Revenue Collection: Recent Trends and Challenges

Bangladesh Economic Update

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For orders and request, please contact:
UNNAYAN ONNESHAN
16/2, Indira Road, Farmgate Dhaka-1215, Bangladesh
Tell: + (880-2) 58150684, 9110636
Fax: + (880-2) 58155804
E-mail: info@unnayan.org
Web: www.unnayan.org

1. INTRODUCTION

The current issue of the Bangladesh Economic Update attempts to assess the state of revenue collection against the backdrop of the running prolonged political stalemate, continuous shortfall in revenue collection from its target for several fiscal years, and its consequential impact on public investment.

The current issue of the Bangladesh Economic Update attempts to assess the state of revenue collection against the backdrop of the running prolonged political stalemate, continuous shortfall in revenue collection from its target for several fiscal years, and its consequential impact on public investment. The Update also examines the contribution of different sources to the total collection of revenue and analyses the pattern of expenditure, the deficit trend and deficit financing.

The biggest challenge in revenue mobilisation this year will be the fulfillment of the target of revenue under the existing political unrest. The economy already has passed half of its way of the current fiscal year but the revenue collection is much lower than its target and already has fallen short of its target. The historical data shows that in the year of election the rate of growth in revenue collection falls due to stagnant economic activities arisen from political violence and turbulence. The current continuous countrywide blockade coupled with the several *hartals* over a month is hampering economic activities badly. Export to different countries has started to fall; small and medium enterprises are incurring losses; bank credit is falling, and sluggishness in investment in private sector is ongoing. 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 be large which will affect the trajectory of growth of the economy.

Some structural problems are also responsible for increasing pressure on revenue collection. The ratio between tax and gross domestic product (GDP) is very low. The tax base in the country is undoubtedly narrow. The wide opportunities of evading and avoiding tax along with structural weakness in the system and recent political turbulence have added further difficulties to this situation. A huge amount of capital illegally flows out from country every year which is a big blow for the economy as it denotes 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. As revenue budget cannot be cut the adjustment is made through lowering the public investment. Increased deficit in the budget of the government is 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.

The paper aims to investigate the continuous short fall of revenues in past fiscal years and the future scenario for the revenue collection. It will also examine its consequences on the public investment.

The paper aims to investigate the continuous short fall of revenues in past fiscal years and the future scenario for the revenue collection. It will also examine its consequences on the public investment. This paper also looks into the rate of growth in government expenditure, rate of growth in development and non-development expenditure, ADP expenditure, budgetary allocation on social and physical infrastructure.

2. REVENUE MOBILISATION

This section positions the deviation of actual revenue collection form the target, contribution of different sources of revenue and then discusses tax structure by dividing it into different analytical categories, such as composition and target. It also provides some projections on future scenario and presents the cross country scenario of tax, the pattern of source and collection.

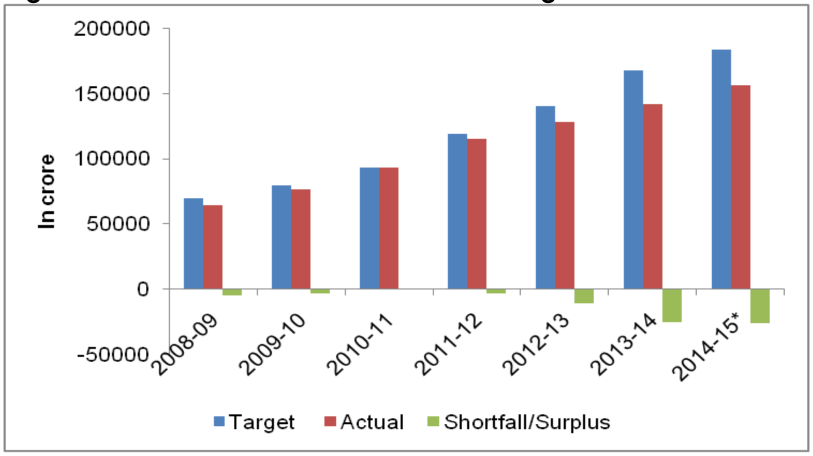
2.1 Revenue Collection: A Gap between the Target and the Actual

Revenue has been falling short of target continuously for several fiscal years 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. Domestic consumption has been falling for three years. In Fiscal Year (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. Then sluggishness in private investment along with very tiny public investment slows the production. The most important reason in shortfall in FY 2013-14 is the political turbulence in 2013.

