

Revenue Growth Till FY08: No Room for Complacency

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Bangladesh is still experiencing low revenue-GDP and tax-GDP ratios (revenue and tax efforts). PRSP target for FY08 sets revenue effort at 11.6% and tax effort at 9.6%. But till 2006/07 total revenue and tax effort hovered around 10% and 8% respectively. No real progress in total revenue and tax effort has taken place. Tax effort of Bangladesh is lower than its neighbors – India, Pakistan, Sri Lanka and even Nepal. Its relative position compared to its neighbors remained the same since mid-1980s. Narrow tax base is the primary reason for its low tax effort. Around 75% of total tax revenue comes from indirect tax and lion's share of that from import. Income tax is a major tax head in our country. But only around 1% of the total population pays income tax. A sizable informal sector remains outside the tax net. Contribution of services sector to GDP is around 50%. But a major portion of this sector belongs to informal economy. For example, whole sale and retail business account for 14.17% of GDP while major part of this sector remains outside the tax net. Up to December of FY08, it is seen that revenue collection is quite good. About 47% and 46% of target total revenue and tax revenue have been collected which imply that the revenue target will be fulfilled. Unusual circumstances of current year may help realize of the target set for this year.

However, almost none of the recommendations of the PRSP have completely been carried out. The tax administration in Bangladesh is neither efficient nor effective. Thorough reforms have proved that the situation may be dramatically improved. Most of the countries of sub-Saharan Africa, especially Ghana and a few others, have shown, by creating a semi-autonomous Revenue Authority de-linked from the tentacles of the country's civil services, that Tax-GDP ratio can be vastly improved. For example, in case of Ghana it rose from a mere 5% in 1986 to 12% in 1993. But this needs a strong political will. Pakistan, in recent years, also seems to have embarked on a similar path, and is learnt to have already formed a semi-autonomous revenue Authority with pay structures and other emoluments quite different from those of the country's civil service. It would be quite interesting for us to watch development there. But the authorities might consider whether that wait would entail loss of precious time and opportunities.