

**A STUDY OF THE BANGLADESH BUDGET WITH SPECIAL
REFERENCE TO RESOURCE MOBILIZATION
THROUGH TAXATION
(1972-85)**

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A C K N O W L E D G E M E N T

Government budgeting and fiscal policy is one of the most exciting areas of political economy today. In recent years, fiscal systems throughout the world have been severely strained as governments have assumed more and more responsibilities for economic management, especially in the developing countries like Bangladesh where needs are the greatest and resources, the scarcest.

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ABBREVIATION

ADB	Annual Development Budget
ADP	Annual Development Programme
BADC	Bangladesh Agricultural Development Corporation
BB	Bangladesh Biman
BCIC	Bangladesh Chemical Industries Corporation
BESC	Bangladesh Engineering and Ship Building Corporation
BFR	Bangladesh Financial Rule
BFDC	Bangladesh Forest Development Corporation
BIWTC	Bangladesh Inland Water Transport Corporation
BJMC	Bangladesh Jute Mills Corporation
BPC	Bangladesh Petroleum Corporation
BSC	Bangladesh Shipping Corporation
BFSIC	Bangladesh Food and Sugar Industries Corporation
CAG	Comptroller and Accountant General
CAO	Chief Accounts Officer
CE	Committee of Estimates
CGA	Controller General of Account
CIPCC	Central Investment Promotion and Co-ordination Committee
CPA	Committee on Public Account
CPU	Committee on Public Undertaking
DPE	Departmental Project Evaluation Committee
EEA	External Economic Assistance
EPAL	East Pakistan Awami League
FDO	Financial Deligation Order
FFYP	First Five-Year Plan
GOB	Government of Bangladesh
GOI	Government of India
GOEP	Government of East Pakistan
GOP	Government of Pakistan
GRP	Gross Regional Product

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GFR	General Financial Rule
IDBP	Industrial Development Bank of Pakistan
IRDP	Integrated Rural Development Programme
NIT	National Investment Trust
NEC	National Economic Council
PP	Project Proforma
PEC	Project Evaluation Committee
PICIC	Pakistan Industrial Credit and Investment Corporation
RPP	Rules and Procedures of the Parliament
SFYP	Second Five-Year Plan
TYP	Two-Year Plan
VAT	Value Added Tax

Chapter 1

INTRODUCTION

1. Statement of the Problem

Budget-making, or for that matter fiscal policy in its wider sense, has come to be recognised as the most potent instrument of economic policy in modern times. Generally speaking, the annual budget serves as a barometer of the nation's financial health, a projection of the country's income and expenditure for the next twelve months and a tool for the management of the nation's fiscal affairs.

Prior to the 'Great Depression' of the 1930s, in the age of 'Laissez Faire', when the involvement of the government was considered undesirable in economic activities, the art of budget-making comprised only a few simple rules. At that time a popular slogan was that the most successful Finance Minister is one who keeps government expenditure low and consequently keeps taxes light. Government borrowing or deficit financing was taken to be a sign of weakness and had to be avoided at any cost except in national emergencies like war or some natural calamities. To be good, the budget had to be neutral.

But those days are past and changed partly as a result of experience gained and partly as a result of development of thought. It gradually came to be recognised that everything that was done by the government by way of raising resources and spending them had far-reaching implications for the economy.

The tasks of budget-making and its working thus involve a clear and penetrating analysis of all the diverse effects of measures taken by the government. And a conscious effort is made to combine these elements in such a manner that the budget as a whole serves the overall objectives of economic policy like (i) allocation (ii) distribution and (iii) stabilization.

In the developed capitalist countries the main objective of budgetary or fiscal policy has been to maintain economic stability. Economic development in these countries results mainly from the initiative of the private sector. There is a sizeable well-organised industrial sector as well as agricultural sector which has a built-in-system of saving and investment for growth and expansion and is responsive to market incentives with highly developed infrastructure. A large number of institutions have evolved which channel savings of the people to the productive sectors of the economy and income being high, high savings and investment take place automatically.

But for the less developed countries (LDCs) of which Bangladesh is selected in our study, the main problem is to face the 'vicious circle' of poverty and stagnation. These countries were by and large dependent territories or colonies and have gained independence only during the two decades following the end of World War II. The industrial and agricultural revolutions which changed the pattern of social, cultural and economic life in the developed capitalist countries were never experienced in the LDCs. Moreover, Bangladesh (former East Pakistan), as a part of Pakistan

freed from the British colonial administration in 1947, had to pass another 25 years under the colonial exploitation of West Pakistan till independence in 1971. In actual, the whole period of united Pakistan was based on the transfer of resources from East Pakistan to West Pakistan¹.

It is generally agreed that the transformation of a stagnant backward economy like Bangladesh to the stage of self-sustained growth is limited by a number of constraints of which two are stylized as the saving gap (popularly known as saving-investment gap) and the trade gap (popularly known as export-import gap). The former relates to the inadequacy of domestic saving in relation to the required volume of investment and the latter relates to the shortage of export earning in relation to import cost causing a deficit in the current account balance of payment².

Under the above circumstances what is needed for development above everything else, is the speeding up of the rate of capital formation in the economy. The main reason for stagnation in the economy is that the capital stock is just sufficient to produce an income which barely suffices to maintain current consumption and replacement of capital which is depreciating. There are under-employed and unemployed human resources along with known but undiscovered natural resources.

Admittedly, employment of labour and discovery of natural resources and their productive use need some tools and implements. Even the employed labour can produce much more if more advanced technology is used. This in turn requires more capital. More capital

can be created by larger savings of the people, which it may be difficult to generate for a poor country like Bangladesh and other LDCs characterized by the vicious circle of poverty.

Given the limited scope of generating private savings, it is in breaking this vicious circle that the government can play an important role through its budgetary measures. In other words, the immediate goal of economic policy is to break the stagnation of the economy and to set the forces of growth in motion. The task is, however, difficult and requires an all-out effort. What is needed above all, is that the government must play a positive role in achieving the ideal of a better standard of living for the masses and the budgetary policy of the government must reflect this effort.

A conscious effort can be made by the government in framing the budget to provide for investment in the public sector. What is essential is that the government can raise more resources by taxation, pricing of government enterprises or by borrowing, and spend less on current consumptions. Economic development sustained by the allocation of increased domestic resources for investment and the better pattern of resource use can bring about a fundamental change in the structure of the economy.

The underdeveloped as well as unorganised nature of both money and capital markets in the economies like Bangladesh makes it necessary that the government takes an active part in the mobilization of domestic savings. In what way the Bangladesh Government can and does raise resources we would discuss in the forthcoming pages of our study. For the present, it is important to realise

that budgetary policy explicitly aiming at raising government savings assumes a crucial importance in the mobilization of domestic resources to finance public investment. This should be the first criterion on which the budget of any underdeveloped country like Bangladesh must be judged.

However, the story does not end here. The development effort places certain additional burden on the administration of the country allowing some rise in what is popularly known as 'non-development' expenditure. More has to be spent for keeping accounts, auditing and maintaining the existing level of services including law and order.

In addition, where development programmes create services, recurring expenditure rises for their maintenance. When a school building & hospital is constructed, for example, teachers or doctors should be employed respectively whose salaries must be paid out of non-development funds. Last but not the least, when development programmes generate upward pressure on prices, the government finds it necessary at some stage to adjust the salaries of government employees.

So, it is not possible for the Finance Minister of a developing country like Bangladesh to check a rise in non-development expenditure without jeopardising the progress of development effort itself. Effort is continually made to check the rise in unnecessary current expenditure, and the principles of austerity is declared to follow from time to time, but some increase must be allowed in any case. Thus in budget-making while care has to be exercised to

avoid wasteful expenditure and to economise the cost of production, this has to be done without impairing administrative efficiency needed for running development programmes. This leaves the task of budget-making more or less confined to finding resources for financing investment.

Resources, of course, must be found, because the only alternative is deficit financing which is undesirable. The government can obtain resources not only by taxation and borrowing but also by creating new money, almost at will³. But the consequences of the latter method are generally far from happy causing inflation.

Secondly, higher prices, inter alia, raise the cost of the development programmes being implemented by the government. The government thus needs more money and may resort to more deficit financing resulting in a still higher rate of inflation. Again, the inflationary situation, redistributing income unfairly, discourages savings and whatever savings take place are diverted to speculative channels like black-marketing, smuggling, etc.

This is not to suggest that deficit financing is harmful under all circumstances. Within limits it may play a useful part. In budget-making, therefore, the approach to deficit financing may have to be rather cautious. However, the considerations on which deficit financing may be justified are not easily justifiable and do not lend themselves to precise measurement.

Given the limited scope for deficit financing in rational budget-making, the government must make a concerted effort to raise the level of its revenue and capital receipts. It may, however,

supplement domestic resources by borrowing from abroad or by obtaining outright grants. In any case, foreign assistance, while it can provide some relief, would not remove the necessity of raising resources internally.

Foreign assistance can at best meet the foreign exchange gap and in some cases to some extent the savings-investment gap. But a continual higher inflow of foreign aid in the LDCs like Bangladesh, as we shall see later, irrespective of their conditionality, to meet the savings gap and more seriously enough, to meet the deficit in the revenue budget, is not by any logic desirable. All these indicate a considerable scope for mobilization of domestic resources on the part of the government through budgetary measures.

In search of revenue, on the other hand, the government of an underdeveloped country like Bangladesh faces some dilemma. It needs more resources for financing development programmes. At the same time it finds it necessary to offer certain tax incentives which would encourage savings and investment in the private sector. Moreover, the absolute poverty of the people sets a limit to the level of taxation which can be considered practicable. It is often observed that the people who insist on higher development outlay and better social services from government, also criticize the government for raising more taxes and for the new tax proposals without an adequate appreciation of the financing aspect.

Another dilemma is that while increased taxation or severe austerity is politically unpopular, heavy dependence on foreign assistance is also not palatable to the politicians. For the former imposes sacrifices on current consumption and the latter restricts the freedom of action in domestic as well as international policies. But the objective conditions of the LDCs like Bangladesh, such as low level of social services, unsuitable infrastructure, rising trend of population, etc., always demand a higher development expenditure. The policy makers thus are always faced with the difficult choice in this respect which involves a 'wide range of complex and interrelated political and economic considerations'⁴.

As a matter of fact, the budget can never be wholly satisfactory to all the segments of the society, as it involves a compromise of various objectives. It is inconceivable to have all the four things simultaneously: more development, less taxes, reduced dependence on foreign aid and no deficit financing. This is why it is necessary to view the budget as a whole. Viewing it in parts one may be led into a wholly irrational and self-contradictory view. Bearing all these into mind, the budget and its effectiveness in mobilizing resources internally in a developing country like Bangladesh is to be evaluated.

2. Purpose and Hypothesis of the Study

In the light of the above statement the main purpose of the proposed study is to analyse the working of the Bangladesh Budget and to evaluate the effectiveness of various budgetary measures in the way of domestic resource mobilization from 1972 to 1985.

Although the working of the Bangladesh Budget remains the main focus of our study, it is worth noting at the beginning that mobilization of internal resources for financing public investment is the most relevant task of budget-making in Bangladesh.

This study is not to engage in a theoretical discussion, rather it attempts a brief analysis of the revenue receipts, revenue expenditure, capital receipts and capital expenditure of the Bangladesh Budget during the period under study with the help of available data. Before doing so, we like to introduce the nature and extent of economic exploitation before independence (Pakistan period 1947-71) and economic conditions of Bangladesh just after liberation along with the system of government budgeting in practice in Bangladesh. Finally, we like to view the overall budgetary position of the Government of Bangladesh (GOB) and the performance of budgetary measures especially taxation towards mobilization of domestic resources over the years.

It should, however, be noted here, that the beginning of Bangladesh was not promising enough. In 1971, she inherited a poor and undiversified economy, characterised by underdeveloped infrastructure, stagnant agriculture, low industrial base and a rapidly growing population. She had, as noted earlier, suffered from years of colonial exploitation and missed opportunities with debilitating effects on initiative and enterprise. Superimposed on all these were, the effects of the war of liberation which caused serious damage to the physical and organisational apparatus and disruption in established external trading relations.

Throwing light on the economic position of Bangladesh of that period Mr. Tazuddin Ahmed, the first Finance Minister of Bangladesh, in his first budget speech pointed out that the new Government inherited a paralysed and bankrupt economy after a nine-month war of liberation. The new Government had to start almost from zero, for there was neither any revenue nor any foreign exchange in the coffers⁵. Considering the economic condition of Bangladesh in the early seventies Just Falland (World Bank) and J.R. Parkinson (IBRD) termed Bangladesh as the 'Test Case of Development'⁶. For, if the extremely difficult problems of Bangladesh could be solved, the problems of other IDCs could also be solved.

The starting point from which economic development of Bangladesh was attempted was not promising enough — income per head was estimated at US \$ 70 only in 1972⁷. In the UN General Assembly Report, 1975, Bangladesh has been termed as one of the 28 'Less Developed Countries' of the world with the following characteristics:

- a) predominance of backward agriculture,
- b) undeveloped industrial sectors,
- c) heavy dependence on foreign assistance, and
- d) over-population with a very low per capita income.

Most of these would not matter if Bangladesh were rich in natural resources and under-populated. Moreover, she suffered from the almost routine-wise onslaught of natural calamities like flood, cyclone, droughts, etc. which unpredictably caused great damages to life and property every year. As has been said, "Nature, not man, is in charge of the situation in Bangladesh"⁸.

The Bangladesh economy grew only at the rate of about 6 per cent during the First Five-Year Plan (1973-78), declining to the rate of about 3.5 per cent and 3.8 per cent during the Two-Year Plan (1978-80) and the Second Five-Year Plan (1980-85) respectively. During the period between 1972-73 and 1984-85 gross investment and saving on an average were about 15 per cent and 4 per cent of the GDP respectively, reflecting a saving-investment gap of about 11 per cent on an average, which, however, was to be filled up by foreign assistance⁹. This will be easily understood from the macro-economic changes in the economy in different plan periods as shown in Table 1.

Table 1
Macro-Economic Changes in the Economy of
Bangladesh
(1973-85)

Macro Indicators	First Plan (1973-78)	Two-Year Plan (1978-80)	Second Plan (1980-85)
i) GDP Growth (%)	6.1	3.5	3.8
ii) Export Growth (%)	1.8	-3.2	4.9
iii) Import Growth (%)	0.5	12.3	4.5
iv) Foreign Aid Growth (%)	-2.1	2.3	3.3
v) Investment as a % of GDP (Terminal Year)	13.5	15.9	17.3
vi) Saving as a % of GDP (Terminal Year)	4.6	4.2	4.2
vii) Tax-GDP Ratio (Terminal Year)	7.5	8.0	8.2

Source: The Third Five-Year Plan (1985-90), Planning Commission, GOB, Chapter 1, p. 5.