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 Tk. 25856 crore or 15 percent of the target was not achieved. 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 of the target. Shortfall increases by 138.37 percent in FY 2013-14 compared to the FY 2012-13.. 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. In the first half of the current FY 2014-15, 2000 crore has fallen short of its target ; NBR has been able to collect 58449 crore (39.22 percent of the total target 149320 crore) where the target was fixed to collect 60453 crore for first half of the fiscal year. Considering the historical trend it can be projected that the total shortfall at the end of the FY 2014-15 will be Tk. 26775 crore. If the current political unrest continues for a long time the shortfall may widen and might be 34,000 crore at the end of the FY 2014-15.

Figure 1: Revenue collection (actual and target)



Source: Ministry of Finance, 2015

2.2 Decomposition of Revenue Sources

The revenue structure in Bangladesh is not so strong because of its high dependency on one or two sources (Benson& Clay, 2004). 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.

The revenue structure in Banladesh is not so strong because of its high dependency on one or two sources (Benson& Clay, 2004). Revenue needed for expenditure purposes is collected mainly from three sources-tax revenue, non tax revenue and the exrternal source that is foreign aid and grants. Total revenue is collected either from tax or from non-tax sources. Of the 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.

2.2.1 Target and actual revenue collection by sources

From FY 2007-08 to FY 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 FY 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 2013-14 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. In the first half of the current fiscal year of 2014-15, Tk.2000 crore has fallen short of its target; NBR able to collect 58449 crore (39.22 percent of the total target 149320 crore) which is 16.55 percet higher than the same time of the previous year where the target was fixed to collect 60453 crore for first half of the FY 2014-15.

The highest shortfall has been found in collection of VAT(local), largely caused by sluggish business activity. The wing faced Tk 24097 crore shortfall against its target for the period where the shortfall was Tk 20136.45 crore in the same period of previous fiscal year that is a increase of Tk. 3960.55 crore or 20 percent increase in the shortfall although the VAT collection has increased by 18.25 percent.

Lately, government is giving emphasis on direct tax i.e. income tax in the first quarter of the current fiscal year. The collected income tax is Tk 18721 crore where the target was Tk 56580 crore that is 33.09 percent of the target is collected where 67 percent of the target is yet to be collected, though the present business scenario says that will be very challenging.

In the first half of FY 2014-15, the import duty amounts to Tk 6965 crore where the target was set to Tk 14376.7 crore , denotes that 48.45 percent of the target has been collected. But collection of remaining duty will be difficult because of increase in cancellation of LC opening.

In the first half of FY 2014-15, the import duty amounts to Tk 6965 crore where the target was set to Tk 14376.7 crore , denotes that 48.45 percent of the target has been collected. But collection of remaining duty will be difficult because of increase in cancellation of LC opening. In the H1 of FY 2014-15, the cancelation of LC has increased by 24.54 percent worth of USD 890.45 million were cancelled in the first six months of the FY2014-15 while the figure was USD 728.71 million in the same period of the FY 2013-14. LCs for import of items worth of USD 623.34 million were cancelled in the first half of the FY 2012-13.

The target of non tax revenue is Tk 27662 crore, but a total of Tk 7279 crore has been collected till October 2014 which is 26.31 percent of the total target whereas it was Tk 11464 crore in the same period of the previous year, represents a 36.2 percent decrease compared to the same period of the previous fiscal year. This revenue collection may face a huge short fall because the major non tax revenue payer like Bangladesh Bank (BB), Bangladesh Telecommunication Regulatory Commission (BTRC) and land revenue pay less than the previous year.

Tax revenue from most of the sources has depicted positive growth till December, 2014 compared to the December, 2013. The rate of growth in major tax sources like VAT, Income tax and import duty are 17.90 percent, 17.78 percent and 9.07 percent respectively.

Table 1: Target and Actual Revenue Collection by Different Sources

Particulars	FY 2013-14 (Tk, in crore) (July-December)			First half of FY 2014-15 (July-December)			
	Target	Realisation	Gap Between Target and Realisation	Target	Realisation (Tk. millions)	Gap between the target and realisation	% Change from Corresponding Period of 2013-14
Import Duty	14629	6349.01	8279.99	14376.76	6965.02	7411.68	9.07%
VAT (Import)	16125	7242.07	8882.93	16897.85	8289.94	7097.67	14.47%
Supplement (I)	4991	2087.43	2903.57	4415.25	2505.66	1909.59	20.04%
Export Duty	45	22.94	22.06	30.0	24.53	5.47	6.94%
Excise Duty	758.56	90.54	668.02	1063.70	93.75	969.95	3.55%
VAT (Local)	32590.95	12454.5	20136.45	38780.42	14683.7	24096.72	17.90%
Supplement (L)	17642.6	6217.64	11424.96	16649.26	7352.47	9296.79	18.25%
Turn Over	7.89	1.84	6.05	6.61	2.14	4.47	16.30%
Income Tax	48300	15895.55	32404.45	56580	18721	37859	17.78%
Travel Tax	999.75	313.63	686.12	919.8	425	494.8	35.55%
Others	0.25	0.26	0.01	0.20	0.04	0.16	-84.62%
Total NBR Tax	136090	50675.41	85414.59	149720	59063.59	90656.41	16.55%
Total Non-NBR Tax	5129			5572	n/a		n/a
Total Tax Rev	141219			155292	n/a		n/a
Total non-Tax Revenue	26240			27662	n/a		n/a
Total Revenue	1,67,459			182954	n/a		n/a

Source: National Board of revenue, 2015

2.3 Tax-GDP ratio

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 shrinks 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.

