR and non-NBR have failed to satisfy the target of revenue collection with total shortage of Tk. 40777.5 crore. the rate of growth in collection of NBR-Tax decreased by 4.9 percentage points during the period of July-September of FY 2015-16 compared to the corresponding period of FY 2014-15. In July-September of 2015-16, the rate of growth in NBR-Tax has become 9.6 percent whereas the rate was 14.5 percent during the same period of the previous fiscal year.

Taking account of the unsatisfactory performance in collection of income tax which is proposed to be the largest source of revenue and critical to the total revenue mobilisation, it is evinced that the rate of growth in collection of income tax decreased by 4.6 percentage points during the period of July-September of FY 2015-16 compared to the corresponding period of FY 2014-15. In July-September of 2015-16, the rate of growth in income tax has become 10.8 percent whereas the rate was 15.4 percent during the same period of the previous fiscal year.

The rate of growth in collection of Value Added Tax (VAT) decreased by 3.4 percentage points during the period of July-September of FY 2015-16 compared to the corresponding period of FY 2014-15. In July-September of 2015-16, the rate of growth in collection of VAT has become 9.4 percent whereas the rate was 12.8 percent during the same period of the previous fiscal year.

**Table 3: Sources of Revenue: Targets and Mobilisation in FY 2014-15**

	Target	Revised Target	Mobilisation
Import Duty	14376.8	15188.39	15343.38
VAT (Import)	16897.9	17329.88	17692.12
Supplement (I)	4415.25	4950.95	5257.40
Export Duty	30	30.78	39.58
Excise Duty	1063.7	939.95	954.71
VAT (Local)	38780.4	32407.83	32276.9
Supplement (L)	16649.3	14911.34	15762.03
Turn Over	6.61	4.87	4.75
Income Tax	56580	48344	48525
Travel Tax	919.8	919.8	868
Others	0.2	0.2	0.11
Total NBR Tax	149720	135027.99	123959
Total Non-NBR Tax	5572	5650	4822
Total Tax Revenue	155292	140677.99	128781
Total non-Tax Revenue	27662	22690	17177
Total Revenue	182954	163367.99	145958

Source: National Board of Revenue, 2015

As regards the total non-NBR tax, it is found that the rate of growth in collection of non-NBR tax increased by 16.6 percentage points during the period of July-September of FY 2015-16 compared to the corresponding period of FY 2014-15. In July-September of 2015-16, the rate of growth in collection of non-NBR tax has become 21.3 percent whereas the rate was 4.7 percent during the same period of the previous fiscal year.

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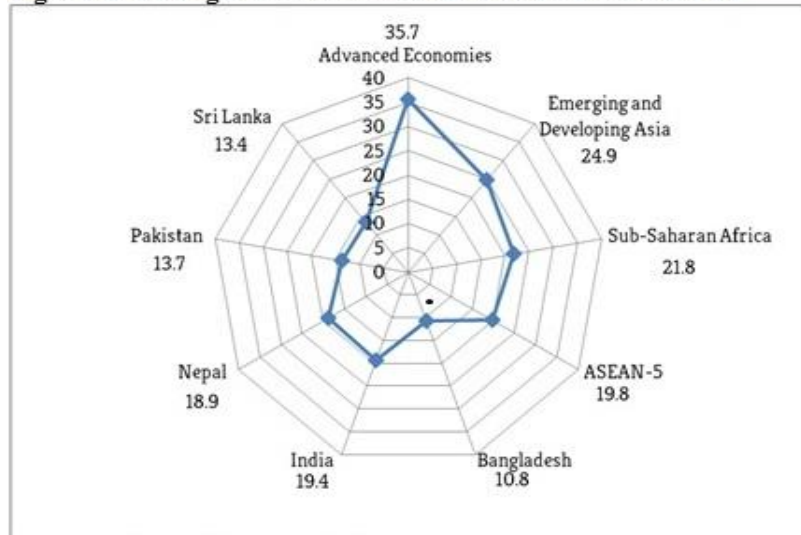
#### **4. REVENUE-GDP RATIO: CROSS-COUNTRY COMPARISON**

Tax–GDP ratio of a country shows the financial capability of the government to finance its expenditure. Low tax–GDP ratio implies stringent financial constraint for the government which shrunken the capital expenditure. The tax-GDP ratio is very low with about 10 percent of the GDP in Bangladesh, but keeps improving at a slow pace. Low per capita income, corruption and inefficiency in tax management system keep the tax collection low and unsatisfactory. To increase the contribution of tax in GDP the collection of tax must be accelerated through proper management in tax collection and tax policy reform.