The ratio of savings to the GDP is very low in Bangladesh. The savings ratio which was 4.5% in 1972-73 improved slightly to 4.6% in the terminal year of the First Plan Period (1973-78), but declined to 4.2% during the Two-Year Plan (1978-80) and remained stable by the end of the Second Plan Period (1980-85) against the target of 7.4%¹⁰. Even compared with the other low-income Asian Developing Countries, the savings-GDP ratio in Bangladesh is pitifully low as shown in Table 2.

Table 2
Savings Ratios of Some Asian Countries

Country	Savings as Percent of the GDP
Bangladesh (1984-85)*	4.2
Pakistan	5.0
Nepal	12.0
Sri Lanka	13.0
Philippines	13.0
Burma	14.0
Thailand	21.0
India	21.0

Source : World Bank, Bangladesh: Promoting Higher Growth and Human Resource Development, March, 1987.

* The Third Five-Year Plan (1985-90), Planning Commission, GOB, Chapter 1, p. 5.

It is thus clear that the low savings-GDP ratio and hence the saving gap has been the dominant and binding feature in Bangladesh, which is, however, enough to convince one of the necessity of increasing domestic resource mobilization efforts. And this renders

the present study highly significant. Furthermore, this leads us to the hypothesis that the Government of Bangladesh failed to mobilize adequate resources internally through budgetary measures needed for financing development programmes and this virtually made Bangladesh an aid-dependent nation over time.

No doubt, the GOB attempted to raise government saving from time to time¹¹. How to generate resources was the key question to the policy makers from the beginning. Despite the fact that Bangladesh was a country of great poverty, she had some pockets of generating surplus which could be mobilized for investment. Of these, agricultural surplus, trading profits, and industrial profits were the most important potential sources of capital accumulation.

But the path was, however, not prime rose-strewn. The 'interplay of economics and politics' and the 'competing claims of divergent pressure groups' and 'interest groups'¹² drastically limited the scope of generating further resources from the said sources. Thus as shown in Table 1 the Tax-GDP ratio which was 7.5% at the terminal year of the First Plan improved slightly to 8.0% at the end of the Two-Year Plan with a marginal positive change at the end of the Second Five-Year Plan, which is low as compared to the South Asian as well as other LDCs of the world.

Since liberation, the affluent farmers, traders, merchants, small scale entrepreneurs and industrial trade unions appeared at the most powerful interest and pressure groups in Bangladesh. They played a preeminent role in the economic life of the country and in the political process as well. The members of public services,

including the army, the professionals and the intelligentsia were almost all drawn from these interest groups. Naturally, the political leadership both in power and in opposition was the representative of these interest groups¹³.

The pressure of the affluent farmers was reflected in the fact that land revenue on holdings upto 8.3 acres in size (which was quite a high limit considering the high population pressure in Bangladesh) was abolished and the collection of agricultural income tax was postponed for a period of two years after 1973¹⁴. In addition, the agricultural inputs were highly subsidised which mainly benefited the big farmers but decreased government resources. In fact, the big farmers were the 'vote brokers' and the 'key figures' in the rural support base of the ruling as well as the opposition parties of 'all complexions of right and left'¹⁵. Thus there was little scope to extract surplus from them through fiscal instruments or pricing policy by the ruling authority and, in fact, the state itself became a source of subsidy to this class.

In the trading sector again, high profits earned by the merchantile class were not possible to tax adequately for it was contended that higher taxes would push prices further up. The small scale industrialists, on the other hand, enjoyed the facilities of 'tax holidays', tax exemptions, low tariff, etc., instead of sacrificing any surplus to the government.

Thus the big farmers, the traders and the industrialists guided by their vested interests were not as yet ready to accept any increase in the burden of taxation or surrender the benefits of subsidy.

The performance of the nationalised sector, on the other hand, was far from satisfactory. This sector suffered losses or earned very low profits for various reasons, particularly for managerial and organisational deficiencies, among others¹⁶. The industrial workers, on the other hand, did obtain high wages partly on the initiative of the government and partly through collective bargaining. In addition, subsidies on food-grains distributed under the rationing system to the urban population, including all categories of public servants, public sector employees and industrial workers, irrespective of their incomes further compounded the difficulty of mobilising resources internally for investment.

Non-development expenditure, on the other hand, has continued to grow at an accelerated pace ever since 1972-73 and the rate does not seem to have settled down. Bangladesh is continually suffering from a top-heavy bureaucratic administration. Besides, Bangladesh like other LDCs suffers from obstacles like, 'bad planning and bad administration', 'conspicuous prestige expenditure' to show the greatness of the new state in comparison with its neighbours, 'corruption', 'lack of democracy' in its true sense, 'high population growth rate' and 'disillusion and disappointment'¹⁷.

Last but not the least, it is useful to note that Bangladesh never experienced political stability during the period under study. The years since 1971 have been a period with different styles of government with different ideologies. The brutal assassination of President Shiek Mozibur Rahman in August 14, 1975 and the subsequent coups and counter-coups on November 3 and 7 (1975) and once again

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in May, 1981 the murder of President Ziaur Rahman — these are some instances of political instability in the country¹⁸. These had grave and unpredictable effects on the economy.

Thus the disaster-prone economy, low per capita income and pressure of various competing interest groups in favour of tax exemption along with high non-development expenditure, weak administration, defective policies, corruption and tax evasion basically limited the scope of working of the Bangladesh Budget and the effectiveness of fiscal instruments in the way of raising resources for financing development programmes. Under these circumstances with no surplus available for financing investment within the prevailing system, the dependency on foreign aid was 'built into the inheritance of Bangladesh'¹⁹. And over the years foreign assistance became 'an integral prop' of budget-making to the government, 'militating against any pressure to generate internal resources'²⁰.

3. A Brief Review of the Existing Literature and the Importance of the Present Study

There is a study relating to the Bangladesh Budget by G. Hossain (1978) wherein the origin, evolution and development of the Bangladesh Budget are shown. The studies of M. Hossain (1982) and G. Kibria (1976) have shown the system of national accounts, budgetary procedures, methods of approval and their implications in Bangladesh. Another study by S.U. Patwari (1985) has shown the financial administration of Bangladesh.

But these studies are concerned mainly with the theoretical and technical aspects of the Bangladesh Budget and none of them

viewed the budget in relation to the problem of internal resource mobilization in Bangladesh. M. Hossain (1987), however, apart from delineating the system of government budgeting in Bangladesh has tried to explain the problem of resource mobilization.

There are some excellent research papers of which M. Hossain and O.H. Chowdhuri (1988), O.H. Chowdhuri (1986, 1988) and A. Rahman (1985) are noteworthy. These works tried to explain the problem of resource generation by pointing out the inadequacies and problems of tax and revenue structure of the Bangladesh Budget. Another research work by M. Hossain, A. Rahman and M.M. AKas (1985) signified the problem of raising additional revenue from the agricultural sector. Almost all of these works are, however, policy-oriented in nature.

As far as our knowledge go, almost all the studies viewed the Bangladesh Budget partly, taking its tax revenue receipts portion only. But viewing the budget partly may mislead one into a wholly irrational and self-contradictory view. In fact, without considering both the non-development expenditure, and capital or development expenditure sides of the budget, it is not wise to throw any conclusion in this field.

So, there remains an analytical gap in this field and in our study we have made an attempt to fill up this gap by viewing the Bangladesh Budget as a whole. We thus humbly hope that this study will add something new to the existing literature on the subject. At the same time we also believe that when everything is done and said, there always remains a scope for further research and study in this field.

4. Methodology and Data Used in the Study

The methodology of simple statistical tabular form of data processing is used in this study. We selected the period from 1972 to 1985, not because of any desirable statistical property but because of the fact that this period covers about one and a half decades, three plan periods and more significantly this period represents ideologically two different types of government. Compound growth rates and percentage rates are used to show the changes and order of magnitude. Other statistical tools are also used. In the case of different plan periods yearly averages are used. In some cases, officially arranged fiscal data under major and minor heads are rearranged on priority basis and also for the sake of analytical simplicity.

This study is necessarily based on secondary data. Fiscal data like revenue receipts, revenue expenditure, capital receipts and capital expenditure are available from the Ministry of Finance, GOB, National Bureau of Revenue (NBR) and Planning Commission, GOB. Other government sources of fiscal data are Bangladesh Bureau of Statistics (BBS), Fiscal Statistics, Statistical Year Book (SYB), Bangladesh Bank, etc. Computed and processed data are also used from the publications of the World Bank, the IMF, the Bangladesh Institute of Development Studies (BIDS), etc., where needed.

The annual publications of the Economic Advisory Wing, Finance Division, Ministry of Finance, GOB, like Economic Survey of Bangladesh, Economic Analysis of Budget, Budget in Brief, etc., are mostly exploited as data sources. The most comprehensive data

relating to aid to Bangladesh are available in the Flow of External Resources, an annual publication of the 'Economic Relations Division' (ERD), formerly known as External Resource Division, Ministry of Finance, GOB. Beyond these basic sources of statistical data a variety of other government publications, recognised academic journals, books and research findings have been drawn upon with due acknowledgement.

Problems of working with secondary data, specially government data, may perhaps have been commonly felt by all research workers. In Bangladesh statistics are liable to wide margins of errors. Poor processing, incorrect and inadequate recording and lack of uniformity in the process of data recording make it all the more difficult to work with the government data. Even in different publications of the same government office, conflicting fiscal figures are found. We, therefore, note that figures from different tables may not be comparable if they are from different sources. In this study we have made a cautious effort to exclude all such misleading and unreliable figures as far as practicable.

NOTES AND REFERENCES

1. The highly segmented economic growth in favour of West Pakistan at the cost of East Pakistan caused disintegration of united Pakistan and the birth of a new state 'Bangladesh', after a successful 'National Liberation Movement' in 1971. See for details Emajuddin Ahmed, Bureaucratic Elites in Segmented Economic Growth : Bangladesh and Pakistan, University Press Limited (UPL), Dhaka, 1980.
2. In this study, we are not, however, concerned with trade gap but savings gap only.
3. Technically, in modern times, the government does not directly create money by printing notes. It simply borrows from the central bank, with which lies the monopoly of printing new notes.
4. See Nurul Islam, Development Planning in Bangladesh: A Study in Political Economy, UPL, Dhaka, 1979, p. 180.
5. See Tajuddin Ahmed, The Budget Speech, 1972-73, Ministry of Finance, Government of Bangladesh (GOB), Dhaka, 30th June, 1972, p. 6.
6. See J. Falland and J.R. Parkinson, Bangladesh : The Test Case of Development, C. Hurst and Company, London, 1976, p. 6.
7. World Bank, Bangladesh : Development in a Rural Economy, Report No. 455b-BD, September, 1974.
8. See J. Falland and J.R. Parkinson (1976), p. 1.
9. The Third Five-Year Plan (1985-90), Planning Commission, GOB, Chapter 1, pp. 1-8.
10. Ibid, Chapter 1, p. 9.
11. This study is not concerned with private savings but government savings only.
12. See for details, Nurul Islam (1979), pp. 1-17.
13. Ibid, p. 3.

14. Ibid., p. 195.
15. See Rehman Sobhan, The Crisis of External Dependence: The Political Economy of Foreign Aid to Bangladesh, University Press Ltd., Dhaka, 1982, p. 3.
16. See for details, Rehman Sobhan and Muzaffar Ahmed, Public Enterprise in an Intermediate Regime : A Study in the Political Economy of Bangladesh, BILS, Dhaka, 1980, Chapters 14 and 15. Also see The Second Five-Year Plan 1980-85, Planning Commission, GOB, Chapter IV, p. 2.
17. See Adrean Moyers, and Teresa Hayter, World III : A Hand Book on Developing Countries, Overseas Development Institute (ODI), London, 1964, p. XV.
18. See Raunog Jahan, Bangladesh Politics : Problems and Issues, UPL, Dhaka, 1980, p. 197.
19. See Rehman Sobhan (1982), p. 6.
20. Ibid, p. 8.

Chapter 2

EMERGENCE OF BANGLADESH AND ITS ECONOMY AT THE BEGINNING

1. Introduction

The disintegration of Pakistan and the birth of a new sovereign state, Bangladesh, was one of the traumatic events of 1971 in the history of the political world. The birth of Bangladesh was 'unique' in the sense that it emerged out of a successful national liberation movement waged against 'internal colonialism'¹.

In 1947, the British left India, and Pakistan was created as an independent state following the 'Indian Independent Act, 1947' passed in the British Parliament. The new nation Pakistan was composed of two wings, West Pakistan, then centered round Karachi, and East Pakistan (now Bangladesh) centered round Dhaka. Since 1947, East Pakistan had passed her 25 years with the union of Pakistan. But within this 25 years there was no new radical change in the economic life of the mass of the inhabitants of East Pakistan. In the words of Just Fallano and J.R. Parkinson, "Their way of life is still much as it was a century or even two ago"².

The Bengali economists termed this period as a 'time of economic exploitation, in fact, a second colonial era' after British. The economic growth that had taken place in Pakistan, actually benefitted West Pakistan at the cost of East Pakistan which became gradually poorer in the process of development. In other words, West Pakistan marched two steps forward while East Pakistan marched two steps backward during the 25 years of Pakistani

colonial rule.

This chapter is so designed as to enable one to know the nature of the evolution of the civil-military bureaucracy in the power structure of Pakistan (Section 2), the extent of economic exploitation of East Pakistan by West Pakistan and the transfer of resources from East Pakistan to West Pakistan by various direct and indirect methods (Section 3), which following the provincial autonomy movement ultimately led to the disintegration of Pakistan and the emergence of the new state of Bangladesh (Section 4). This picture of economic exploitation, along with the war-time damages will enable one to understand the actual economic condition of Bangladesh just after the liberation movement was over (Section 5).

2. Emergence of Civil-Military Bureaucratic Elite and Bengali Participation in the State Power of Pakistan

a) Emergence of Civil-Military Bureaucracy

The new nation of Pakistan, as viewed by the political thinkers, was not ruled by the political leaders but by the civil-military bureaucracy from the very beginning. The bureaucratic elite in Pakistan had been 'in effective command of the State Power' right from the beginning. They functioned with a 'parliamentary facade of politicians', in the early 1950s, but in 1958 they 'openly seized power' following a military coup, which they had been exercising in practice since 1947³.

The fact that the bureaucratic elite played a dominant role in the power structure of Pakistan as well as in the policy-making agencies, was due partly to historical and partly to social dynamics.