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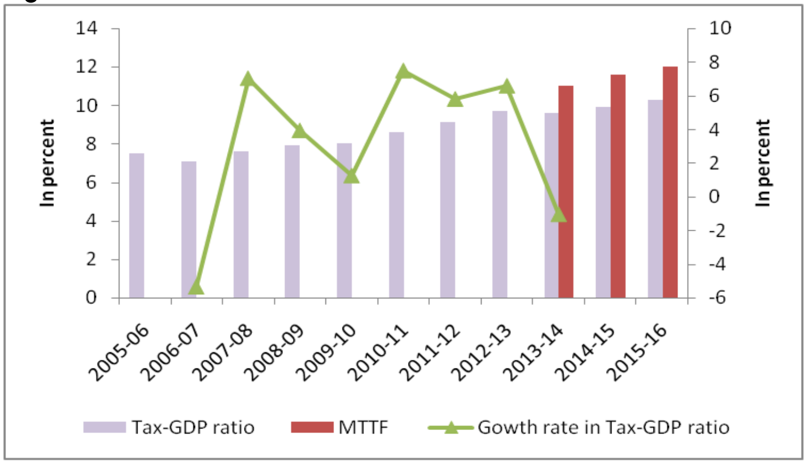
In FY 2013-14, the tax was 9.6 percent of GDP where the target was set to 11 percent in Medium Term Framework (MTMF), 1.4 percentage point less than the target. In current fiscal year, the target for Tax-GDP ratio is 11.6 percent. Taking account of the annual rate of growth in tax-GDP ratio from FY 2005-06 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 FY 2015-16 respectively.

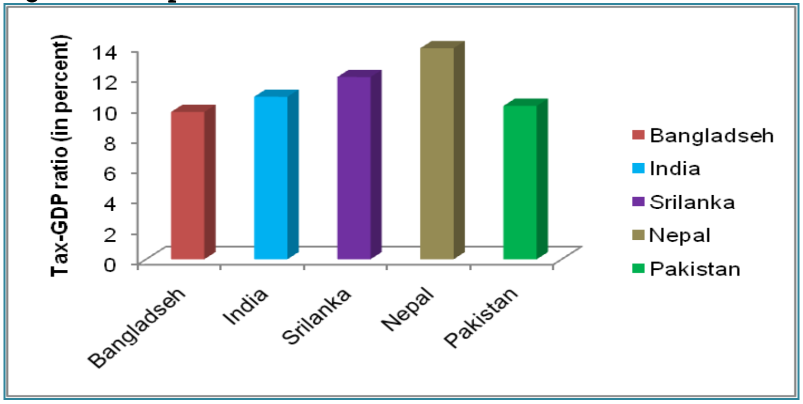
Figure 2: Tax –GDP ratio



Source: Ministry of Finance, 2014

But the status of Tax-GDP ratio is the worst among the SAARC countries except Afghanistan. Both Tax-GDP ratio and revenue-GDP ratio are the lowest in Bangladesh among the seven SAARC countries. Even Nepal and Srilanka have higher tax-GDP ratio of 13.9 percent and 12 percent respectively in 2013. The tax-GDP ratio in India and Pakistan were 10.7 and 10.1 percent, where tax-GDP ratio was 9.7 percent in Bangladesh in 2013.

Figure 3: Comparison with other countries



Source: World Development Indicator, 2013

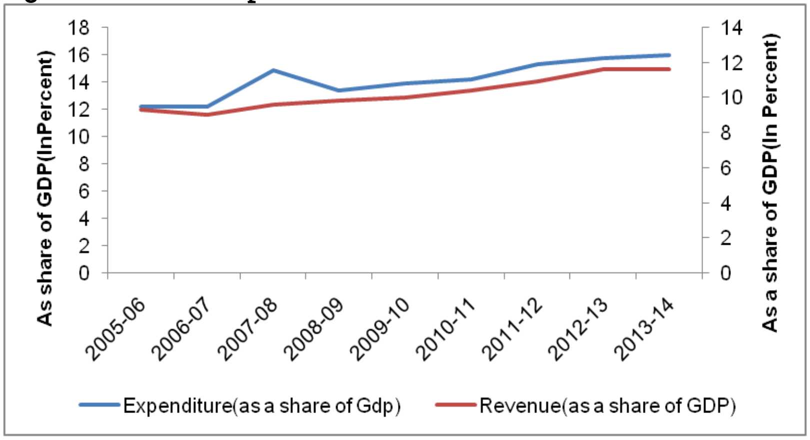
3. EXPENDITURE

Expenditure of a 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 Annual Development Programme (ADP) is also important for increasing the productive capacity of the country.

