

Revenue Mobilisation: Recent Trends and Imminent Challenges

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1. Introduction

The current issue of the Bangladesh Economic update attempts to assess the state of revenue mobilization 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 mobilization. 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.

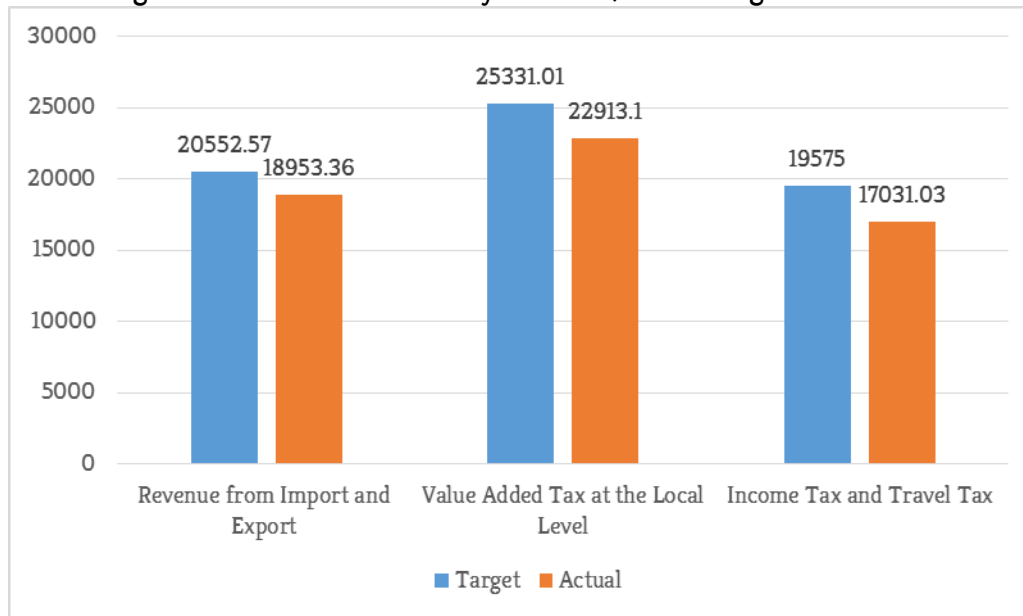
Adequate revenue collection propels the growth of a country by providing adequate fund to meet the expenditure and decrease the dependency on aid. To achieve this goal government sets ambitious fiscal targets of revenue collection every year and has continuously been failing to achieve the target in 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

Collection of NBR tax revenue falls short of target in the first four months of the FY 2017-18. For the period of July-October 2017, revenue target was set at Tk. 19575 crore for income and travel tax, Tk. 25331.01 crore for value added tax (VAT) at the local level, and Tk. 20552.57 crore for import and export tax,

while the actual collections fall short by 13 percent, 9.55 percent, and 7.78 percent respectively.

Figure 1: NBR Revenue in July-October, 2017: Target and Actual



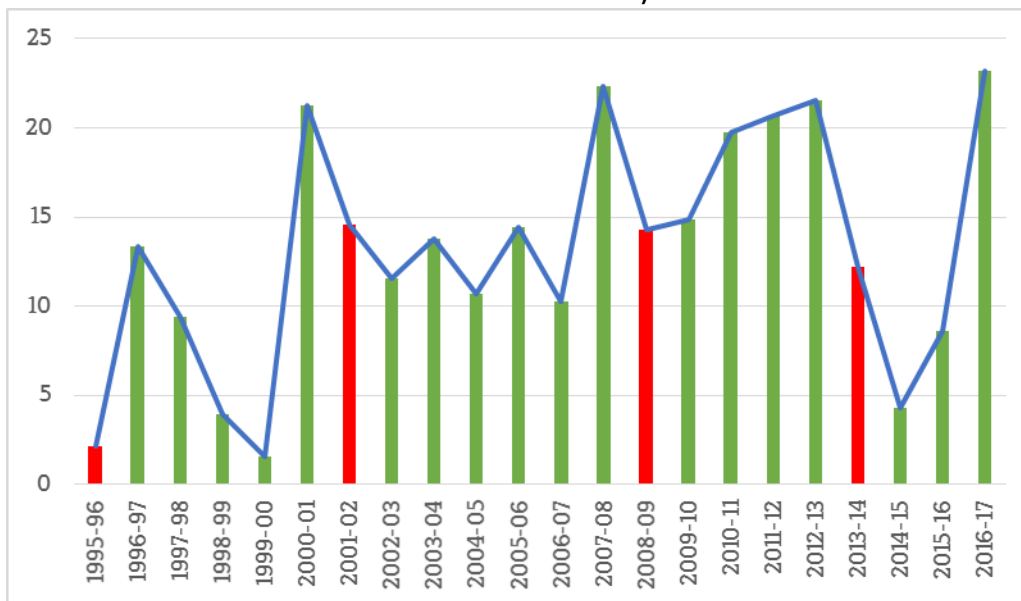
Source: National Board of Revenue (NBR), 2017