History tells us that the bureaucracy was the chief instrument of control and domination in British India. Its control over the government and its monopoly power of decision-making was a prominent feature of the British colonial rule⁴. After partition, Pakistan as a post-colonial state 'just inherited an over-developed state apparatus and its institutionalised practices'⁵, and the bureaucratic elite in Pakistan inherited the 'attitude' and 'orientations' of their predecessors⁶. According to Aungus Maddison, "The political and administrative system that was instituted in Pakistan was very much similar to that which functioned in Colonial India — 'a highly centralised and unitary system conducted by the bureaucrats' — Pakistan unlike India, copied the British Colonial apparatus and not the 'White Hall Democracy' "⁷.

The fact that the bureaucratic elite began to dominate the State Power, was due partly to the 'oligarchic' nature of the political leaders who came to power in Pakistan after partition. They had very little people's support in the society. The historical reason was that many of the leading politicians in Muslim League (Party in power in Pakistan after partition) had just migrated from India, particularly from the North-Western part of India. As a result, they virtually lost their earlier political constituencies and were reluctant to face any general election from new constituencies for fear of losing power⁸. Practically, the political leaders could not base their authority on 'popular will' within a democratic framework.

But soon the opposition grew up against the oligarchic rule of the central leaders from the different regional leaders. This

made them more furious and to counter opposition or 'in their bid to stay in power', the political elites framed an 'working alliance'⁹ with the civil bureaucrats — an alliance which dominated in the later years, specially after 1954 till the disintegration of Pakistan¹⁰.

Thus the slow pace of political development in the early years of Pakistan created opportunities for the civil arena. The more ambitious and cunning of them took advantage of the situation and came to occupy high policy-making positions. They wanted at best, as Mian Iftakharuddin put it in the Constituent Assembly as an 'administratively controlled democracy' as against a 'democratically controlled administration'¹¹.

The military officers like the civil bureaucratic elites also became more powerful soon after partition. The necessity of a strong defence force arose because of continued hostility with India over Kashmir and a subsequent war with India. Besides, in many internal affairs, the Army played a critical role during the 1950s, facing which the civil government failed. The Army was called several times to tackle some extraordinary situations such as the 'Lahore Riots' of 1953, the 'Industrial Riots' in East Pakistan of 1954 and the large-scale smuggling in East Pakistan during 1957-58. And through their participation in day to day administration, the Army gradually 'sensitized' into national politics. The officers themselves thought that they were very essential for the 'existence of Pakistan' and it was felt that 'only the Army saved Pakistan from being wiped off the map of the world'¹².

And finally, following this path the Pakistan Army, taking the advantage of political instability of the country during the mid-and ~~the~~ late fifties¹³, took over state power under the leadership of General Ayub Khan (the then Commander-in-Chief) on the 8th October, 1958. Thus within a decade after partition, the fate of the people of Pakistan was chained with the framework of a civil-military bureaucratic rule, which continued upto the last days of united Pakistan. The character of this rule has been aptly summarised by K.B. Sayeed as, 'a partnership between the Army and the civil service'¹⁴.

b) Bengali (East Pakistani) Participation in the Civil-Military Bureaucratic Elite Groups

In the power structure of the Central Government as well as in other key posts of Pakistan, there were an imbalance in respect of regional representation between East and West Pakistan. Politically, it is useful to recall that the main leadership of the Muslim League at the time of partition was in the hands of the non-Bengalis. And in the first decade following independence, Bengali participation in the national politics was limited¹⁵. The civil-military bureaucrats who were the ultimate policy-makers in Pakistan, were mostly the West Pakistanis, especially the Punjabis. Consequently, Bengali participation in the governmental higher posts was meagre¹⁶. A study by Ralph Braibanti, however, viewed that the poor representation of East Pakistan in the central elite service of Pakistan was the result more of historical forces than the machination of any particular regional clique¹⁷.

Historically, before partition Bengali Muslims were generally poor peasants, ruled by the Hindu Zamindars, who never tried to change the way of their life. Naturally, the Bengali Muslims in East Bengal remained backward both economically and educationally. But the Muslims of North-Western India, on the other hand, were comparatively more developed, who mostly migrated to West Pakistan. And especially the Punjabis had a long tradition of bureaucratic participation in British India¹⁸. Thus at the time of partition, only two of the 95 Muslim ICS-IPS (Indian Civil Service - Indian Police Service) officers who opted for Pakistan, were from East Pakistan¹⁹. About half of them came from other parts of India and fully one-third came from the former Punjab. As a result, the high officials in East Pakistan in the Districts, Divisions, Sub-Divisions and the Secretariat were almost all either from the former Punjab or from the other parts of India who culturally and linguistically were more akin to West Pakistan.

Thus Table 1 shows that the representation in the civil service of Pakistan from East Pakistan was very low both in absolute and percentage terms. But it should be noted here that to increase Bengali representation in the higher Civil Service of Pakistan (CSP), post-independence recruitment policy was geared through an introduction of quota system²⁰. As a result, a considerable increase of East Pakistani representation in the CSP during the late 1950s and the whole of the 1960s, as shown in Table 1 had been recorded. But nonetheless, the initial lag resulted in a continuing gap between the participation of the two wings.

Table 1
East-West Representation in the CSP (1948-1968)

Year	No. of CSP Officers	East Pakistan		West Pakistan	
		No.	% of total	No.	% of total
1948	18	2	11.1	16	88.9
1949	20	9	45.0	11	55.0
1950	11	4	36.4	7	63.6
1951	17	5	29.4	12	70.6
1952	13	3	23.0	10	77.0
1953	25	7	28.0	18	72.0
1954	17	5	29.4	12	70.6
1955	21	11	52.4	10	47.6
1956	20	7	35.0	13	65.0
1957	24	10	41.7	14	58.3
1958	25	12	48.0	13	52.0
1959	30	10	33.3	20	66.7
1960	28	11	39.2	17	60.8
1961	27	12	44.5	15	55.5
1962	28	13	46.5	15	53.5
1963	31	13	41.9	18	58.1
1964	33	14	42.2	17	57.8
1955	30	15	50.0	15	50.0
1966	30	14	46.7	16	53.3
1967	20	13	65.0	7	35.0
1968	20	11	55.0	9	45.0

Note: Army Officers who joined the civil service are not in this list and all of 14 Army Officers were from West Pakistan.

Source : Compiled from Establishment Division, Civil List of the Class I Officers Serving Under The GOP, 1948 to 1969: Gradation List of CSP, GOP.

One of the most common complaints of the Bengali civil servants was that whatever Bengali representation existed in the central secretariat was in the lower echelons or the Bengalis were posted in the departments which did not influence the 'vital areas of national policy'. The bulk of the Bengali representation in the Central Secretariat was mainly at the Section Officer or Deputy Secretary level as shown in Table 2.

Table 2

Secretaries and Other Key Posts in the Central Secretariat of Pakistan (1956)

Sl. N.	Rank	Number	East Pakistan	West Pakistan
1.	Secretary	19	Nil	19
2.	Joint Secretary	41	3	38
3.	Deputy Secretary	133	10	123
4.	Under Secretary	548	38	510
Total		741	51	690

Source : Constituent Assembly of Pakistan, Debates,
January 1, 1956, Vol. 1, No. 52, pp. 1843-44.

But the most striking fact was that the East wing had to wait for about 15 years for a post of Secretary in the Central Secretariat. Thus in 1964, there were only two Secretaries from East Pakistan at the Centre (one in the National Assembly Secretariat, the other as the acting Secretary in the Planning Department). And there were only 5 Joint Secretaries from East Pakistan (two in Law, one in National Assembly, one in Food and one in Health)²¹. In 1966, there were 4 Secretaries from East Pakistan

at the Centre (Education, Law, National Assembly and one as acting Secretary in the Planning Department) and 7 Joint Secretaries (Finance, Food, Law, the National Assembly, Health, Natural Resources and Chief Controller of Import and Export who was given the status of a Central Joint Secretary)²².

But here again, the East Pakistanis were never posted in the key posts like Secretary of Establishment, Finance, Home Affairs, Defence, Economic Affairs and Commerce and Industries. Likewise, the post of Deputy Chairman of the Planning Commission with the status of a central minister as one of the key-decision makers, specially during the Ayub regime was never occupied by an East Pakistani²³.

It was believed that there were three types of central policy-making institutions in Pakistan, specially in the Ayub regime. These were:-

- 1) Commissions of Enquiry,
- ii) The Central Secretariat, and
- iii) The Public Corporations.

Like the Central Secretariat, as we have noted earlier, so far, Bengali participation in Enquiry Commissions and Public Corporations was minimal. Thus out of 280 members of the thirty three (33) major commissions of enquiry, there were only 75 from East Pakistan²⁴. Similarly, among the members of the boards of directors of the 13 (thirteen) central corporations, there were 87 from West Pakistan as opposed to 17 from East Pakistan²⁵. The fact that makes the matter worst, was that of the 13 Public Corporation Presidents in 1966, there was only one from East Pakistan²⁶. Thus the complaints

of the Bengalis that they were not posted in higher posts appeared to be justified.

Even among the Class I Officers of various divisions in the Central Secretariat as shown in Table 3, the Bengali participation was very low over the years 1963-1966. And this gap between the East-West representation continued upto the last days of the Pakistan period in some divisions, though a considerable increase of Bengali participation (Appendix A) is recorded in some other divisions during the late sixties.

Table 3

East-west Representation Among Class I Officers in Divisions of the Central Secretariat of Pakistan

Division	1963		1964		1966	
	East	West	East	West	East	West
Cabinet	3	23	4	20	5	21
Establishment	8	28	9	27	10	27
Planning	13	44	17	46	19	61
Economic Affairs	6	39	9	40	11	36
Defence	1	38	6	35	4	38
Industry	4	22	7	19	8	14
Home	4	32	3	30	3	26
Education	5	25	6	22	6	21
Health	3	16	5	10	8	16
Foreign Affairs	13	83	14	94	18	50
Finance	21	91	20	106	27	107
Finance (Military)	-	-	1	37	3	34
Agriculture	6	50	4	37	5	35
Commerce	12	40	11	42	22	34

Source: Civil List of Class I Officers Serving Under the GOP Establishment Division, GOP, 1st January, 1963, 1964, 1966.

The story does not end here. The situation further worsened by the fact that in 1960, even in the Secretariat of East Pakistan, the Chief-Secretary and the Secretaries of Planning and Development, Food and Agriculture, Works and Housing had been from West Pakistan.²⁷ And despite the adoption of a policy of posting East Pakistani civil servants in East Pakistan in 1961, the Chief-Secretary and the Secretary of Agriculture were from West Pakistan in 1967-68²⁸.

During the Ayub regime, however, some measures were taken to increase the East Pakistani representation. For example, the post of the Chief Controller of Imports and Exports was held by East Pakistanis since 1963 and the posts of Deputy Secretary of Cabinet and Establishment Division were invariably held by East Pakistanis after 1962. The head of Industrial Development Bank of Pakistan (IDBP) and State Bank of Pakistan were also from East Pakistan. But nonetheless, there was a common belief among the Bengali civil servants as well as other 'intelligentsias' that these posts were granted to those who were 'acceptable' to the power dominated by the West Pakistanis. And those who failed to serve the 'Authorities' interests were 'squeezed out' or transferred to 'penal' posts²⁹. Thus the remaining chosen were satired as 'official show boys' having no effective power.

In the case of Army, the Bengalis had in fact, no representation among the decision making top-ranking military officers. All the top-ranking officers came from West Pakistan. Table 4 shows that upto 1956, there were no General, Lieutenant-General, Brigadiers

and Colonels from East Pakistan, except only one Major-General, 2 Lieutenant-Colonels and 10 Majors.

Table 4

East-West Representation in the Army Officers of
Pakistan (1956)

Rank	East Pakistan	West Pakistan
General	0 (Nil)	1 (One)
Lieutenant-General	0 (Nil)	3 (Three)
Major-General	1 (One)	20 (Twenty)
Brigadier	0 (Nil)	35 (Thirty five)
Colonel	0 (Nil)	50 (Fifty)
Lieutenant-Colonel	2 (Two)	198 (One hundred ninety eight)
Major	10 (Ten)	590 (Five hundred ninety)

Source : Constituent Assembly of Pakistan Debates,
January 17, 1956.

A statistical estimate as in Table 5, shows that upto January 1955, out of 908 Army Officers, there were only 14 from East Pakistan. And out of 600 Navy Officers and 700 Air Force Officers, there were only 7 and 60 Officers respectively from East Pakistan.

Table 5
Military Elite in Pakistan (1955)

Service	East Pakistan	West Pakistan	Total
Army	14	894	908
Navy	7	593	600
Air Force	60	640	700

Source : Raunoq Jahan, Pakistan : Failure in National Integration, Oxford University Press, Bangladesh, 1973, Table 11.9, p. 25.

The low representation of East Pakistani Bengalis in the Armed forces of Pakistan was partly due to historical reasons during the first few years after partition and mostly due to the regional cliques. The Pakistan Army from the beginning after the partition, followed the British policy of recruiting army personnel from the so-called 'Martial Races' of West Pakistan, specially from four districts of the Northern Punjab — Rawalpindi, Compbellpur, Jhelum and Gujrat, and two districts of the North-West Frontier Province — Peshwar and Kohat³⁰. This policy of recruitment had the effect of almost completely excluding the Bengalis from the Army. Thus even after 18 years of partition in 1963-64, East Pakistan's representation on the whole did not exceed on an average 10 to 15 percent of the total officers and other ranks as shown in Table 6. And the above imbalance remained more or less invariable upto the last days of Pakistan.

Table 6
East Pakistan's Representation in the Armed
Forces of Pakistan (1964)

Service (Ranks)	East Pakistan's Representation (Percent of Total)
A. The Army	
1) Officers	5.0
2) Junior Commissioned Ranks	7.4
3) Other Ranks	7.4
B. The Air Force	
1) Officers	16.0
2) Warrant Officers	17.0
3) Other Ranks	30.0
C. The Navy	
1) Officers	10.0
2) Branch Officers	5.0
3) Chief Petty Officers	10.4
4) Petty Officers	17.3
5) Leading Seamen and below	28.8

Source : Hassan Askari Rizvi, The Military and Politics in Pakistan, Progressive Publishers, Lahore, 1974, p. 177.

It is, therefore, clear from the above analysis that a very large majority of the civil-military bureaucratic elite, who were dominant in policy making and policy implementation, were recruited from West Pakistan. Naturally, they (west Pakistanis) exercised a great influence both at the policy making and policy implementing levels in favour of West Pakistan. Here lies the root of economic exploitation of East Pakistan by West Pakistan. For, there were

sound reasons, examined below, as to believe that the Pakistani civil servants were often influenced by regional considerations in decision making³¹.