Largest portion of the government income goes to finance the non development expenditure. In the budget of FY 2014-15, government has allocated Tk. 15414 crore for non development expenditure which was Tk.134449 crore in FY 2013-14.

For the FY 2014-15, the government has set target to spend Tk.250506 crore(18.54 percent of the GDP) where it was Tk. 222492 crore in FY 2013-14, that is, expenditure has been increased by 12.59 percent where the rate of growth in revenue increases by 9.25 percent which reflects the lack of prudence in target setting. Largest portion of the government income goes to finance the non development expenditure. In the budget of FY 2014-15, government has allocated Tk. 15414 crore for non development expenditure which was Tk.134449 crore in FY 2013-14. On the other hand, the development expenditure is Tk.86345 crore of which Tk.80315 crore is allocated for the implementation of ADP. The highest amount-15.3 percent of the total budget has been allocated for Public Administration where 13.1 percent, 12.4 percent, and 9.8 percent go to education, interest payment, and transport & communication respectively. The expenditure has to be revised as the government is spending more resources to some ministries-like ministry of home affairs- to handle the current political situation. The latter needs additional money to pay for extra duties being done by the law-enforcing agencies these days (The New Age, 2015).

Figure 4: Trend of expenditure and the revenue as a share of GDP



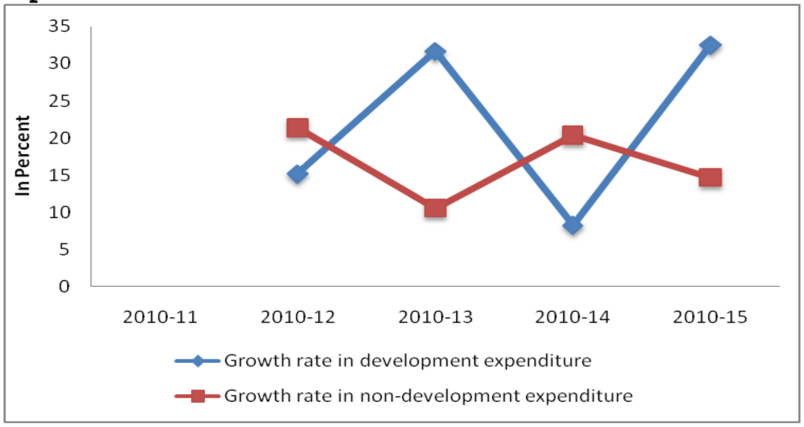
Source: Ministry of Finance, 2014

3.1 Heads of expenditure-development vs non development expenditure

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.

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 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 FY 2012-13 and FY 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 5: Growth rate of development and non-development expenditure

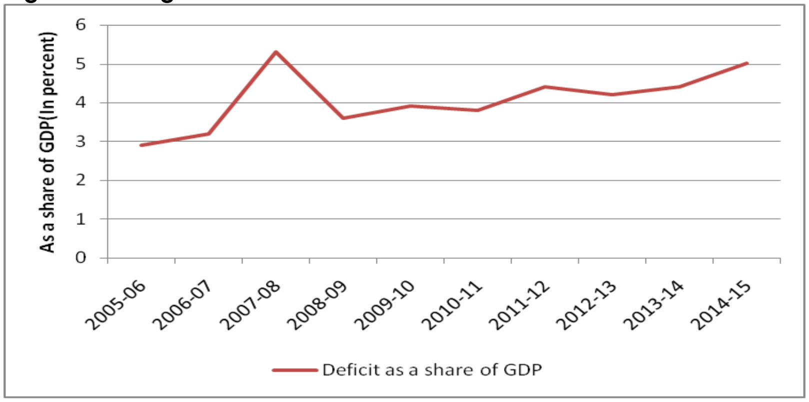


Source: Ministry of Finance, 2014

4. OVERALL BALANCE OF DEFICIT

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 under-performance and higher non-development expenditure. The overall budget deficit for FY 2014-15 is estimated at Tk. 67552 crore that represents 5 percent of GDP. The revised deficit in FY 2013-14 was Tk. 59551 crore (5 percent of GDP), which was Tk. 55,032 crore (4.6 percent of GDP) in the proposed budget. Since the target of revenue collection of the government seems to be ambitious, the government may be forced to cut the expenditure level in FY 2014-15 to keep the budget deficit within the target and the cut will be from ADP. The three fiscal targets related to revenue earning, revenue expenditure and budget deficit thus have not been achieved and the government had to revise these by a significant margin.