In view of the fact that Bangladesh lags far behind other developing countries in terms of the total general government revenue as percentage of gross domestic product (GDP), the research organisation finds that the average total revenue for the period from 2010 to 2014 as percentage of GDP was 35.7 percent in advanced economies, 24.9 percent in emerging and developing Asia, 21.8 percent in Sub-Saharan Africa, 19.8 percent in ASEAN-5, 19.4 percent in India, 18.9 percent in Nepal, 13.7 percent in Pakistan, and 13.4 percent in Sri Lanka, whereas in Bangladesh, the average total government revenue as percentage of GDP for the corresponding period was only 10.8 percent.



**Figure 1: Average Total Revenue as % of GDP for 2010-14**



Source: Ministry of Finance, 2015b

In FY 2013-14, the tax was 9.6 percent of GDP where the target was set to 11 percent in MTF; 1.4 percentage point less than the target. In current fiscal year, the target for Tax-GDP ratio is 11.6 percent. Taking account of the annual growth rate in tax-GDP ratio from FY 2005-06 to FY 2013-14, it is projected that the Tax-GDP ratio might be 9.94 percent and 10.27 percent in FY 2014-15 and 2015-16 respectively.

## 5. EXPENDITURE STATUS: DEVELOPMENT AND NON-DEVELOPMENT

Expenditure of government includes both the purchase of final goods and services, and transfer payments. Expenditures help government to undertake key functions, such as national defense and education subsidies, interest payment, social security and welfare, health, agriculture, public administration, local government and rural development, transportation and communication, industrial, energy and power, culture and religious affairs, and pension. The implementation of ADP is also important for increasing the productive capacity of the country.

In FY 2015-16, a budget of Tk. 295100 crore has been proposed setting the target of growth in GDP at 7.0 percent. The target of revenue collection has been set at Tk. 208433 crore of which NBR tax revenue is Tk. 176370 crore, non-NBR tax revenue is Tk. 5874 crore, and non-tax revenue is

*Both development and non development expenditure are increasing in terms of absolute amount, but the rate of growth in non-development expenditure is higher than that of development expenditure.*

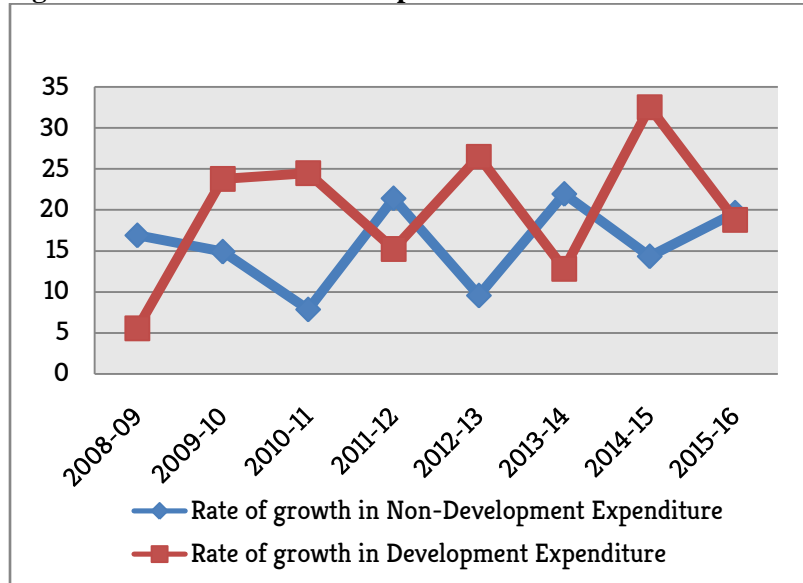
Tk. 26199 crore. The amount of non-development expenditure has been proposed at Tk. 184559 crore, whereas the development expenditure has been set at Tk. 102559 crore of which Tk. 97000 crore has been allocated for Annual Development Programme (ADP) which is six percent of GDP. The overall budget deficit has been estimated at Tk. 86657 crore, which is five percent of GDP. In financing the deficit, Tk. 24334 crore will be collected from foreign sources, whereas Tk. 56523 crore will be collected from domestic sources. As far as the domestic sources of financing deficit are concerned, Tk. 38523 crore will be collected from the banking system and Tk. 18000 crore will be collected from savings certificates and other nonbanking sources. Dependence of government on the banking system in financing the deficit may, however, cause private investment to fall further and inflationary pressure to rise in the current fiscal year.