3. Exploitations of East Pakistan by West Pakistan: Economic Disparities Between East and West Pakistan

The nature and extent of economic exploitation as well as economic disparity between the two wings of Pakistan are, however, complex and debatable³². But there is little doubt that the economy of East Pakistan was relatively stagnant compared to that of West Pakistan during the whole period of united Pakistan specially during the first decade of the period. All the available data indicate that the initial economic gap which existed between the two wings in 1947-48 increased substantially over the years.

Historically, inspite of many other differences, at the time of partition, the two wings of Pakistan were economically more or less similar, with a slightly higher per capita income in West Pakistan. Both the wings were industrially underdeveloped and had been the producers of agricultural raw goods like jute (East wing) and cotton (West wing). Again, the two wings were industrially more or less of the same size at the time of partition³³.

But the 25 years of Pakistani colonial rule, based on transfer of resources from East wing to West wing widened the initial small gap that existed between the two wings very rapidly. Thus Table 7 shows that Gross Regional Product (GRP) of East Pakistan increased from Rs. 12,360 million in 1949-50 to Rs. 14,945 million in 1959-60 and Rs. 23,119 million in 1969-70. But the GRP of West Pakistan, on the other hand, increased from 12,106 million in

1949-50 to Rs. 16,494 million in 1959-60 and to Rs. 31,157 million in 1969-70. The average annual growth rate in East Pakistan was 2.0 percent and 5.4 percent in the first and the second decade respectively. Compared to this, the annual growth rate in West Pakistan was 3.6 percent and 7.8 percent in the first and the second decade respectively.

Table 7

Gross Regional Product of East and West
Pakistan (at 1959-60 Constant Factor Cost)

(Rs in million)

Region	1949-50	1959-60	1969-70	Growth Rate (in per cent)	
				1st decade	2nd decade
East Pakistan	12,360	14,945	23,119	2.0	5.4
West Pakistan	12,106	16,494	31,157	3.6	7.8

Source : i) The Third Five-Year Plan, 1965-70, Planning Commission, GOP, p. 11.

ii) Reports of the Advisory Panel of Economists for the Fourth Five-Year Plan, 1970-75, Planning Commission, GOP, Islamabad, July, 1970, Vol. 134.

The level of interregional disparity in per capita GRP went on increasing since independence. Table 8 shows that in 1949-50 the level of disparity was 19%; in 1959-60 it rose to 32% and in 1969-70 to 61%. This level of disparity indicates a highly differential rate of development in the two wings. The level of disparity may, however, be higher if we consider two other things. First, the estimate of output of value added in some sectors was on the high side for East Pakistan and on the low side for West Pakistan³⁴. Secondly, the purchasing power of rupee was lower in East Pakistan

than in West Pakistan. Thus the cost of living was 5% to 7% higher on an average in East Pakistan from 1950-60 to 1966-69 than in West Pakistan (Appendix B) and the real wages in both urban and rural areas were much lower in the East³⁵, indicating a high level of disparity in terms of real income.

Table 8

Rate of Interregional Per Capita Disparity
in GRP of East and West Pakistan
(At 1959-60 Prices)

Year	Per Capita GRP of East Pakistan	Per Capita GRP of West Pakistan	East-West Disparity Ratio
1949-50	Rs. 287	Rs. 345	100:119
1959-60	Rs. 269	Rs. 355	100:132
1969-70	Rs. 314	Rs. 504	100:161

Source : Reports of the Advisory Panel of Economists for the Fourth Five-Year Plan, 1970-75, Planning Commission, GOP, Islamabad, July, 1970, p. 136.

More significantly enough, the East wing continued to lag behind in structural development. The contribution of industry to the GRP was growing more and more in West Pakistan than in East Pakistan. Thus in East Pakistan, industrial contribution rose from 7% to 10% during 1951-52 to 1959-60 and in West Pakistan it rose from 8% to 15% at the same time³⁶, reflecting a shift in direction of structural change in the economy of the two wings.

It is, however, basically difficult to ascertain precisely all the factors responsible for the growing economic disparity between East and West Pakistan since partition. There were several complex economic and non-economic factors that widened economic disparity between the two wings. But there is little doubt that the whole period of united Pakistan was based on the transfer of resources from East Pakistan to West Pakistan through a combination of direct and indirect methods. Before going to details two crucial factors should be borne in mind. First, the capital of Pakistan was located in West Pakistan; first in Karachi and then expensively re-located in Islamabad. Second, a bulk of entrepreneurs migrated from the North-Western part of India to West Pakistan and settled there permanently, who played the principal role not only in West Pakistan's industrial development, but also captured almost all the key business houses of East Pakistan, favoured by the civil bureaucrats, originated from West Pakistan, noted earlier³⁷. Thus the migration of entrepreneurs and the location of the capital city became enormously advantageous to West Pakistan in view of the wide control over the economy of the country³⁸.

Directly, resources were diverted from East Pakistan to West Pakistan as evident from the revenue and development budgets (Table 9). Thus from 1950 to 1970 only Rs. 45030 million were spent in East Pakistan compared to Rs. 11 3340 million in West Pakistan on revenue and development account. Table 9 shows that East Pakistan's percentage share of total development expenditure varied from 20% to 36% from 1950 to 1970 and the remaining larger share of development expenditure went to West Pakistan.

Table 9

Revenue and Development Expenditure in East and
West Pakistan from 1950 to 1970

(Rs. in million)

Period	Revenue Expendi- ture	Develop- ment Ex- penditure	Outside Plan Expendi- ture	Total (1+2+3)	Development Expenditure as percen- tage of All Pak. total Development Expenditure
	1	2	3	4	5
E. Pakistan					
1950-51 to 1954-55	1710	1000	-	2710	20
1955-56 to 1959-60	2540	2700	-	5240	26
1960-61 to 1964-65	4340	9250	450	14040	32
1965-66 to 1969-70	6480	16560	-	23040	36
Total (1950-70)	15070	29510	450	45030	28
W. Pakistan					
1950-51 to 1954-55	7290	4000	-	11290	80
1955-56 to 1959-60	8980	7570	-	16550	74
1960-61 to 1964-65	12840	18400	2110	33550	68
1965-66 to 1969-70	22230	261000	3600	51950	64
Total (1950-70)	51340	56070	5710	113340	72
All Pakistan (1950-70)	66410	85580	6160	158370	100

Note: Percentages are in round figures.

Source: Reports of the Advisory Panel of Economists for the Fourth Five Year Plan, 1970-75, Planning Commission, GOP, July, 1970, p. 25.

The private sector allocation in East Pakistan also lagged far behind compared to West Pakistan, and the rate of allocative disparity was more in the private sector than in the public sector. Thus Table 10 shows that the allocation of resources in the private sector was almost three times higher in West Pakistan than in East Pakistan during the Second and Third Plan periods. Moreover, the multi-million dollar expenditure for the 'Indus Basin Project' in

Table 10

Development Allocation in the Public and Private Sectors in East and West Pakistan (1959-70)

Sector	(Rs in million)			
	Second Plan (1960-65)		Third Plan (1965-70)	
	East	West	East	West
Public Sector	6,700	10,800	11,300	13,700
Private Sector	3,000	10,700	5,500	16,000
Total	9,700	21,500	16,800	29,700
Percentage of Total	31	69	36	64

Source : An Outline of the Fourth Five-Year Plan, 1970-75,
Planning Commission, GOP, p. 26.

West Pakistan was not included in the Third Five-Year Plan³⁹. Again, the development expenditure for the relocation of the capital city from Karachi to Islamabad, which benefitted only West Pakistan, was also not included in the Third Five-Year Plan. Besides, the budget expenditure mostly benefitted West Pakistan since the major portion of the budget (more than 70 percent) went to defence and administration, centered in West Pakistan. Thus East Pakistan's share was

much lower than West Pakistan's share taking the above points into consideration.

A similar discriminating policy was applied in the case of distribution of foreign aid and loans. From 1947-48 to 1959-60 Rs. 939 million out of a total foreign development aid of Rs. 5421 million and Rs. 1290 million out of a total U.S. commodity aid of Rs. 4090 million were allocated for East Pakistan. These accounted for, as shown in Table 11, East Pakistan's share of only 17% and 30% respectively, indicating larger percentages that were allocated to West Pakistan.

Even in case of Central Government's sanctions of investment, loans and grants-in-aid to the two provinces, there were marked discrepancies. Table 12 shows that between 1947-48 and 1960-61, total investment and loans sanctioned for East Pakistan was Rs. 1720 million and Rs. 1840 million respectively compared to Rs. 4300 million and Rs. 2240 million respectively for West Pakistan. And at the same period grants-in-aid sanctioned for East Pakistan was Rs. 760 million compared to Rs. 1010 million for West Pakistan. In all cases, per capita sanction to East Pakistan was very much low compared to West Pakistan. And from 1960 disparity of the Central Government's grants-in-aid allocation increased further (Appendix C).

But the most striking fact in this regard was that the committed amount of project assistance was not disbursed fully by the executive authorities to East Pakistan. Table 13 shows that between 1960-61 and 1965-66 \$ 239 million was disbursed out of a total commitment of \$ 486 million in East Pakistan, compared to \$ 299 million out of a total of \$ 458 million committed for West

Table 11

Foreign Aid and Loans Distributed in East and West Pakistan from 1947-60

(Rs in million)

Category	East	West	Centre	Total
Foreign Development Aid	938.8 (17)	3352.2 (62)	1130.0 (21)	5421.1
U.S. Commodity Aid	1290.0 (30)	2620.0 (64)	180.0 (6)	4090.0

Source : Economic Disparities Between East and West Pakistan, Planning Department, Government of East Pakistan, Dhaka, 1961, p. 21.

Note : Round Figures in parenthesis indicate percentage of total.

Table 12

Central Government's Sanction of Investment, Loans and Grants-in-aid to the Two Provinces (1947-48 to 1960-61)

(Rs. in million)

Head	East		West	
	Total	Per Capita Rs.	Total	Per Capita Rs.
Investment	1720	38	4300	117
Loans	1840	40	2240	61
Grants-in-aid	760	15	1010	28

Source : Economic Disparities Between East and West Pakistan, Planning Department, Government of East Pakistan, Dhaka, 1961, p. 18.

Pakistan. Table 13 also shows that the disbursed amount was even more than the committed amount during 1960-62 in case of West Pakistan.

Table 13

Commitments and Disbursement of Project Assistance
by Executive Authorities in Pakistan

(In million dollars)

Year	Commitment		Disbursement	
	East	West	East	West
1960-61	23	38	20	40
1961-62	30	23	21	45
1962-63	84	90	36	50
1963-64	150	116	48	47
1964-65	90	76	51	51
1965-66	109	115	63	63
Total	486	458	239	299

Source : The Mid-Plan Review of the Third Five-Year Plan, 1965-70, Planning Commission, GOP, p. 37.

The bureaucratic elites, thus, by their allocative bias in favour of West Pakistan, made all possible efforts to develop a wider system of socio-economic structure in West Pakistan, through federal expenditure and distributing scarce resources like foreign exchange, foreign aid, etc. This allocative bias was, however, defended by the Central Government on the economic ground that there were more demands in the Western Wing from the absorption capacity point of view⁴⁰.

The highly imbalanced growth is also found in case of development of socio-economic overheads between East and West Pakistan. During the period 1947-48 to 1957-58, students' enrolment in primary schools increased by almost 300% in West Pakistan but in East Pakistan it increased by about 50% only. By 1965-66, again, primary schools' enrolment increased by 209% in East Pakistan, but then it was 507% in West Pakistan. In cases of secondary schools, colleges and university enrolment, a similar imbalanced growth was found. The same is also true in cases of route mileage of railways, road mileage and radio licences issued, etc.⁴¹.

The road mileage in West Pakistan was about nine times more than that in East Pakistan in 1966-67; the route mileage in railways was three times greater in West Pakistan (5,335 miles) than that in East Pakistan (1,713 miles). The number of motor vehicles was about five times greater in West Pakistan (259395) than that in East Pakistan (56,285) and the number of radio licences issued in West Pakistan, was more than double the number issued in East Pakistan⁴². All the statistical information cited above thus, reflects the fact that the socio-economic system of West Pakistan developed more quickly than that in East Pakistan after partition by an undue overbiased allocation of federal resources in favour of West Pakistan.

These developed socio-economic infrastructure basically geared up the growth of private sector in West Pakistan by reducing the cost of production and improving the scope of profitability for further investment. Thus, private investment in East Pakistan that took place during 1963-64 to 1967-68 was only 22% of the total as compared to 78% in West Pakistan (Table 14).

Table 14

Private Investment in East and West Pakistan
from 1963-64 to 1967-68

Year	East	West	(Rs. in million)	
			Percentage of Total East	Percentage of Total West
1963-64	547	2091	21	79
1964-65	817	2614	24	76
1965-66	681	2397	22	78
1966-67	819	2918	22	78
1967-68	1038	3647	22	78
Total	3902	13,667	22	78

Source : The Mid-Plan Review of the Third Five-Year Plan, 1965-70, Planning Commission, G.O.P, p. 39.

No doubt, West Pakistan had a good starting point with a larger stock of capital and relatively developed socio-economic overheads in the form of power, transportation and communication facilities, relatively rich natural resources and a comparatively low density of population. East Pakistan, on the other hand, had a low starting point with low level of infrastructure, lack of entrepreneurs, poor transport and communication facilities, highly dense population, etc. Logically, the rate of economic growth was found to be somewhat faster in West Pakistan than in East Pakistan.

But the main complaint against the Pakistani regime was that no effective efforts were made after partition for a 'balanced growth' of the two regions. Though a substantial effort on the part of the Central Government was demanded by East Pakistan to improve its socio-economic conditions, it was never realised. On

the contrary, the policy-makers of the Central Government acted in such a way that the initial imbalance between the two wings of Pakistan intensified further during the whole period of united Pakistan⁴³.

It is found that between 1950-51 and 1957-58, the import licences that were issued to importers of East Pakistan valued only 35% of the total on an average. And between 1957-58 and 1964-65, East Pakistan constituted only 31% of the total actual imports⁴⁴. There were so many barriers in respect of industrial sanctions and thus, sanctions for industrial schemes were not passed in due time and many of the applied projects were rejected by the bureaucrats. A study reveals that from 1960-61 to 1966-67 only 260 cases of industrial sanctions were given by the Central Investment Promotion and Co-ordination Committee (CIPCC) in East Pakistan as compared to 682 in West Pakistan⁴⁵. Thus for East Pakistan, it was only 27.6% of the total sanction.