Figure 6: Budget deficit



Source: Ministry of Finance, 2014

5. DEFICIT FINANCING: DOMESTIC AND EXTERNAL SOURCES

The gap between revenue and the expenditure is fulfilled by borrowing from the domestic and foreign sources. In the first half of the current fiscal year 2014-15 the total deficit financing is Tk.12513.18 crore which was 12439.97 crore in the same period of the previous fiscal year that is a .58 percent bigger than the same period of the previous year.

5.1 Domestic Borrowing

The domestic resources are always considered as key source of the government for deficit financing. The government finances the lion's share of the deficit from the domestic source especially from the banks.

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Table 2: Domestic debt

Year	Net borrowing of the Govt. from the banking system	Net non-bank borrowing of the Govt. from the public	Total domestic financing	Outstanding Domestic debt (end period	Outstanding domestic debt as % of GDP@ at current market price
2009-10	-4376.00	12256.14	7880.14	116823.84	16.92
2010-11	19384.10	3012.93	22397.03	139220.87	17.68
2011-12	18875.00	2327.38	21202.38	160423.25	17.54
2012-13	17873.00	2887.71	20760.71	181183.96	17.46
2013-14*	6705.90	14153.94	20859.84	202043.80	17.11
2014-15(Budget)	31221	12056	43277	-	-

Source: Bangladesh bank, 2014

5.2 External Borrowing

External borrowing has played an important role in the economic development of Bangladesh assisting in bridging the internal gap (savings-investment gap) and external gap (export-import gap). Borrowing from the foreign debt partner is much lower than the domestic one but the dependency is high. In FY 2013-14, the total external financing were Tk.14603 crore (provisional) where it was Tk. 15080 crore in FY 2012-13. Outstanding external debt stood at USD 23250 million in FY 2013-14 which was USD 22381.4 million in FY 2012-13, a 3.88 percent increase in external debt in FY 2013-14. From FY 2002-03 to FY 2006-07, the external debt increased at an annual rate of 6.37 percent, then deceased to 2.93 percent for the period between FY 2007-08 and FY 2008-09 and again increased to 3.58 percent for the period of FY 2009-10 to FY 2013-14. The fluctuation in the rate of growth in external debt arouse from political unrest in different time and also from the diplomatic tactics. If the trend continues, external debt will be

USD 24381 million in FY 2014-15 and USD 25513 million in FY 2015-16.

Table 3: Deficit financing from external sources.

Year	Financing From External sources	External debt as a share of GDP	Per capita external debt
2009-10	10218	25.3	137.59
2010-11	7470	23.5	147.317
2011-12	9714.35	22.6	145.467
2012-13	15080.19	18.9	145.174
2013-14	14602.54	18	149.22
July-November'13	5020	-	
July-November'14	3338.3	-	

Source: Bangladesh bank, 2014

6. REVENUE COLLECTION AND THE PUBLIC INVESTMENT

Size of revenue shapes the size of public investment. Shortfall in revenue collection directly affects the public investment. Public investment comprises a very tiny portion of the GDP which is important to increase the productivity of the economy. Public investment mainly indicates the expenditure on public services like infrastructure, social sector spending like education and social safety net programme. Annual Development Programme is the most important facet of the public investment. When government fails to collect adequate revenue usually it shortens the expenditure on the public services to keep the deficit level around the target or acceptable level.

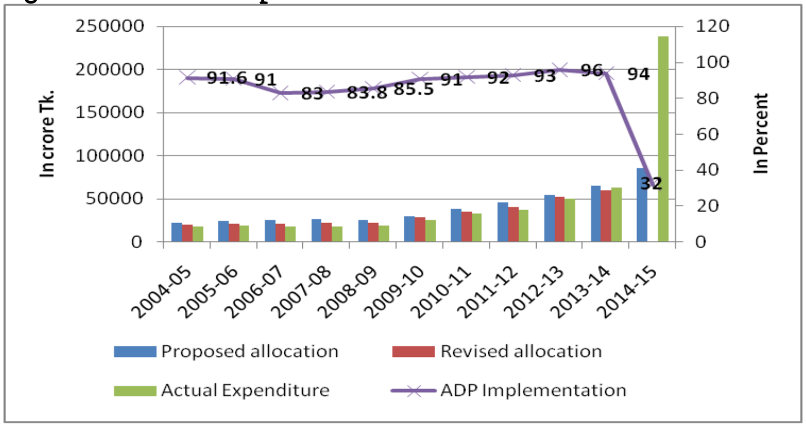
Successful implementation of development projects depends on full utilisation of ADP. Every year, the government sets a highly ambitious ADP target which is unrealistic in view of low implementation capacity.