Analysis historical data of revenue mobilization shows that the trend in the growth of revenue collection has never been stable, let alone increasing. In view of the fact that revenue collection has particularly been assuming a declining trend in the periods of national elections since the FY 1994-95, it is feared that a drop in revenue growth in the coming years is likely. Revenue growth fell to 14.59 percent in FY 2001-02 from 21.26 percent in FY 2000-01, to 14.27 percent in FY 2008-09 from 22.37 percent in FY 2007-08, and to 12.17 percent in FY 2013-14 from 21.57 percent in FY 2012-13. Furthermore, the rate of growth in revenue collection has declined in recent years, averaging 13.96 percent in the last five fiscal years (FY 2012 - FY 2017) compared to 18.4 percent in the preceding five fiscal years (FY 2007 - FY 2012).

The rate of growth in revenue mobilization has been on the decline since FY 2011-12. Actual mobilization 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.

Figure 2: Rate of Growth in Revenue Collection (red bars represent the years of national election)



Source: Ministry of Finance, 2017a

Furthermore, it is estimated that Bangladesh has the potential to increase the mobilization of its revenue up to 22 percent of gross domestic product (GDP) whereas the total revenue mobilization as percentage of GDP remained almost stagnant and stood at 11.65 percent, 11.66 percent, 10.78 percent, 10.26 percent, and 11.17 percent in FY 2012-13, FY 2013-14, FY 2014-15, FY 2015-16 and FY 2016-17 respectively. The average revenue mobilization as percentage of GDP during the last four years stood at 11 percent in Bangladesh compared to 20 percent in India, 19 percent in Nepal, 14 percent in Pakistan, and 13 percent in Sri Lanka.

According to the latest statistics, total collection of NBR tax revenue in the first four months of FY 2017-18 has stood at Tk. 58897.49 crore against the four months' target of Tk. 65458.58 crore, representing a 10.02 percent shortfall. Taking account of the recent trend, it can be forecast that the total collection of revenue may fall short of the target by Tk. 38900 crore in the end of the current fiscal year.

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

	FY2010 -11	FY2011 -12	FY2012 -13	FY2013 -14	FY2014 -15	FY2015 -16	FY 2016- 17
Revenue Target as Per Original Budget	928.5	1183.9	1396.7	1674.6	1829.5	2084.4	2427.5
Revenue Target as per Revised Budget	951.9	1148.9	1396.7	1566.7	1633.7	1774.0	2185
Actual Mobilization	929.9	1146.8	1282.6	1403.7	1459.6	1774.0	1912.9

Source: Ministry of Finance, 2017a

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 2010-11	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17
Total Revenue (a+b)	929.93	1146.74	1282.57	1403.73	1459.6	1831	2185
a. Tax Revenue (a1+a2)	795.48	952.27	1074.52	1160.31	1287.8	1611	1915
a1. NBR Tax Revenue	762.25	915.94	1033.32	1114.23	1239.6	1555	1850
a2. Non-NBR Taxes	33.23	36.33	41.21	46.09	48.2	56	63
b. Non-Tax Revenue	134.45	194.46	208.05	243.42	171.8	220	270

Source: Ministry of Finance, 2017a

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. Since the FY 2012-13, collection of total tax revenue as percentage of GDP has been on the decline, although the ratio has slightly increased in FY 2016-17. The tax-GDP ratio stood at 9.74 percent in FY 2012-13, which declined to 9.69 percent, 9.28 percent, and 8.98 percent in FY 2013-14, FY 2014-15, and FY 2015-16 respectively. However, the ratio rose at 9.79 percent in FY 2016-17.