In case of distribution of loans, the Central Government credit-giving agencies also showed a similar strategy of disparity to the private investors of East Pakistan. From 1960-61 to 1966-67, the Industrial Development Bank of Pakistan (IDBP) distributed Rs. 676 million as loans for East Pakistan, compared to Rs. 771 million for West Pakistan (Appendix D).

From 1960-61 to 1965-66, Pakistan Industrial Credit and Investment Corporation (PICIC) distributed Rs. 198.93 million and Rs. 697.21 million as loans to East and West Pakistan respectively, which constituted East Pakistan's share of 22% of the total (Appendix E). And by 1968-69, 32.6% of the PICIC loans went to East

Pakistan⁴⁶. A similar disparity was shown in case of distribution of National Investment Trust (NIT) loans by regions. During 1962-67, NIT investment amount to Rs. 27.93 million and Rs. 46.45 million for East and West Pakistan respectively⁴⁷.

Apart from these biased allocations, the Central Government, particularly in the first decade, took the policy of industrialisation through the private sector by extracting surplus from agriculture and then re-channelling it to the private industrial sector. This policy gravitated further the imbalance and differential growth in the two regions. For, East Pakistan with a larger share of export (Table 15) from agricultural products, specially 'Jute' and 'Tea', than West Pakistan was affected severely by this policy. In fact, the transfer of surplus from agriculture to industry meant a transfer of surplus of the agriculture of East Pakistan to the industries of West Pakistan, as the maximum import licence holders, noted earlier, were West Pakistanis.

Table 15

Export Earnings of East and West Pakistan
from 1960-61 to 1966-67

Year	East	West	(Rs. in million)
			Share of East Pakistan In Total (In percent)
1960-61	1259	540	70
1961-62	1301	543	70
1962-63	1249	398	55
1963-64	1224	1070	54
1964-65	1268	1140	53
1965-66	1514	1204	55
1966-67	1660	1325	56

Source: The Mid-Plan Review of the Third Five-Year Plan, 1965-70,
Planning Commission, GOP, p. 31.

But the most effective direct method of transfer of resources from East Pakistan to West Pakistan worked through the balance of payments. A greater amount of East Pakistan's foreign exchange earnings was diverted to West Pakistan through a surplus in international trade and a deficit in inter-regional trade. East Pakistan had always a surplus in foreign balance (Appendix F), except in 1962-63 and 1963-64, but a continuous deficit in inter-wing balance (regional trade), indicating a net transfer of resources from East Pakistan to West Pakistan. West Pakistan, on the other hand, had an overall deficit in foreign balance which was financed partly by East Pakistan's export earnings and partly by foreign aid, where East Pakistan had also equal share.

An estimate showed that such transfer may have amounted to Rs. 210 million per year from 1950 to 1955 and Rs. 100 million per year from 1956 to 1960⁴⁸. The extent of deprivation is, however, difficult to measure with any precision. A 'Panel of Economists', however, estimated a net transfer of resources amounting to Rs. 31,120 million at the rate of Rs. 1556 million per year from 1947-48 to 1968-69⁴⁹. In other words, the economic growth that had taken place in West Pakistan was at the cost of East Pakistan.

The economic exploitation by the extraction of surplus from East Pakistan done directly through the development budget and other biased policies of the GOP and through the expropriation of foreign exchange earnings and internal resource inflow to West Pakistan was also accompanied by other indirect methods of exploitation. Indirectly it was achieved by acquiring control over the modern capitalistic

sector of the East Pakistan's economy, through domination and control of private industry as well as trade and finance by non-Bengali businessmen as a privileged group.

Historically, at the time and before partition the economy of East Pakistan (former East Bengal under British rule) had been dominated not by the Bengali Muslims but by the British merchantile capitalists together with the Hindu and Marwari businessmen. Naturally, after partition when the Hindu and the Marwari businessmen migrated to India, the vacuum was filled up by the non-Bengali Muslim migrant entrepreneurs⁵⁰. The displacement of the Hindu and the Marwari businessmen was almost completed during the Indo-pak War in 1965, when the Government of Pakistan passed an Ordinance namely "Enemy Property Ordinance"⁵¹. Besides, the West Pakistani capitalists were also footing into the economy of East Pakistan at the very beginning. The land of East Pakistan was considered by them as a market for its exportable surplus and a source of raw-materials to feed their industries in West Pakistan⁵².

The Central Government's policies were also in favour of the non-Bengali entrepreneurs that initiated them to come forward in the business field of East Pakistan. Thus, it was estimated that 29% of the loans advanced by IDBP and 37% of the loans advanced by PICIC against East Pakistan upto 1971, went to the non-Bengali entrepreneurs who were a very small minority in East Pakistan⁵³. Following the Central Government's biased policy, the non-Bengali businessmen, however, gradually captured almost all the key business houses of banking, insurance, trade, inland water transport, foreign trade and construction⁵⁴. A study showed that 45.1% of total assets

of privately controlled firms in East Pakistan was controlled by some 43 families where there was only one Bengali conglomerate, placed as 29th in the list graded by size of wealth⁵⁵. Another study showed that 14 non-Bengali companies from the aforesaid 43 families controlled 75.6% of all insurance assets held by Pakistani companies who owned 90% of total insurance business in East Pakistan⁵⁶. And the non-Bengali-owned banks accounted for 70% of the total deposit on the eve of banking nationalisation in East Pakistan which was mainly used to finance their manufacturing and trading operations⁵⁷.

It is interesting to note here that most of the headquarters of the non-Bengali firms were located in West Pakistan. Naturally, the profits earned by these firms were diverted to West Pakistan, indicating a net transfer of resources from East Pakistan to West Pakistan. The business houses — for example, Adamjees, Bawanis and Amins — used their profits from investment in East Pakistan to expand investment in West Pakistan⁵⁸.

The transfer of resources from East Pakistan to West Pakistan and economic exploitation of East Pakistan by West Pakistan was mainly possible because of the integrated nature of the two wings. The Central Government, as we have seen earlier, had the overall economic control in the field of policy-making and implementation and there were virtually 'no room for independent action' by the East Pakistan Government. Along with the biased allocation of resources against East Pakistan, trade between East and West Pakistan was regarded as internal trade without any fiscal restraints⁵⁹.

Moreover, the use of common currency and a freedom of movement of money from one wing to another, enabled the West Pakistani businessmen to divert their profits from East Pakistan that could be reinvested in West Pakistan. All these were defended by the Central Government in the name of 'one-economy' and on the so-called "economic grounds" that there were greater demands in the western wing. And regional balance was never regarded as an "economic objective" by the Central Government of Pakistan.

4. Movement Against Exploitation : Autonomy Movement and Road to Bangladesh

It was quite natural for the Bengalis, politically the most sensitized people of the sub-continent, to be dissatisfied with the 'one-economy' policy to the Central Government, based on colonial exploitation. The lack of adequate representation in the central services and Army personnel created a feeling of discontent in East Pakistan from the very beginning. In the words of Begum Shaista Ikramulla, "A feeling is growing among the East Pakistanis that Eastern Pakistan is being neglected and treated merely as a 'colony' of West Pakistan"⁶⁰.

This discontent was further heightened by the declaration of 'Urdu' alone as the state language of Pakistan, and took an all-embracing shape after the firing on the students demonstrating in favour of Bengali in Dhaka on 21st February, 1952. This language controversy together with the issue of economic exploitation geared up the strong regional feeling, that took the shape of a strong regional autonomy movement in East Pakistan.

The demand for full provincial autonomy was put forth as early as 1950, which intensified after 1954, with the dismissal of the United Front ministry by the imposition of Governor's rule in East Pakistan⁶¹. Though economic imbalance between East and West Pakistan dates from 1947, it was not, however, a full-down controversy until 1955. By the mid-50s economic disparity became the focal point of controversy between 'the Centre and East Pakistan', when the East Pakistan Awami League (the largest opposition party in the then East Pakistan) published a pamphlet called "Why Autonomy" showing the economic reasons for provincial autonomy. By this time a sophisticated economic analysis by the Bengali economists focussing the economic disparity between the East and West wings, was also published. In 1956, the Bengali economists formulated an alternative strategy of economic development, mostly popularised as the 'two-economy thesis' against the one-economy policy of the Central Government⁶².

The two-economy theory gained momentous support from the various strata of the Bengali society like businessmen, industrialists, urban workers and salaried middle class group, rural peasants, students and even from the Bengali bureaucrats and Army Officers⁶³. And this ultimately strengthened the hands of the autonomists. Having material support from the two-economy theory, the autonomy movement took the full shape, particularly after the Indo-Pak War in 1965 and mostly after the announcement of 'Six Points Programme' in 1966 by Shiek Mozibur Rahman (the then leader of East Pakistan Awami League) as a 'Charter of Survival' for East Pakistan⁶⁴.

Finally, the path of autonomy movement, people's uprising in 1969, National Assembly Election in 1970 and at last, the crisis of 1971 led to the final disintegration of Pakistan⁶⁵. And Bangladesh emerged as an independent state in December 16, 1971, after having witnessed a nine-month old tragic and bloody liberation war⁶⁶.

5. Bangladesh Economy at the Beginning

Falland and Parkinson expressed the post-liberation economic situation in Bangladesh thus:

"In 1972, for the second time in twenty-five years, the people of East Bengal (Bangladesh) were faced with the necessity of adjusting their economy to a new economic order"⁶⁷.

During the 25 years of Pakistani rule, as we have seen, no attempt was made to develop the socio-economic infrastructure of this land. The partition of India in 1947, left East Bengal with a structure of communications system unsuited for economic development and there was no remarkable structural change of the land during the Pakistani period.

And finally, a nine-month old war of liberation in 1971, destroyed almost all that were achieved upto 1970. A survey of the United Nations Relief Operation showed that the material damage caused by the war in 1971 amounted to \$ 1200 million⁶⁸. Loss of agricultural output amounted to some \$ 300 million, damage of housing to \$ 200 million, and transport facilities to \$ 130 million.⁶⁹ Along with these, damage of agricultural potentials, loss of animals

and fishing equipments, damage to the postal services and telecommunications, damage to sea ports and industries, etc. — all these had bad effects on the economy of the newly born country.

The destruction of the economy during the liberation war was made in three stages. In the first stage of the liberation war, heavy gun-power was used by the Pakistani army, which meant massive civilian casualties and loss of property.

In the second stage of the liberation war, the Mukti Bahini (Freedom Fighters) took the tactic of guerilla warfare. As a part of the guerilla war policy, communication lines and transport systems were destroyed in order to disturb the Pakistani army's supply lines in the occupied area. Rail roads were for the most part made out of order, river and road transport were disrupted. Attempts were also made to disrupt the economy by sabotaging jute and tea exports.

Finally, in the third phase, when the Pakistani Army came to know that they had to surrender, they took the 'scorched-earth policy' of destroying the rest of the economy⁷⁰.

Throwing light on the economic position of that period, Mr. Tazuddin Ahmed, the First Finance Minister of Bangladesh in his budget speech pointed out that the new government inherited a paralysed and bankrupt economy after a nine-month old war of liberation, high ways and railways were completely disconnected; sea ports and airports were out of order; industries were partially, and in many cases completely destroyed⁷¹. Besides, production in the industrial sectors could not be started due to the scarcity of raw materials and machineries. Separation from Pakistan also needed

new markets to be found for exports⁷².

In addition to these, new sources of supply of industrial raw materials and machineries had to be found and the management gap caused by the flight of non-Bengalis, had to be filled up. The government had to rearrange its different organs, agencies and bodies. Besides, just after liberation, shortage of essential commodities, insufficient food supply and severe unemployment created a very difficult situation. Above all, millions of destitute refugees coming back from India, disabled freedom fighters, orphans and widows needed immediate relief and rehabilitation⁷³.

Even without the war damage of 1971, Bangladesh would have been an intolerably poor and over-populated land with negligible natural resources and literacy rate as low as 20%. The per capita annual income was only Tk. 450 in 1969-70⁷⁴. And in 1974, only one country in the world (Rwanda) was recorded to have smaller per capita income than Bangladesh⁷⁵. In the first year of independence (1972-73) the GDP of Bangladesh was well below that of 1969-70 as may be seen in Table 16.

Table 16

GDP and Its Components of Bangladesh at 1972-73 Prices

(Tk. in million)

Sl. No.	Sector	1969-70*	1972-73
1.	Agriculture, Livestock, Forestry and Fishery	28830	24070
2.	Manufacturing	5200	3580
3.	Construction	1840	1710
4.	Power and Gas	150	150
5.	Housing	2360	2360
6.	Trade, Transport and Other Services	11650	11070
Total		50030	42940

* The last normal year before the war of liberation.

Source : The First Five-Year Plan, 1973-78, Planning Commission, GOP, Chapter 1, p. 15, Table 11-2.

In 1972-73, production in both agriculture and industry failed to reach the level achieved in 1969-70. Rice production and industrial output in 1972-73 was about 15% and 30% lower than that of 1969-70 respectively⁷⁶. In addition, there were shortfalls in exports and imports, a sharp increase in money supply causing rise in the price level and an alarming increase in the cost of living index. The cost of living index was about 50% higher in 1972-73 than that of 1969-70. From the base of 100 in 1969-70 the cost of living index of an industrial worker rose to 200.31 at the end of 1972⁷⁷. At that critical stage, naturally, revenue collection of the government lagged behind and it failed to cover even the current expenditure

of the government⁷⁸. In practice, Bangladesh was to survive on international sympathy and she was looked upon by many as an "international basket case"⁷⁹.

Though the struggle against Pakistani-exploitation and the war of liberation raised high expectations of rapid economic growth among the people, the prevailing poverty was overwhelming and the scarcity of resources was acute. Clearly the government was in great dilemma. It needed much resources for development but found virtually no pockets for extracting any surplus internally. The situation can best be understood from the observation of the Planning Commission:

"Bangladesh inherited a poor, undiversified economy, characterised by an underdeveloped infra-structure, stagnant agriculture, and a rapidly growing population. She had suffered from years of colonial exploitation and missed opportunities, with debilitating effects on initiatives and enterprise. Superimposed on all these were the war of liberation, which caused serious damage to physical infra-structure, dislocation in managerial and organisational apparatus and disruption in established external trading relationship"⁸⁰.

However, the GOB started its budgeting from 1972-73 guided by the principle of self-reliant growth with an aim in mobilizing more resources internally through various fiscal measures which we shall discuss in the following chapters.