6.1 ADP Implementation Status

There are two aspects of the ADP implementation in our country. One is that the ADP budget is very low compared to the non development expenditure budget. In FY 2014-15, the total ADP size was Tk. 80315 crore which is only 32 percent of the total budget. Another is that full implementation of ADP remains unfulfilled due to shortfall in revenue coupled with lack of proper planning, corruption, inefficiency. This type of contraction in ADP implementation is hindering the growth process of the economy.

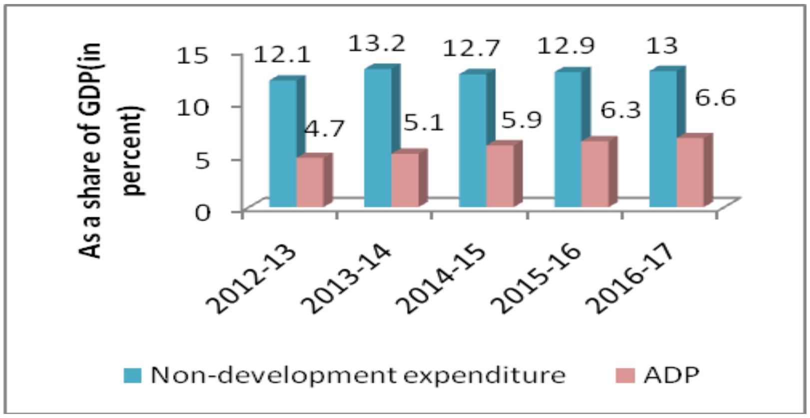
Successful implementation of development projects depends on full utilisation of ADP. Every year, the government sets a highly ambitious ADP target which is unrealistic in view of low implementation capacity. ADP allocation has been increasing continuously over the last twenty years (except FY 2008-09), but implementation has been consistently falling short of target, causing the economy to undergo decelerations in recent years. Moreover, it is observed that the rate of increase in ADP implementation has been decreasing. In FY 2012-13, 96 percent of total ADP was spent, whereas it stood at 94 percent in FY 2013-14, implying 2 percentage points decrease in ADP implementation. Allocation for ADP in the current fiscal year (FY 2014-15) is Tk. 80315 crore, 33.85 percent higher than that of the revised ADP of the last fiscal year (FY 2013-14). ADP implementation in the first seven months of the FY 2014-15 was Tk. 27305 crore (32%) which was 18.31 percent higher than that of the corresponding month of FY 2013-14. ADP implementation up to July -January of FY, 2014-15 of the current fiscal was lowest than in any of the last five fiscal years. Furthermore, the average implementation as percentage of revised ADP was 91.12 percent during FY 2009-10 - FY 2012-13, whereas it was 90.23 percent during FY 2000-01 - FY 2005-06. In 2013-14, 94 percent of total ADP was implemented. An estimate based on past data reveals that total implementation as percentage of proposed ADP might reach 94.65 percent by the end of FY 2014-15.

Figure 7: Trend of Proposed, Revised Allocation and actual



Source:Ministry of Finanace,2014

Figure 8: Comparison between non- development expenditure and ADP



Source: Ministry of Finanace, 2014

6.2 Public Investment on Infrastructure

A part of the deficit is financed by borrowing from the domestic banking sector and this has reduced the capacity of banking sector to make available credit to the private sector.

The government although has proposed a deficit budget in FY 2014-15, the key issue is that such deficit has not been meant to augment multiplier effects in the economy rather has financed consumption as opposed to paying for infrastructure to remove supply side constraints. This continuation of present deficit has its roots in maverick decision to install rental and quick rental power plants at the cost of long run solutions. A part of the deficit is financed by borrowing from the domestic banking sector and this has reduced the capacity of banking sector to make available credit to the private sector. In the wake of less availability of resources due to service debts and subsidy payments, the capacity of government to invest in physical and social infrastructure has also decreased.

Compared to the other sectors, the infrastructure sector (Transport and Communication) and the power sector are more capital centric. The allocation in transport and communication stood to Tk.24464 crore in FY 2014-15 from Tk.20,596 crore in 2013-14 and in power sector the allocation stood to Tk.11,351.20 crore from Tk. 11,540 crore in FY 2013-14. These are higher than the allocation in the budget of FY 2013-14 by Tk.3868 crore and Tk.189 crore, respectively. In terms of budgetary allocation, although the infrastructure sector has seen positive growth in recent times, the effectiveness of this amount, however, would depend on how the money is capitalised. If the money is used to build new roads, railways, etc, the possibility of a greater fiscal multiplier would be created.