Both development and non development expenditure are increasing in terms of absolute amount, but the rate of growth in non-development expenditure is higher than that of development expenditure. The allocation for non-development expenditure increased by 23.46 percent from actual Tk. 121,008 crore in FY 2013-14 to revised Tk. 149,399 crore in FY 2014-15 and further increased by 23.53 percent from the revised allocation in FY 2014-15 to the budgeted Tk. 184,599 crore in FY 2015-16. In contrast, allocation for development expenditure assumes a decelerated increasing trend of late. Development expenditure increased by 36.05 percent from actual 59,151 crore in FY 2013-14 to revised 80,476 crore in FY 2014-15, and then increased by 27.44 percent from the revised allocation in FY 2014- 15 to the budgeted Tk. 102,559 crore in FY 2015-16.

The rate of growth in non-development expenditure has increased to 20.39 percent in FY 2013-14 from 10.56 percent in FY 2012-13, the rate of growth in development expenditure has decreased to 8.33 percent in FY 2013-14 from 31.73 percent in FY 2012-13. The non development expenditure is much higher than the development expenditure. In 2012-13 and 2013-14, the non development budget were 12.1 percent and 13.2 percent of total GDP, where the ADP was only 4.7 percent and 5.1 percent respectively during the same time periods. In FY 2014-15, the allocation for the non development expenditure and ADP expenditure is 12.7 percent and only 6.3 percent of the total GDP respectively.

Increasing allocation for non-development expenditure due to financing the deficit does not allow the government to allocate adequately for development expenditure resulting in barrier to the expansion of productive capacity in the economy.

**Figure 2: Rate of Growth in Expenditure**

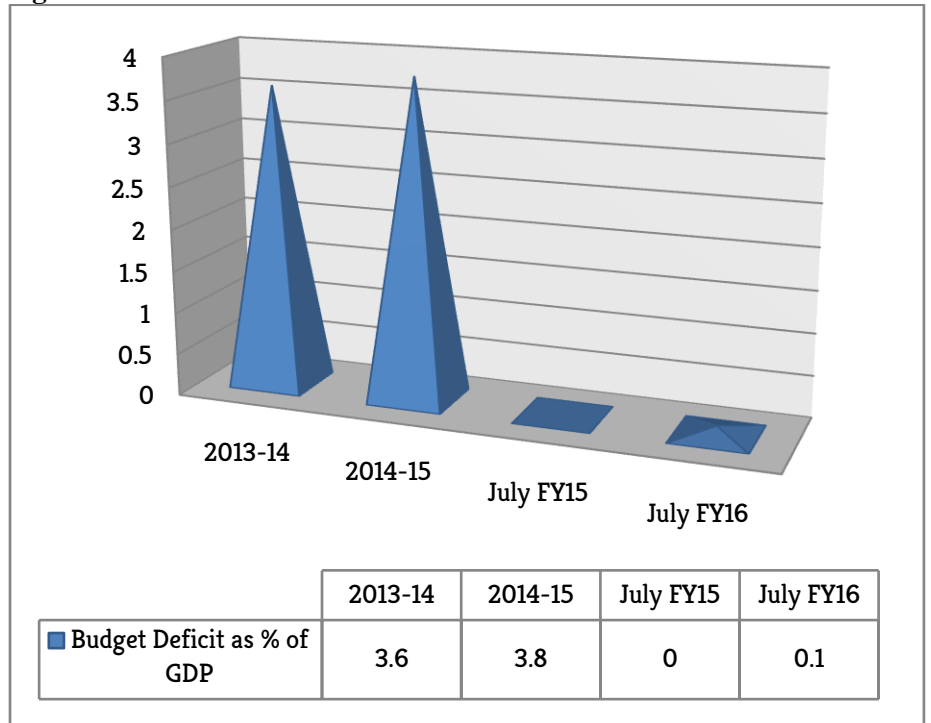


Source: Ministry of Finance, 2014a

## 6. BUDGET DEFICIT AND ITS COST

The gap between total expenditure and total revenue is getting bigger over the years due to low collection of revenue, causing fiscal deficit-induced macroeconomic underperformance and higher non-development expenditure. Overall budget deficit including grants at the end of FY15 stood at 3.8 percent of GDP (Base year 2005-06), which was 3.6 percent in FY14. Overall budget balance including grants during July of FY 16 records a surplus of BDT 2298 crore against a surplus of BDT 246 crore of the same period of previous fiscal year. The three fiscal targets related to revenue earning, revenue expenditure and budget deficit thus has not been achieved and the government had to revise these by a significant margin.