NOTES AND REFERENCES

1. The term 'internal colonialism' is used to refer to the process of domination and exploitation of one ethnic group by another or one region/wing by another within a country. See Raunoq Jahan, Bangladesh Politics : Problems and Issues, UPL, Dhaka, 1980, p. 75.
2. J. Falland and J.R. Parkinson, Bangladesh : The Test Caste of Development, C. Hurst and Company, London, 1976, p. 6.
3. For details see Aungus Maddison, Class Structure and Economic Growth : India and Pakistan since Mughals, George Allen and Unwin Ltd., London, 1971, p. 136. Also see Hamza Alavi, "The State in Post Colonial Societies : Pakistan and Bangladesh", in K. Gough and H.P. Sharma, eds., Imperialism and Revolution in South Asia, Monthly Review Press, New York, 1973, p. 152.
4. See Emazuddin Ahmed, Bureaucratic Elites in Segmented Economic Growth : Bangladesh and Pakistan, UPL, Dhaka, 1980.
5. See Hamza Alavi (1973) p. 147.
6. See Emazuddin Ahmed (1980), p. 32.
7. Aungus Maddison (1971), p. 74.
8. For details see Muneer Ahmed, Legislature in Pakistan, University of Punjab, Lahore, 1960, p. 14.
9. Henry Frank Goodnow, The Civil Service of Pakistan: Bureaucracy in a New Nation, Yale University Press, New Haven, 1964.
10. The alliance was not so much an institutional one, but a personal one among a few top civil servants, military personnel and political leaders who were participants in key-decision making bodies.
11. Constituent Assembly of Pakistan Debates, September 8, 1956, Vol. 1, p. 637.
12. Fazal Muqueem Khan, The Story of the Pakistan Army, Oxford University Press, Karachi, 1963, p. 117.

13. During 1953-55 and 1957-58 the prestige of the civil government reached its lowest ebb. The political instability of Pakistan can best be understood by the fact that there were 7 Prime Ministers within 8 years (1951-58). See Emajuddin Ahmed (1980), p. 39 (Foot note 38).
14. K.B. Sayeed, Pakistan : The Formative Phase, Pakistan Publishing House, Karachi, 1960, p. 402.
15. See for details Raunoq Jahan, Pakistan : Failure in National Integration, Oxford University Press, Dhaka, 1973.
16. Wayne A. Wilcox, "Problems and Process of National Integration in Pakistan", The Journal of Pakistan Students, March-April, 1967, p. 12.
17. See for details Ralph Braibanti, "Public Bureaucracy and Judiciary in Pakistan", Bureaucracy and Political Development, Edited by Joseph La Palombara, Princeton University Press, Princeton, 1963.
18. Wayne A. Wilcox (1967), p. 12.
19. Muzafar Ahmed Chowdhury, The Civil Service in Pakistan, National Institute of Public Administration, Dhaka, 1963, p. 78.
 But of the two officers one was U.P. non-Bengali Muslim who settled in East Pakistan, thus remaining only one was Bengali Muslim Officer. See Ralph Braibanti, Research on Bureaucracy of Pakistan, Duke University Press, 1966, Durham, N.C., p. 49.
20. According to the quota system only 20% were selected purely on merit and 40% had to be chosen from East and West Pakistan respectively.
21. Civil List of Class I Officers Serving Under the GOP, 1st January, 1964, Establishment Division, GOP.
22. Ibid, 1966.

23. It is interesting to note that in the days of Civil War in 1971, one East Pakistani was appointed as the Chairman of the Planning Commission. But it was then meaningless to the Bengalis.
24. Ralph Braibanti (1966), Table 10.
25. Ibid, Table 5.
26. Civil List of Class I Officers, 1966, Establishment Division, GOP.
27. Civil List of Class I Officers, 1960, Establishment Division, GOP.
28. Raunoq Jahan (1973), p. 101.
29. It might be a coincidence that three CSP Officers who were believed to be paid more attention to the East Pakistanis' interests were falsely accused in the historic 'Agartala Conspiracy Case'. See The Pakistan Observer, Dhaka, February 2 to 6, 1969.
30. K.B. Sayeed, "The role of the Military in Pakistan", in Jacques Van Doorn, ed., Armed Forces and Society: Sociological Essays, Mouton and Co., The Hague, 1968, p. 276.
31. Muneer Ahmed, The Civil Servants in Pakistan, Oxford University Press, Karachi, 1964, pp. 112-13.
32. The question of economic disparity between East and West Pakistan was however, a matter of controversy among Pakistani Economists. See for details Md. Anisur Rahman, East and West Pakistan: A Problem in the Political Economy of Regional Planning, Centre for International Affairs, Harvard University, 1968 and Mahbubul-Haque, The strategy of Economic Planning: A Case Study of Pakistan, Oxford University Press, Lahore, 1963, among others.
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35. A.R. Khan, "What Was Been Happening to Real Wages in Pakistan?", The Pakistan Development Review, Vol. VII, 1967, pp. 317-47 and S.R. Bose, "Trend of Real Income of the Rural Poor in East Pakistan, 1949-66", The Pakistan Development Review, Vol. VIII, 1968, pp. 452-88.
36. See for details Mahbubul Hoque (1968).
37. See for details G.F. Papanek, Pakistan's Development: Social Goals and Private Incentives, Harvard University Press, Cambridge, 1967.
38. Md. Anisur Rahman (1968), p. 16.
39. It was argued that the 'Indus Basin Scheme', total outlays of which amounted to Rs. 2900 million was a replacement work and hence should not be included in the development plan. But in actual, it was a development outlay, since it had income and employment generating effects. See Emajuddin Ahmed (1980), p. 121.
40. Mahbubul Hoque (1963), p. 113.
41. Twenty Years of Pakistan in Statistics, 1947-67, Central Statistical Office, Ministry of Economic Affairs, GOP, pp. 149-90. Also see Statistical Year Book of Pakistan, 1971, Central Statistical Office, Ministry of Economic Affairs, GOP, pp. 180-81.
42. Ibid.
43. M. Akhlakur Rahman, The Private Sector of East Pakistan : An Analysis of Lagged Development, United Bank Ltd., Karachi, 1970.
44. Philip S. Thomas, "Import Licencing and Import Liberalisation in Pakistan", Pakistan Development Review, Vol. VI, Winter 1966, p. 534.
45. Draft Report on Dearth of Private Enterprise in East Pakistan (mimeo), GOP, 1968, p. 12.

46. 12th Annual Report for the Year Ended, December 31, 1969, PICIC, Karachi, 1969.
47. Draft Report on Dearth of Private Enterprise in East Pakistan (mimeo), GOP, 1968.
48. Mahbub-ul-Hoque (1963), p. 100.
49. Report of the Advisory Panel of Economists for the Fourth Five-Year Plan, 1970-75, Planning Commission, GOP, Islamabad, July, 1970, Vol. I, pp. 84-6.
50. Akhlaqur Rahman, Partition, Integration, Economic Growth and International Trade: A Study of Inter-Wing Trade in Pakistan, 1948-1959, Institute of Development Economics, Karachi, 1963. Also see Hanna Papanek, "Entrepreneurs in East Pakistan", South Asian Series Research Paper, No. 16, Asian Studies Centre, Michigan State University, 1969.
51. The "Enemy Property Ordinance" promulgated by the GOP in 1965 at the time of Indo-Pak war, expropriated all properties belonging to the Indian nationals in Pakistan. In East Pakistan where the bulk of these properties were located, valued at over Rs. 1000 million. A specific statistics given by Hanna Papanek (1969) showed that in 1965, 52 large industries and 250 Hindu commercial enterprises were taken over.
52. Rehman Sobhan and Muzaffar Ahmed, Public Enterprise in an Intermediate Regime : A Study of Political Economy of Bangladesh, BIDS, Dhaka, 1980, p. 55.
53. Ibid, p. 57.
54. For the dominant role of non-Bengalis in the Bangladesh economy see Hanna Papanek (1969).
55. See for details White, Lawrence J., Industrial Concentration and Economic Power in Pakistan, Princeton University Press, Princeton, 1974.
56. Rehman Sobhan and M. Ahmed (1980), p. 59.
57. Ibid., p. 60.

58. These Western Indian business groups, well marked in the business world of the sub-continent, had done much of their business before partition (1947) in Burma and Calcutta. But after partition, they migrated and initially invested their capital in the jute industry located in East Pakistan. But they never thought themselves as East Pakistanis. For details see G.F. Papanek, "The Location of Economic Policy decisions in Pakistan", Public Policy, Harvard, 1959.
59. Just Falland and J.R. Parkinson (1976), p. 6.
60. Constituent Assembly of Pakistan Debates, Official Reports, February 24, 1948, Vol. II, No. 1, p. 7.
61. Raunoq Jahan (1973), p. 30.
62. For detailed analysis of the two-economy thesis, see A. Sadeque, The Economic Emergence of Pakistan, Part I. East Bengal Govt. Press, Dhaka, 1954; Part II. The Planning Department, Dhaka, 1956.
63. Raunoq Jahan (1973), pp. 88-89.
64. For detailed in Six Points, see Shiek Mozibur Rahman, Six Points Formula : Our Right to Live, EPAL, Dhaka, 1966.
65. For details see Raunoq Jahan (1973), pp. 186-204.
66. The war of independence against Pakistan was declared by Shiek Muzibur Rahman in March 26, 1971, after 'Dhaka massacar' by Pakistani Army at mid-night of 25th March, 1971. The day 26th March is now celebrated as the 'Independence Day' of Bangladesh and 16th December as the 'Victory Day'.
67. J. Falland and J.R. Parkinson (1976), p. 9.
68. A Survey of Damages and Repairs, United Nations Relief Operation, 1972, Dhaka, Bangladesh.
69. Ibid.
70. J.C. Debnath and M. Liaquat Ali Khan, "The First Budget of Bangladesh : A Bold Step in Reconstruction and Rehabilitation", a paper presented at the First Asian Conference of the International Institute for Development Studies in Calcutta, January, 1992.

71. The Budget Speech, 1972-73, 30th June, 1972; Ministry of Finance, GOB, p. 1.
72. Bulk of the tea was imported by West Pakistan from East Pakistan.
73. The Budget Speech, 1972-73, 30th June, 1972, GOB, p. 1.
74. The Annual Plan, 1972-73, Planning Commission, GOB, p. 1.
75. World Bank, Bangladesh : Development in a Rural Economy, Report No. 455b-BD, September, 1974.
76. The Annual Plan, 1973-74, Planning Commission, GOB, 1973, p. 9.
77. S.R. Bose, "The Price Situation in Bangladesh", The Bangladesh Economic Review, Vol. 1, No. 3, July, 1973, p. 244.
78. Raunq Jahan, "Bangladesh in 1973", in R. Jahan ed., Bangladesh Politics : Problems and Issues, UPL, Dhaka, 1980, p. 80.
79. Ibid., p. 63.
80. "Preface", The First Five-Year Plan, 1973-78, Planning Commission, GOB, November, 1973.

APPENDIX A

East-West Representation in Class I Officers in
Some Divisions (1968-1969)

Division	1968		1969	
	East No.	West No.	East No.	West No.
Econ. Affairs	16 (36)	28 (64)	20 (44)	29 (56)
Commerce	19 (38)	33 (62)	20 (33)	41 (67)
Finance	10 (29)	27 (71)	12 (30)	30 (70)
Agriculture	4 (13)	26 (87)	6 (17)	28 (83)
Industries	9 (28)	23 (72)	10 (32)	21 (68)
Cabinet	3 (13)	21 (87)	4 (16)	22 (84)
Establishment	12 (32)	25 (68)	11 (30)	25 (70)
Planning	21 (30)	51 (70)	28 (29)	67 (71)
Labour and Social Welfare	4 (28)	10 (72)	5 (33)	10 (67)
Information and Broadcasting	5 (25)	15 (75)	6 (26)	17 (74)
Defence	4 (10)	35 (90)	5 (13)	31 (87)

Note : Percentages in round figures are within brackets.

Source: Civil List of Class I Officers Serving Under ^{UK} GOP,
Establishment Division, 1968 & 1969.

Appendix B
 Regional Differences in Cost of Living of
 East and West Pakistan, 1959-67
 (1959-60 = 100)

Year	East Pakistan	West Pakistan
1959-60	100.0	100.0
1960-61	102.8	104.8
1961-62	106.8	104.7
1962-63	106.2	102.9
1963-64	102.6	106.4
1964-65	111.3	113.6
1965-66	122.3	112.0
1966-67	141.4	124.5

Source : Twenty Years of Pakistan in Statistics, 1947-67,
 Central Statistical Office, Ministry of Economic
 Affairs, GOP, p. 198.

Appendix CCentral Government's Grants-in-aid to the Two
Provinces, 1960-68 (Budget Estimates)

(Rs. in million)

Year	East Pakistant	West Pakistan
1959-60	3.4	31.2
1960-61	4.1	23.7
1961-62	1.0	241.2
1962-63	21.5	222.3
1963-64	42.6	219.2
1964-65	51.6	222.8
1965-66	36.1	192.9
1966-67	44.5	161.3
1967-68	3.7	148.4

Source : Twenty Years of Pakistan in Statistics, 1947-67,
Central Statistical Office, Ministry of Economic
Affairs, GOP, pp. 287-95.

Appendix D

**Distribution of IDBP Loans in Million Rupees
by Regions, 1961-67**

Year	East	West
1961-62	87 (52)	81 (48)
1962-63	110 (62)	69 (38)
1963-64	195 (57)	149 (43)
1964-65	86 (36)	150 (64)
1965-66	47 (34)	149 (74)
1966-67	151 (47)	173 (53)
Total	676 (47)	771 (53)

Note : Percentages in round figures are within brackets

Source: The Mid-Plan Review of the Third Five-Year Plan, 1965-70,
Planning Commission, GOP, p. 41.

Appendix EDistribution of PICIC Loans in Million Rupees
by Regions, 1961-66

Year	East	West
1961-62	29.01 (23.32)	95.39 (76.68)
1962-63	47.02 (31.35)	102.99 (68.65)
1963-64	9.06 (6.43)	131.87 (93.57)
1964-65	38.21 (14.44)	227.06 (85.56)
1965-66	75.63 (35.09)	139.90 (64.91)
Total	198.93 (22.20)	697.21 (77.80)

Note : Percentages are within brackets.

Source : The Mid-Plan Review of the Third Five-Year Plan, 1965-70,
Planning Commission, GOP, p. .

Appendix F

Trade Balance for East and West Pakistan, 1948-1967.