6.3 Social Sector Spending and Social Security

The budgetary allocation for the social security and welfare in FY 2014-15 and FY 2013-14 were 6.1 percent and Tk.5.6 percent respectively. Based upon historical track record, in most of the cases, the proposed budgetary allocation has witnessed a negative revision.

Although the expenditure basket becomes bigger every year but the expenditures on social sector like health, education remains almost stable for a long period of time. Public expenditure in education and health has not yet reached at a satisfactory level. The rate of utilisation of the funds has also been poor. In the national budget of FY 2014-15, education has got the allocation of Tk32780 crore which is 13.5 percent of the total budget. Health and family welfare got Tk. 11176 crore which is 4.4 percent of the total budget. The proposed allocation for education and technology in the budget of FY 2013-14 was Tk. 26093 crore (including development and non-development budget), whereas the proposed budget for the health sector was Tk. 9470 crore (including development and non-development budget). The allocation in housing remains at .08 percent of the total budget for several fiscal years.

The main tool that the government uses for a social security purpose for the poor is the provision of Social Safety Net Programmes (SSNPs). It is observed that reasonable growth rates have led to declines in the percentage of poor but actual numbers of the poor have not declined while expenditures on safety nets have fallen at the same time. Though safety net programmes are important components of the social protection strategy, expenditure on the programmes is fairly low. The budgetary allocation for the social security and welfare in FY 2014-15 and FY 2013-14 were 6.1 percent and Tk.5.6 percent respectively. Based upon historical track record, in most of the cases, the proposed budgetary allocation has witnessed a negative revision. From the previous experience it can be said that if revenue fell short from its target in a large amount the allocation in social security and welfare will be decreased in revised budget to adjust the shortfall.

Table 4: Budgetary allocation on different sector (In percent)

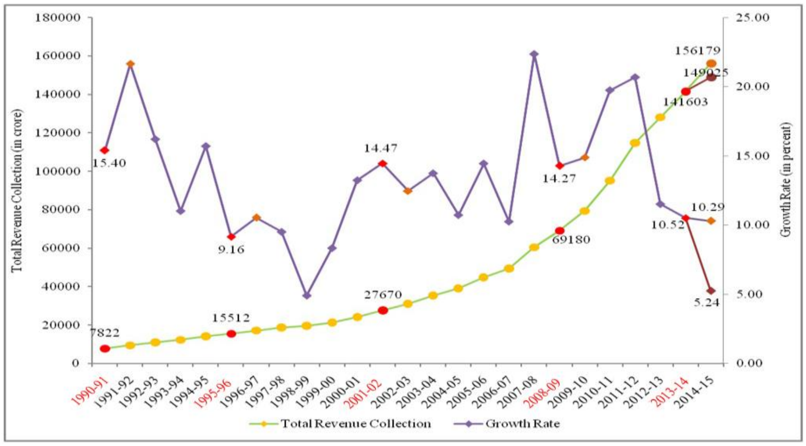
Category	Budget 2014-15	Budget 2013-14	Budget 2012-13
Education and Technology	13.1	11.7	11.5
Health	4.4	4.3	.4.9
Housing	.08	.08	.08
Social safetynet and welfare	6.1	5.6	5.7
Agriculture	7.6	7.9	7.5
Industry and economic service	1.1	1.4	1.4
Power and energy	4.6	5.1	5.0
Interest payment	12.4	12.5	12.2

Source: Budget in Brief, FY 2014-15, FY 2013-14 and FY 2012-13

7. Recent Political Unrest and the Revenue Collection

Positive political change or better political situation improves the fiscal balance of the economy (Wahid &Weis, 1995). There is a positive relationship between the revenue and a stable political situation. Political violence hampers the economic activities which shrinks the revenue collection. The last five parliamentary elections were held in February 27, 1991, February 15, 1996, June 12, 1996, October 01, 2001, December29, 2008 and January 05, 2014. Statistical data on revenue collection from FY 1990-91 to FY 2014-15 shows a common feature of the politics that the previous year of the election is characterised by violence like hartal, vendalisation and terrorism. Economic activities are hampered because of this political unrest, but when the election is over and a new government is formed the business scenario gets better and the rate of growth in revenue collection improves. In FY 1990-91, the rate of growth in revenue fell from 16.42 to 15.4 percent and in the next year, the rate of growth rose to 21.67 percent when a new government was formed. In FY 1995-96, another year of election, the rate of growth fell from 15.71 percent to 9.52 percent and then increased to 10.52 percent in the following year due to better political situation. Considering the historical track of revenue collection after the year of election where the political stability prevails it can be said that the revenue collection might be Tk.156569 crore that is a shortfall of Tk.26775 crore. Under the present political crisis the shortfall may widen. The economy has already started to experience the influence of the political unrest on the economic activities. Cancellations of the import-related letter of credit increased by 24.94 percent (The New Age, 2015), Bank credit falls by 0.98 percent or Tk.5197 crore in January, 2015 compared to December, 2014(The Daily star, 2015) in the first half of the current fiscal year because of disagreement between importers and exporters and dull business situation in the country amid political uncertainty and unrest, and decrease of the export of readymade garments. The economy has almost come to a standstill. If the current situation prevails, the revenue shortfall might be as high as Tk.34000 crore at the end of the FY 2014-15.