**Figure 3: Debt-GDP Ratio**



Source: Ministry of Finance, 2014b

*Domestic borrowing from the banking system declined to BDT 375 Crore in FY15 from BDT 18168 Crore in FY 14. On the other hand, borrowing from the non-bank sources increased to BDT 50711 Crore from 19974 Crore within the same period.*

Domestic borrowing from the banking system declined to BDT 375 Crore in FY15 from BDT 18168 Crore in FY 14. On the other hand, borrowing from the non-bank sources increased to BDT 50711 Crore from 19974 Crore within the same period. Net borrowing from the external sources declined to BDT 6608 Crore in FY 15 from BDT 9706 Crore in FY 14. In July of FY 16 Government net borrowing from the banking system increased to BDT 9167 Crore. Sale of NSD certificate in July of FY16 stood at Tk. 3236.40 crore which was 18.66 per cent higher than that of the same period of preceding year. As a result, net borrowing through NSD certificates stood at Tk. 1976.28 crore by end of July 2015.

**Table 4: Total Domestic and Foreign Borrowing**

Year	Net borrowing of the Govt. from the banking system	Net non-bank borrowing of the Govt. from the public	Total domestic financing	Total Foreign Borrowing
2009-10	-4376.00	12256.14	7880.14	10218
2010-11	19384.10	3012.93	22397.03	7470
2011-12	18875.00	2327.38	21202.38	9714.35
2012-13	17873.00	2887.71	20760.71	15080.19
2013-14	18168.4	19967.4	41485	11939.3
2014-15	375	50711	51086	6608

Source: Ministry of Finance, 2015a

Total budget financing of the government in July-September, 2015 was higher and stood at Tk.377.56 billion against Tk.333.42 billion of July-September, 2014. Financing from domestic sources stood higher at Tk.132.07 billion in July-September, 2015 compared to Tk.111.06 billion of July-September, 2014. Net foreign financing stood higher at Tk.245.50 billion during the period under review compared to the preceding fiscal. Net Govt. borrowing from the banking system stood at Tk.69.90 billion, while Govt. borrowing from the non-banking sources stood lower at Tk.62.16 billion in July-September, 2015 compared to July- September, 2014. Total budget financing in the first quarter of FY16 stood at 1.97 percent of projected GDP against 4.70 percent (overall deficit, including grants) as envisaged in the national budget of FY16.

**Table 5: Payment of Interest on Government Borrowing**

	Actual 2013	Budget FY 14	Revised Budget FY 14	Actual FY 14	Budget FY 15	Actual FY 15
<b>Interest Payment</b>	24273.8	27743.2	26540.5	28205.5	31042.6	30955
<b>Domestic</b>	22503.5	26003.2	24854.2	26601.1	29304.5	29418
<b>Foreign</b>	1770.3	1740	1686.3	1604.4	1738.1	1537

Source: Ministry of Finance, 2015b

As regards the higher interest payment due to deficit financing induced government borrowing from both domestic and foreign sources, it is shown that total interest payment increased by 11.18 percent during July'15 compared to July'14 whereas it decreased by 30.83 percent during July'14 compared to July'13. Higher interest payment is considered to result in the increase in total non-development expenditure every year causing the government to become unable to allocate adequately for development expenditure in the country.

## 7. CONCLUSIONS

*The collection of tax is significantly lower for a number of reasons. The country has a narrow tax base. There exist wide opportunities of evading and avoiding tax. Finally, structural weaknesses of the economy have added further difficulties to tax collection.*

Government has tried to boost up the revenue collection but the revenue collection in current fiscal year may have big shrinkage due to current political unrest. This shortfall of revenue may force government to cut its investment on different sectors like education, health, infrastructure etc. In addition, failing in collecting the adequate revenue has been resulting in rising per capita debt burden, increasing pressure on the ability of the government to carry out regular as well as developmental projects, and crowding out of private investment. The falling rate of growth in revenue collection has also been exposing the country to external terms and conditions in implementing its domestic economic policy.

The collection of tax is significantly lower for a number of reasons. The country has a narrow tax base. There exist wide opportunities of evading and avoiding tax. Finally, structural weaknesses of the economy have added further difficulties to tax collection. For example, more than 69 percent of total tax comes from indirect sources in Bangladesh. Therefore, strengthening of regulatory policy along with structural reforms, and innovation in the tax system is the requirement of time putting pressure on the marginalised.

It is also found that the gap between revenue collection and expenditure is getting wide over years and also projects that the gap will be wider in the upcoming fiscal year. For the promising economic performance, this gap needs to be shrunk without the contraction of the public invest or the development expenditure. To optimise economic performance through shrinking the gap between revenue collection and expenditure, two dimensional steps should be taken – one is from the revenue collection side and the other is from revenue spending. There is no alternative rather than to increase the size of tax base. New steps, therefore, should be included with present efforts to widen the tax base, especially through raising public awareness and ensuring imposition strict law and order.

It is, therefore, suggested that the government must administer its fiscal management in a way that would broaden the taxpayers' base on the one hand and ensure the provision of necessary services to the citizens in return for their payment of tax on the other.

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