(Rs. in million)

Year	Foreign Balance		Inter Wing Internal Balance (West-East)	Overall Balance	
	East	West		East	West
1948-49	146.8	-648.3	120.5	26.3	-527.8
1949-50	244.1	-347.0	185.1	59.0	-161.9
1950-51	758.2	+175.4	208.5	749.7	+383.9
1951-52	323.1	-552.0	187.7	135.4	-364.3
1952-53	276.1	-144.9	69.2	206.9	-80.7
1953-54	351.9	-183.3	235.0	116.9	+51.7
1954-55	411.4	-291.6	106.8	304.6	-184.8
1955-56	680.6	-222.1	95.5	585.1	-126.6
1956-57	90.9	-817.8	197.7	-106.8	-520.1
1957-58	252.5	-880.7	432.9	-180.4	-447.8
1958-59	327.2	-580.2	397.1	-69.9	-183.1
1959-60	424.3	-1042.6	201.0	223.3	-841.6
1960-61	244.8	-1633.0	455.4	-210.6	-1177.6
1961-62	427.8	-1693.0	450.9	-23.1	-1242.5
1962-63	230.6	-1802.0	484.4	-253.8	-1317.6
1963-64	-224.4	-1906.6	384.0	-608.4	-1522.6
1964-65	-433.7	-2526.3	337.4	-771.1	-2188.7
1965-66	186.1	-1676.7	...	...	...
1966-67	100.4	-1267.6	...	...	...

Source : M. Anisur Rahman, East and West Pakistan : A Problem in the Political Economy of Regional Planning, Centre for International Affairs, Harvard University, 1968, p. 12.

Chapter 3

EVOLUTION OF THE BANGLADESH BUDGET

1. Introduction

Bangladesh as a part of united Pakistan and Pakistan as a part of the Indo-Pak sub-continent, as noted earlier in Chapter 2, was under the control of British administrative and financial policies upto 14th August, 1947, when India was partitioned into two sovereign states. i.e., India and Pakistan. So, 'the genesis of the system of government budgeting and the financial administration of Bangladesh can be traced back to the year 1860, when Sir James Wilson, the First Finance Member of the Viceroy's Executive Council of India introduced India's first budget'¹.

The system of government budgeting which developed in that period in England was accepted as a guide line and its procedure was followed by the then Government of India. The system of financial management, however, has changed over time in view of the growing and changing demands of the economy, particularly after the partition of India and subsequently after the creation of Bangladesh².

After partition in 1947, Pakistan just inherited the British Indian system of budgeting and thus Bangladesh, after its emergence as a sovereign state, also inherited the British system of government budgeting³.

Thus the budgetary heritage and legal provisions for its formulation and approval in Bangladesh can be viewed from three stages of evolution, namely —

- a) British period,
- b) Pakistan period, and
- c) Bangladesh period.

In this chapter we like to draw a picture of the evolution and constitutional heritage of the Bangladesh Budget. Accordingly, Section 2 of this chapter analyses the development of budgeting in the British period and Section 3 and 4 deal with the Pakistan period and the Bangladesh period of budgetary evolution respectively.

2. British Period

Though the first budget of British India was introduced in 1860, the process had actually been initiated in 1833⁴, when the Government of India Act, 1833 made it obligatory for East India Company to place the budget of the British Indian Empire to the British Parliament by stating,

"... all the rights and interests to or in the (said) territory and all their territorial and commercial, real and personal assets and property whatsoever, shall, subject to the debts and liabilities now effecting the same, be placed at the disposal of the Parliament"⁵.

A few years later, following the Government of India Act, 1858, the management of the empire was taken over by Her Majesty, the Queen of England. According to the Act of 1858, the Secretary of State for India was responsible for placing the 'Annual Financial Accounts of India' before the Parliament of England⁶. Though some financial reorganisations were followed, no innovation in this regard was attempted for some time. "The local budgets", remarked R. Knight even in 1871, "are simply a snare and delusion....."

Instead of serving any good purpose, these budgets simply promote jealousy and strife⁷.

The India Act, 1919, however, made it mandatory for the Secretary of State to obtain the consent of the majority of Councillors (created according to the India Act.1909) of India to place the budget before the British Parliament⁸. According to the Government of India Act, 1919, all proposals of financial matters had to be placed before the Indian Legislature only on recommendation of the Governor-General⁹. But the appropriation of revenue for heads mentioned below were not required to be submitted to the vote of the Legislative Assembly¹⁰;

- i) Interest and Sinking Fund charges and loans;
- ii) Expenditure of which the amount is prescribed by or under any law;
- iii) Salaries and pensions of persons appointed by or with the approval of Her Majesty or by the Secretary of State;
- iv) Salaries of Chief Commissioners and Judicial Commissioners; and
- v) Expenditure classified by the order of the Governor-General in Council for :
 - a) Ecclesiastical,
 - b) Political, and
 - c) Defence.

Other items of appropriation than mentioned above were, however, required to be submitted to the vote of the Legislative Assembly in the form of demand for grants, which the Assembly could discuss and accord assent or refuse or could suggest reduction of whole or any part, though all proposals for appropriation were finally

decided by the Governor-General. In addition, the Governor-General could authorise such expenditure without reference to the Assembly, which in his opinion were considered for safety and tranquility of British India or any part thereof¹¹.

But it is the India Act, 1935, which brought some important changes in the procedure for financial matters as follows¹²:

- i) The Governor-General shall, in respect of every year cause to be laid before both the chambers of the Federal Legislature of the Federation for that year, in this part of Act referred to as the Annual Financial Statement.
- ii) The estimates of expenditure embodied in the financial statement shall show separately:
 - a) the sums required to meet expenditure described in this Act as expenditure charged upon the revenues of the Federation, and
 - b) the sums required to meet expenditure proposed to be made from the revenues of the Federation and shall distinguish expenditure on revenue account from other expenditure.
- iii) The following expenditure shall be expenditure charged upon the revenues of the Federation:
 - a) the salary and allowances of the Governor General and other expenditure relating to his office for which provision is made by or under the Third Schedule to this Act;
 - b) debt charges for which the Federation is liable, including interest, sinking fund charges and redemption charges and other redemption of debt;
 - c) the salaries and allowances of Ministers, of the Advocate-General and Chief Commissioners;

- d) the salaries, allowances and pensions payable to or in respect of judges of the Federal Court and the pensions payable to or in respect of judges of any High Court;
- e) expenditure for the purpose of the discharge by the Governor-General of his functions with respect to defence and ecclesiastical affairs, his functions with respect to external affairs in so far as he is by or under this Act required in the exercise thereof to act in his discretion, his functions in or in relation to the tribal areas, and his functions in relation to the administration of any territory in the direction and control of which he is under this Act required to act in his discretion provided that the sums so charged in any year in respect of expenditure on ecclesiastical affairs shall not exceed forty two lakhs of rupees (Rs. 4.2 million), exclusive of pension charges;
- f) the sums payable to His Majesty under this Act out of the revenues of the Federation in respect of expenses incurred in discharging the functions of the Crown in its relation with Indian States;
- g) any grants for purposes connected with the administration of any areas in a Province which are for the time being excluded area;
- h) any sums required to satisfy any judgement, decree or award of any court or arbitral tribunal; and
- i) any other expenditure declared by this Act or any Act of the Federal Legislature to be so charged.

The main difference between the Act of 1919 and the Act of 1935 in respect of financial procedure was that the discussion of charged expenditure which was not allowed under the Act of 1919, was permissible under the Act of 1935 except the salary and allowances etc. of the Governor General¹³. Besides, the classification of expenditure between the revenue account and other accounts was made for the first time under the Government of India Act, 1935. However, under the Act of 1935, the Governor-General, at his discretion used to decide the expenditure which should be charged or otherwise and no demand for grant could be made except on his recommendation¹⁴.

3. Pakistan Period

The partition of India in 1947 created two independent states, namely India and Pakistan. The Government of Pakistan, however, accepted the India Act of 1935 in respect of financial procedures under the 'Pakistan Provisional Constitutional Order of 1947', which continued till 1956 when the first Constitution of Pakistan was promulgated¹⁵. But the new constitution brought no significant change in relation to financial matters as in the India Act 1935, except the fact that expenditure was classified into recurring and non-recurring expenditure. The main features of the Constitution of 1956 about financial procedures were as under¹⁶:

Article 40

- 1) The President shall, in respect of every financial year cause to be laid before the National Assembly a statement of the estimated receipts and expenditure of the Federal Govt. for that year, in this part referred to as the Annual Financial Statement.
- ii) The Annual Financial Statement shall show separately:
 - a) the sums required to meet expenditure

describe by the Constitution, expenditure charged upon the Federal Consolidated Fund; and

- b) the sums required to meet other expenditure proposed to be made from the Federal Consolidated Fund and shall distinguish expenditure on revenue account from other expenditure.

iii) The Annual Budget Statement shall also indicate, the following headings, the source from which the estimated receipts will be derived:

- a) Existing taxation;
- b) New and increased taxation;
- c) Borrowings; and
- d) Other sources.

iv) In this Article 'New Expenditure' in relation to the Annual Budget Statement for a financial year, meant;

- a) where expenditure for a project for that year has previously been approved by the National Assembly in pursuance of Article 42, so much of any expenditure for that project for that year as exceeds the expenditure approved for that year by more than ten per centum of the approved expenditure;
- b) any other expenditure which is not recurring expenditure;
- c) any expenditure which is recurring expenditure and which is for a purpose in respect of which no provision was made by way of recurring expenditure in the Schedule of Authorised Expenditure for the previous financial year; and
- d) so much of any expenditure which is recurring expenditure and which is for purpose in respect of which provision was made by way of recurring expenditure in the Schedule of Authorised Expenditure for the previous financial year as exceeds more than ten per centum of that expenditure.

- v) 'Recurring Expenditure' means expenditure of a kind that ordinarily recurs from year to year, but does not include expenditure for which provisions may be made under Article 42.
- vi) For the purpose of definition of 'New Expenditure' set out in clause (iv) of this Article, any Schedule of Authorised Expenditure relating to a Supplementary Budget Statement for a financial year shall be regarded as being incorporated with the Schedule of Authorised Expenditure that relates to the Annual Budget Statement of that year.

Article 41

- i) So much of an Annual Budget Statement as it relates to expenditure charged upon the Consolidated Fund may be discussed in, but shall not be submitted to the vote of the National Assembly.
- ii) So much of an Annual Budget Statement as it relates to other expenditure, but not being expenditure specified in the statement in pursuance of clause (1) of the Article 42 in respect of any subsequent financial year, shall be submitted to the National Assembly in the form of demand for grant.
- iii) A demand for a grant in respect of a sum that is shown in an Annual Budget statement as new expenditure may be discussed in the National Assembly, but subject to clause (iv) of this Article, the demand shall not be submitted to the vote of the Assembly and the Assembly shall be deemed to have assented to the demand:
- a) at the expiration of fourteen days after the statement was laid before the Assembly, or
 - b) at the commencement of the financial year to which the statement relates, whichever last occurs.

- iv) The National Assembly may, with the consent of the President, reduce a demand for grant referred to in clause (iii) of this Article and, in that the Assembly shall be deemed to have assented to the demand so reduced.
- v) The National Assembly may assent to or refuse a demand for a grant in respect of a sum that is shown in the Annual Budget Statement as new expenditure or may assent to the demand in respect of such lesser sum as the Assembly may specify.
- vi) A demand for grant shall not be made except on the recommendation of the President.

Article 42

- i) The Annual Budget Statement, or a Supplementary Budget Statement, in respect of a financial year may, in relation to a project for which estimated expenditure for that year is specified in the Statement and which will involve expenditure from the Consolidated Fund in subsequent years, specify the estimated expenditure for each of the subsequent years.
- ii) The National Assembly may, by resolution, approve or disapprove of the expenditure for any such subsequent year or may approve of such lesser expenditure for that year as is specified in the resolution.
- iii) If at the expiration of a period of fourteen days after the National Assembly has assented (either with or without reduction) to the demand for a grant in respect of the expenditure specified in the Budget Statement in relation to the project for the year to which statement relates, the Assembly has not passed resolution in pursuance of clause (ii) of this Article in relation to the estimated expenditure for a subsequent year, the Assembly shall, at the expiration of that period, be deemed to have approved of

the estimated expenditure for the subsequent year.

- iv) Notwithstanding the approval of the National Assembly under this Article of any expenditure for a subsequent year, the estimated expenditure for that project for that subsequent year shall (whether or not it is the same as the approved expenditure for that year) be included in the Annual Budget Statement for that subsequent year.

In 1962, another constitution was promulgated in Pakistan and the new constitution introduced the following new classification of expenditure¹⁷:

- a) Recurring and non-recurring expenditure;
- b) New and other than new expenditure; and
- c) Receipts classifications.

The Constitution of 1962 also provided some new features which included, among others, the following¹⁸:

Article 63

- i) The President shall, in respect of every financial year, cause to be laid before the National Assembly, before the commencement of that year a statement (to be called the Annual Budget Statement) of the estimated receipts into and estimated expenditure from, the Consolidated Fund for that year;
- ii) The Annual Budget Statement shall distinguish expenditure on revenue account from other expenditure and shall show separately;
 - a) the sums required to meet expenditure charged upon the Consolidated Fund; and
 - b) the sums required to meet expenditure, distinguishing recurring expenditure from expenditure that is not recurring, and showing the extent, if any, to which that other expenditure is new expenditure.

Besides, the Constitution of 1962 made the provision of placing before the National Assembly for approval of multi-year development projects. It also indicated as to how the multi-year development programme budget should be carried through¹⁹.

But in practice the Constitution of 1956 and 1962 did not vary much from the India Act of 1935 in respect of financial procedures except that the two chambers of the Indian Federal Legislature were replaced by one National Assembly in Pakistan.

4. Bangladesh Period

Bangladesh emerged as a sovereign state in 1971 and just inherited the financial procedures from Pakistan. In other words, Bangladesh essentially followed the British type of budgetary system. At the same time Bangladesh also followed the classification and codification as embodied in the IMF system of Government Finance Statistics, 1974, of which more later²⁰. However, the 1972 Constitution of the People's Republic of Bangladesh has laid down some financial and legislative procedures specially in respect of constitutional approval for the National Budget, as under²¹.

Article 80

- i) Every proposal in the Parliament for making a law shall be made in the form of a Bill.
- ii) When a Bill is passed by the Parliament it shall be presented to the President for assent.
- iii) The President, within fifteen days after a Bill is presented to him, shall assent to the Money Bill or, in the case of Bill other than a money Bill, may return it to the Parliament with a message requesting

that the Bill or any particular provisions thereof be reconsidered, and that any amendments specified by him in the message be considered; and if he fails so to do he shall be deemed to have assented to the Bill at the expiration of that period.

- iv) If the President so returns the Bill the Parliament shall consider it together with the President's message, and if the Bill is again passed by the Parliament with or without amendments, it shall be presented to the President for his assent, whereupon the President shall assent to the Bill within the period of seven days after it has been presented to him, and if he fails to do so, he shall be deemed to have assented to the Bill on the expiration of that period.
- v) When the President has assented or is deemed to have assented to a Bill passed by the Parliament, it shall become law and be called an Act of the Parliament.

