

## Mobilizing resources to close graduation gaps in Bangladesh

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### Channels of resource mobilization

	Total resources				
Institutions	C H A N N E L S				
	Fiscal Channels		Non-fiscal channels		
	Tax revenue	Non Tax	Borrowing/ Equity	FDI	International Assistance
Public	★	★	★	★	★
Private			★	★	★
Public-Private			★		

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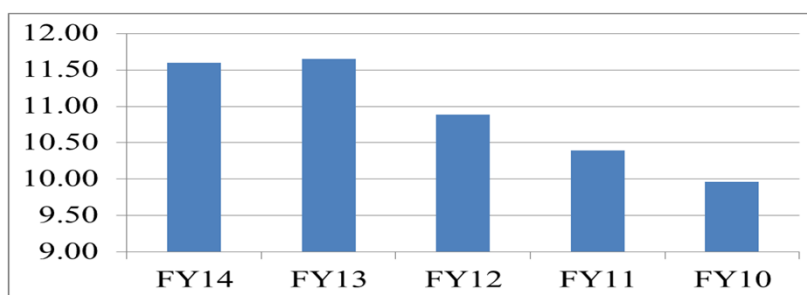
### Growth of some selected variables during FY10- FY14

Variables	Growth Rates				
	FY14	FY13	FY12	FY11	FY10
GDP at constant price (base 2005-06)	6.12	6.01	6.52	6.46	5.57
GDP at current price	12.68	13.62	15.22	14.83	13.12
<b>Total Revenue</b>	<b>12.17</b>	<b>21.57</b>	<b>20.70</b>	<b>19.77</b>	<b>14.89</b>
Current expenditure	13.99	14.01	27.62	14.76	15.29
Development expenditure (ADP)	14.57	27.48	14.49	25.89	23.91
<b>Total Budget</b>	<b>14.15</b>	<b>17.44</b>	<b>24.00</b>	<b>17.63</b>	<b>17.40</b>
Budget Deficit	19.71	7.21	33.03	12.18	24.36
Foreign assistance	8.03	44.94	18.60	-27.06	28.01
Domestic Borrowing	25.90	-5.77	38.84	43.22	21.61

Growth of revenue is not adequate, as a result either development spending is compromised or reliance on non-fiscal resources increases

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### Mobilization of Fiscal Revenue



Income tax, sales tax and VAT are elastic to their respective bases, import duty is inelastic (Ministry of Finance).

Government wants to (i) reach a tax-GDP ratio of 13% by 2016, (ii) provide exemplary customer service to all taxpayers by 2016 through a web-enabled tax administration starting from e-registration, e-filing of tax returns to e-payment and refund, and (iii) reduce tax pendency courts by 80% by 2016.

The major sources non-tax revenue has been BTRC, dividend and profits, and administrative fees. Growth of non-tax revenues has been sporadic and way smaller than the growth of tax revenue on average.

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## Mobilization of non-fiscal resources (1)

**Debt financing from domestic sources:** Not lack of assets but the weak management of the banking sector is a hindrance. According to Business Monitor International (BMI), the total banking sector assets as a share of the country's gross domestic product (GDP) have increased -- from 50 percent in 2001 to 80 percent in 2014.

Incidence of loan default, fraudulence, and practice of Pongi-game are the main problems, not the much-talked about 'crowding out effect' of public borrowing, calling for better management and economic intelligence.

**Debt financing from external sources:** About 20 private enterprises got approval of USD 936.30 million loans in 2011 which increased USD 1555.33 million (among 116 enterprises) in 2013. About 61% of them goes to telecom and power companies operating in domestic market.

It would be prudent to use external borrowing by export oriented firms so that they can repay it from the export earnings. The firms operating in the domestic market should be allowed to take dollar denominated credit only to pay their foreign contractors used in investment projects.

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## Mobilization of non-fiscal resources (2)

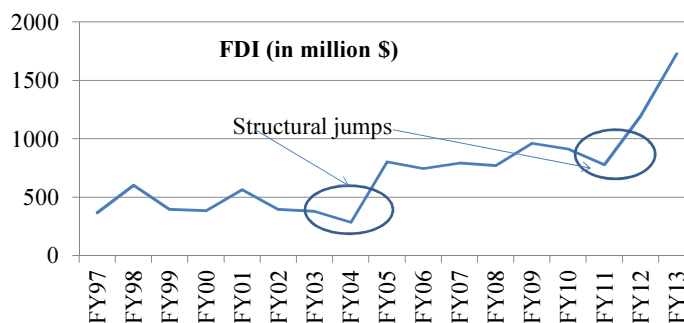
**Equity financing:** Equity financing is its nascent stage, only 307 firms participating (in FY 14). At present, dividend income is once taxed as part of the taxable profit and again as part of personal income. However, the interest payment is deducted from the gross profit.

In addition to this discriminatory policy, poor management of the stock market is another big problem.

Year	Total	Total (Cumulative) Issued Capital	Total issued capital within the year
1996-97	203	24.8	4.8
1997-98	213	26.7	1.9
1998-99	219	27.3	0.6
1999-00	229	29.5	2.2
2010-11	267	301.0	83.6
2011-12	279	384.1	83.1
2012-13	296	434.1	50.0
2013-14	307	482.6	48.5

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### Mobilization of non-fiscal resources (3)



**Inflow of FDI** is erratic, characterized by structural jumps. Composition was dominated by the equity capital in the initial years, but by reinvestment of profits in the later years.

Bangladesh needs a better marketing and publicizing strategy to attract the potential investors. The decades old incentive schemes and generic fiscal and non-fiscal supports are not working. Needs targeted measures to motivate one or two world famous giant company to invest in Bangladesh, which will allure the others to invest as well.

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### Mobilization of non-fiscal resources (4)

**Diaspora bond and securitization of remittances:** Large number of nonresident Bangladeshi citizens living in the western countries provides favorable ground for introducing diaspora bond.

Success of this bond would require (i) a strong marketing and publicizing campaign in some selected countries where the Bangladeshi Diaspora bond potentially has better prospect, (ii) the bond has to offered in low denomination, say of 50 US dollar, so that more people can buy it, (iii) it should be transferable, and (iv) it can be used as collateral in Bangladesh.

**Securitization of remittance:** Bangladesh being the 7<sup>th</sup> largest country in terms of receipt of remittance, can potentially benefit in obtaining credit from international capital market by using them as security at an affordable interest rate.

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## Mobilization of non-fiscal resources (4)

Government needs an example of successful **public and private partnership (PPP)**, which will boost the confidence of potential investors to collaborate with government. One much-talked about PPP initiative, elevated highway, has failed. Bangladesh cannot afford to have another failure like that, which will be a damper for the private sector to join in PPP. Therefore, instead of taking so many PPP initiatives, take a few for fast and efficient implementation.

The operational mechanisms and procedural guidelines should be worked out immediately. Legal and regulatory issues of PPP should be sorted out. A financial guideline should be formulated for the private sector.

A strong marketing and publicizing strategy needs to be pursued at home and abroad.

**Thank you**