Figure 9: Revenue collection and the growth rate in revenue collection (1990-91 to 2014-15)



Source: Ministry of Finance,2014

The prevalence of narrow tax base is hindering the development of a strong revenue base in the country. Tax evasion and avoidance, high cost in collecting tax, mismanagement in tax system and lack of incentive to pay tax are narrowing the tax net.

8. SHORTCOMINGS IN REVENUE COLLECTION

The reasons for increasing pressure on revenue collection are several. The tax base in Bangladesh is undoubtedly narrow. The wide opportunities of evading and avoiding tax along with structural weakness in the system and recent political turbulence have added further difficulties to this situation.

8.1 Narrow Tax Base

The prevalence of narrow tax base is hindering the development of a strong revenue base in the country. Tax evasion and avoidance, high cost in collecting tax, mismanagement in tax system and lack of incentive to pay tax are narrowing the tax net.According to the NBR, only less than 1% people pay income tax. Income tax is the largest source of direct tax. But the contribution of income tax to total tax is not satisfactory. With the population of 15.58 crore, the total number of the holders of Taxpayers Identification Number (TIN) is only 17 lakh (1.09 percent of total population), of which only 8.55 lakh (0.54 percent of the total population) submitted their tax returns in November 2014. The number of eligible tax payers is 69 lakh whose monthly income ranges from Tk. 20000 to Tk. 35000+. This statistics implies that only 4.43 percent of total population has taxable income, although they are not paying tax.

8.2Tax Evasion and Avoidance

Tax avoidance is the way to reduce tax through using the loopholes of law, while tax evasion does the same by violating the law.

Tax avoidance is the way to reduce tax through using the loopholes of law, while tax evasion does the same by violating the law. These have been taking place through understatement and concealment of taxable objects, property transfer, and so on. Tax evasion and tax incentive eliminate the 5 percentage points of tax GDP ratio which is about Tk. 400 billion (NBR2011).

8.3Growing Informal Sector and Other Structural Issues

Some structural issues are involved behind low tax base in Bangladesh as well. Aligned with the characteristic problem of developing countries, the informal sector of Bangladesh has been growing up while the formal sector, declining. The formal sector has long been unable to absorb new labourers. Total civilian labour force in Bangladesh grew from 46.3 million to 57.1 million between FY 2002-03 and 2010 at a rate of 23.32 percent. However, the formal sector employed only 9.2 million labours in FY 2002-03 and 6.8 million labours in 2010, representing a 26.09 percent decrease. On the other hand, the informal sector grew by 34.76 percent between FY 2002-03 and 2010 to accommodate a massive 47.3 million labours, against a total of 35.1 million labors in the former year (BBS, 2011).

8.4 Illegal Capital Flight

In addition, capital flight is also responsible for the low revenue income in Bangladesh. The amount of money flown out of Bangladesh through illicit means tripled in 2012 to stand at USD 1.78 billion (stand fourth in South Asia), riding mainly on trade misinvoicing. The figure was USD 593 million the year before. Use of hundi, misinvoicing in export and import, illegal money through tax evasion are the facets of capital flight. This unaccounted transfer of money is a big blow for the economy as it means lost investments and revenue income for the government.

The study also finds that the gap between revenue collection and expenditure is getting wide over years and also projects that the gap might be wider in the upcoming fiscal year.

9. CONCLUSIONS

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 standoff. 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.

Besides the political turbulence, 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.

The study also finds 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 can, however, be said that although deficit financing is weak fiscal tool for fostering economic growth of any country. However, it can be used properly to mobilise additional resources for economic and social development, and most importantly, in the creation of employment.

Finally, present political turbulence may exert an immense pressure on the economy for which the revenue collection may fall far below from the target thus the deficit may widen.

So along with the effective change in revenue structure to increase the collection, an inclusive political dialogue that reducing the exigencies of current political uncertainly will ensure consolidation of democracy through regular transfer of power and cause the economy to grow faster is also needed.

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UNNAYAN ONNESHAN
16/2 Indira Road, Farmgate
Dhaka-1215, Bangladesh
Tel.: +880 (2) 58150684, +880 (2) 9110636
Fax: +880 (2) 58155804
Email: info@unnayan.org
Web: www.unnayan.org