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 mobilization, it is evinced that the rate of growth in collection of income tax has been declining since FY 2012-13 while the rate improved in the last fiscal year.

In FY 2012-13, the rate of growth in collection of income tax was calculated at 31.35 percent, which fell to 15.61 percent in FY 2013-14, 13.07 percent in FY 2014-15, and 9.89 percent in FY 2015-16. In FY 2016-17, when a particular emphasis was put on collecting highest amount of revenue from income tax, the growth in collection increased to 17.63 percent. Nonetheless, revenue from VAT exceeded that from income tax in FY 2016-17.

The rate of growth in collection of VAT also assumes a somewhat declining trend in recent times, except for the FY 2016-17. Growth in the collection of VAT - both at local and import levels - stood at 18.37 percent in FY 2011-12, 15.26 percent in FY 2012-13, 8.15 percent in FY 2013-14, 12.11 percent in FY 2014-15, and 10.96 percent in FY 2015-16. However, the rate increased to 19.4 percent in FY 2016-17.

Table 3: Sources of Revenue: Targets and Mobilization in FY 2016-17 (in crore Tk.)

	Revised Target	Mobilization
Import Duty	22551.9	21142.91
VAT (Import)	2572.5.29	25553.62
Supplement (I)	7348.26	7611.27
Export Duty	44.55	22.68
Excise Duty	1366.35	1816.85
VAT (Local)	47827.44	40649.49
Supplement (L)	24912.84	24422.51
Turn Over	7.37	2.6
Income Tax	71968	62729.24
Travel Tax	1400	1052.52

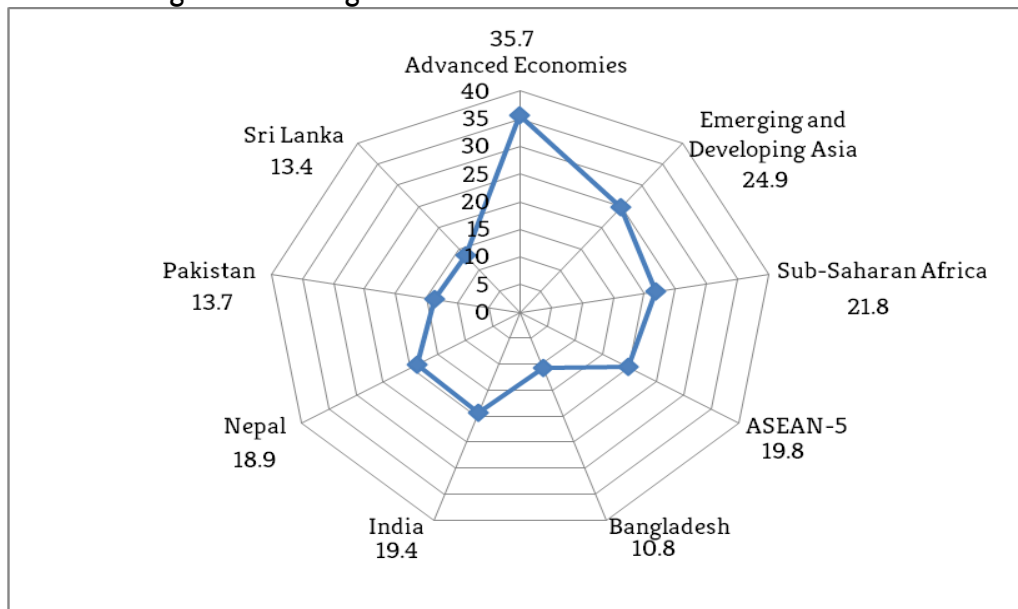
Source: National Board of Revenue, 2017

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.

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.

Figure 3: Average Total Revenue as % of GDP for 2010-14



Source: Ministry of Finance, 2016b

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), it is found 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.

In FY 2013-14, the tax was 9.6 percent of GDP where the target was set to 11 percent in MTTF; 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. Conclusions

Government has tried to boost up the revenue collection but the revenue collection in the coming fiscal year may have big shrinkage due to imminent 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, about 70 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 projected 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 investment 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 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. In addition, the tax administration should be insulated from political influences and provided with more political independence.

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