Article 81

- 1) In this part "Money Bill" means a Bill containing only provisions dealing with all or any of the following matters —
 - a) the imposition, regulation, alteration, remission or repeal of any tax;
 - b) the borrowing of money or the giving of any guarantee by the Government, or the amendment of any law relating to the financial obligations of the Government;
 - c) the custody of the Consolidated Fund, the payment of money into, or the issue or appropriation of money from the Fund;
 - d) the imposition of a charge upon the Consolidated Fund, or the alteration or abolition of any such charge;

- e) the receipt of money on account of the Consolidated Fund and the Public Account of the Republic, or the custody or issue of such money or the audit or the accounts of the Government; and
 - f) any subordinate matter incidental to any of the matters specified in the foregoing sub-clauses.
- ii) Every Money Bill shall, when it is presented to the President for his assent, bear a certificate under the hand of the Speaker that it is a Money Bill, and such certificate shall be conclusive for all purpose and shall not be questioned in any court.

Article 82

No Money Bill, nor any bill which involves expenditure from public money, shall be introduced into the Parliament except on the recommendation of the President.

Provided that no recommendation shall be required under this article for the moving of an amendment making provision for the reduction or abolition of any tax.

Article 83

No tax shall be levied or collected except by or under the authority of an Act of the Parliament.

Article 84

- i) All revenues received by the Government, all loans raised by the Govt., and all moneys received by it in repayment of any loan, shall form part of one fund to be known as the Consolidated Fund.
- ii) All other public moneys received by or on behalf of the Government shall be credited to the Public Account of the Republic.

Article 85

The custody of public moneys, their payment into and the withdrawal from the Consolidated Fund or, as the case may be, the Public Account of the Republic, and matters connected with the matters aforesaid shall be regulated by Act of the Parliament, and until provision in that behalf is so made, by rules made by the President.

Article 87

- i) There shall be laid before the Parliament, in respect of each financial year, a statement of the estimated receipts and expenditure of the Government for that year, in this part referred to as the annual financial statement.
- ii) The annual financial statement shall show separately:
 - a) the sums required to meet expenditure charged by or under this Constitution upon the Consolidated Fund, and
 - b) the sums required to meet other expenditure proposed to be made from the Consolidated Fund.

Article 88

The following expenditure shall be charged upon the Consolidated Fund —

- a) the remuneration payable to the President and other expenditure relating to his office;
- b) the remuneration payable to the Vice President and other expenditure relating to his office;
- c) the remuneration payable to —
 - i) the Speaker and Deputy Speaker,
 - ii) the Judges of the Supreme Court,
 - iii) the Comptroller and Auditor General,
 - iv) The Election Commissioner,
 - v) the members of the Public Service Commission.

- d) the administrative expenses of, including remuneration to, officers and servants of the Parliament, the Supreme Court, the Comptroller and Auditor General, the Election Commissioner and the Public Service Commission.
- e) all debt charges for which the Government is liable, including interest, sinking fund charges, the repayment or amortisation of capital, and other expenditure in connection with the raising of loans and the service and redemption of debt;
- f) any sums required to satisfy a judgement, decree of award against the Republic by any Court or tribunal; and
- g) any other expenditure charged upon the Consolidated Fund by this Constitution or by Act of the Parliament.

Article 89

- i) So much of the Annual Financial Statement as relates to expenditure charged upon the Consolidated Fund may be discussed in, but shall not be submitted to the vote of the Parliament.
- ii) So much of the Annual Financial Statement as relates to other expenditure shall be submitted to the Parliament in the form of demands for grants, and the Parliament shall have power to assent to or to refuse to assent to any demand, or to assent to it subject to a reduction of the amount specified therein.
- iii) No demand for grant shall be made except on the recommendation of the President.

Article 90

- i) As soon as may be after the grants under Article 89 have been made by the Parliament there shall be introduced in the Parliament a Bill to provide for appropriation out of the Consolidated Fund of all money required to meet :

- a) the grants so made by the Parliament, and
 - b) the expenditure charged on the Consolidated Fund but for exceeding in any case the amount shown in the Annual Financial Statement laid before the Parliament.
- ii) No amendment shall be proposed in the Parliament to any such Bill which has the effect of varying the amount of any grant so made or altering the purpose to which it is to be applied, or of charged on the Consolidated Fund.
- iii) Subject to the provisions of this Constitution no money shall be withdrawn from the Consolidated Fund except under appropriation made by law passed in accordance with the provisions of this article.

Article 91

In respect of any financial year, if it is found —

- a) that the amount authorised to be expended for particular service for the current financial year is insufficient or that a need has arisen for expenditure upon some new serve not included in the Annual Financial Statement for that year, and
- b) that any money has been spent on a service during a financial year in excess of the amount granted for that year.

The President shall have the power to authorise expenditure from the Consolidated Fund whether or not it is charged by or under the Constitution upon that Fund and shall cause to be laid before the Parliament as supplementary financial statement setting out the estimated amount of the expenditure or, as the case may be, an excess financial statement setting out the amount of the excess,

and the provisions of Article 87 to 90 shall (with the necessary adaptations) apply in relation to those statements as they apply in relation to the Annual Financial Statement.

Article 92

- i) Notwithstanding anything in the foregoing provisions of this chapter, the Parliament shall have the power
 - a) to make any grant in advance in respect of the estimated expenditure for a part of any financial year pending the completion of the procedure prescribed in Article 89 for the voting of such grant and the passing of a law in accordance with the provisions of Article 90 in relation to that expenditure;
 - b) to make a grant for meeting an unexpected demand upon the resource of the Republic when on account of the magnitude or the indefinite character of the service, the demand cannot be specified with the details ordinarily given in an Annual Financial Statement;
 - c) to make an exceptional grant which forms no part of the current service of any financial year; and
 - d) to authorise by law the withdrawal of moneys from the Consolidated Fund for the purpose for which such grants are made.
- ii) The provisions of Article 89 to 90 shall have effect in relation to the making of any grant under clause (i) of this article and to any law to be made under that clause, as they have effect in relation to the making of a grant with regard to any expenditure mentioned in the Annual Financial Statement and to the law to be made for the authorisation of appropriation of moneys out of the Consolidated Fund to meet such expenditure.

Article 93

This article relates to the Ordinance making power of the President of the Republic in relation to financial matters when the Parliament is not in session or stands dissolved otherwise.

The clauses are:

- i) At any time when the Parliament is not in session, if the President is satisfied that circumstances exist which render immediate action necessary, he may make and promulgate such an Ordinance as the circumstance appears to him to require, and any Ordinance so made shall, as from its promulgation have the like force of law as an Act of the Parliament; provided that no Ordinance under this clause shall make any provision —
 - a) which would not lawfully be made under this Constitution by Act of the Parliament.
 - b) for appealing or altering any provisions of this Constitution; or
 - c) containing in force any provision of an Ordinance previously made.
- ii) An Ordinance made under clause (i)(a) of this article, shall be laid before the Parliament at its first meeting following the promulgation of the Ordinance and shall, unless it is earlier repealed, cease to have effect at the expiration of thirty days after it is so laid or, if a resolution disapproving of the Ordinance is passed by the Parliament before such expiration, upon the passing of the resolution.
- iii) At any time when the Parliament stands dissolved the President may, if he is satisfied that circumstances exist which render such action necessary, make and promulgate an Ordinance authorising expenditure from the Consolidated Fund, whether the expenditure is charged by the Constitution upon that Fund or not, and any

Ordinance so made shall, as from its promulgation, have the like force of law as an Act of the Parliament.

- iv) Every Ordinance promulgated under clause (iii) of this article, shall be laid before the Parliament as soon as may be and the provisions of Articles 87, 89 and 90 shall, with necessary adaptation, be compiled within thirty days of the reconstruction of the Parliament.

Thus the system of government budgeting, developed in England from 1833, was adapted by the then British India under the India Act, of 1858, 1909, 1919 and 1935 and subsequently after the partition of India in 1947, Pakistan also included the British system of budgeting under the 'Pakistan Provisional Constitution Order of 1947, Constitutions of 1958 and 1962. In 1971, Bangladesh being freed from united Pakistan also inherited the British system of budgeting from Pakistan. In addition, Bangladesh also followed the classification and codification as embodied in the IMF's system of Government Finance Statistics, 1974. However, the system of government budgeting has changed over time in view of the growing and changing needs of the economy, especially the Constitution of the People's Republic of Bangladesh 1972, has laid down some financial and legislative procedures in respect of constitutional approval of the National Budget.

NOTES AND REFERENCES

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4. Proceedings of the Council of the Lieutenant-General of Bengal for the Purpose of Making Laws and Regulations, Vol. XXV, 1893, Bengal Secretariat Press, Calcutta.
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7. R. Knight, Decentralisation of the Finances of India, The Perseverance Printing Press, Bombay, 1871, p. 11.
8. M. Hossain (1987), p. 46.
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13. Ibid., p. 49.
14. Ibid, p. 49.
15. Ibid, p. 49.
16. The Constitution of the Islamic Republic of Pakistan, 1956, Article 40, 41 and 42, Ministry of Law, GOP.
17. Cited in M. Hossain (1987), p. 54.
18. The Constitution of the Islamic Republic of Pakistan, 1962, Article 63.
19. Ibid, Article 42.
20. See Chapter 4 of this study. Also see M. Hossain (1987), p. 22.
21. The Constitution of the People's Republic of Bangladesh, 1972, Article 80 to 93, quoted in M. Hossain (1987), pp. 54-64.

Chapter 4

BANGLADESH BUDGET IN PRACTICE

1. Introduction

In Chapter 3 we explained the evolution and legal/constitutional heritage of government budgeting in Bangladesh. In this chapter an attempt is made to explain the Bangladesh Budget in practice especially its structure, preparation, procedure, approval and implementation. Accordingly, section 2 deals with the structure, section 3 with the preparation, procedure and approval, and section 4 with the implementation of the Bangladesh Budget.

It should, however, be noted here that the Constitution of Bangladesh (1972) does not use the term 'Budget', rather it refers to the 'Annual Financial Statement' (Article 87), showing the estimated receipts and expenditures of the government for a particular fiscal year. However, it is the term 'Budget' that can be given, as a single name, to the 'Annual Financial Statement'.

2. Structure of the Bangladesh Budget

The GOB, as noted earlier, follows the British system of budgeting along with the system of classifications of government revenues i.e., tax and non-tax revenues (Appendix A), classifications of government expenditures i.e., functional and economic (Appendix B) and financing of a government deficit (Appendix C) as embodied in the IMF's Manual on Government Finance Statistics (GFS), 1974.

Like many other developing countries of the world, the GOB maintains separate current and capital budgets, of which more later¹.

Here, let us first draw a picture of the structure of the Bangladesh Budget at a glance, showing receipt and expenditure on each side of the current and capital budget as shown in the Table 1 below. We

Table 1
Structure of the Bangladesh Budget

Current Budget	
Revenues	Expenditures
Tax Revenue	Current Government Consumption
Non-Tax Revenue	Subsidies, Grants and Transfer Payments
	Interest Payments
	Other Current Expenditures
Revenues — Expenditures = Net Current Surplus or Deficit = Net Saving or Dissaving	
Capital Budget	
Receipts	Outlays
Internal Resources	Physical Investment
External Resources	Purchase of Existing Assets
	Net Lending
	Other Capital Expenditures
Receipts — Outlays = Change in Cash Balances = Overall Budget Surplus or Deficit	

Source : Drawn on the basis of Budget Summary Statements, Ministry of Finance, GOB.

like to note here, that this structure is a rearrangement of items from Appendix A and B.

In compliance with Article 84 of the Constitution of the Republic (1972), cited earlier, there are two constituent parts

of the 'Annual Financial Statement' or the Budget of the GOB. These are :

- a) The Consolidated Fund; and
- b) The Public Account of the Republic.

These two are, however, not separate physical entities with separate cash balances but grouped distinctly showing the difference between the nature of their receipts and disbursements, their treatment in accounts and the modes of approval of their disbursements.

Receipts side of the Consolidated Fund:

On the receipts side, the Consolidated Fund of the GOB includes²:

- i) Tax Revenue,
- ii) Non-Tax Revenue,
- iii) Grants;
- iv) Public Debt and Advances.

i) Tax Revenue includes:

- a) Taxes on Income and Profits;
- b) Taxes on Property and Capital Transfer;
- c) Taxes on Domestic Goods and Services; and
- d) Taxes on Foreign Trade and Transaction.

ii) Non-Tax Revenue includes:

- a) Interest, Dividend and Profits from Nationalised Sectors;
- b) General Administration and Services;
- c) Social and Community Services;
- d) Economic Services;
- e) Agriculture and Allied Services;
- f) Industry and Mining;
- g) Water and Energy;
- h) Transport and Communications;

- i) Other Non-Tax Revenues; and
- j) Capital Revenue.

(Details of revenue structure are explained in Chapter 5)

iii) Grants include:

- a) Foreign Aid Grants

iv) Public Debt and Advances include:

- a) Domestic Debt (Permanent);
- b) Foreign Debt (");
- c) Floating Debt; and
- d) Loans and Advances

(Detailed analysis of grants, loans and advances is taken up in Chapter 7).

Disbursement Side of the Consolidated Fund:

On the disbursement side, the Consolidated Fund of the GOB is categorised into³.

i) Revenue Expenditure

(Current non-development expenditure); and

ii) Capital Expenditure (development expenditure).

(Chapter 6 and 7 deal with revenue expenditure and capital expenditure in details respectively).

According to the procedure laid down in the preparation of the Bangladesh Budget all income and expenditures are grouped under budget heads called 'Major Heads'. These are again divided into Sub-Heads, Minor Heads and Detailed Heads⁴.

Again, the entire receipts and expenditure including loans and advances are arranged with unique 'code' numbers and 'descriptive' numbers for the convenience of identification by source of income and direction of expenditure⁵. The code list of major heads

which is now followed in Bangladesh, however, was revised in 1983⁶, with effect from 1st July, following the analytical framework of 'Government Transactions' as evolved in the International Monetary Fund's (IMF) Draft Manual on Government Finance Statistics within the framework of U.N's 'System of National Accounts' classification⁷.

In Bangladesh all transactions of the government are grouped into six sections, with defined activity/function having specific code numbers (two digits for receipts and three digits for expenditure). Details are given below⁸.

	<u>Activity/Function</u>	<u>Range of Code Numbers</u>
A. <u>Receipts:</u>		
Section I	Revenue and Grants	1 to 73
	Tax Revenue	1 to 19
	Non-tax Revenue	20 to 66
	Capital Revenue	67 to 70
	Grants	71 to 73
Section II	Capital Receipts	74 to 99
	Public Debt and Advances	74 to 79
	Public Account (Receipts)	80 to 99
B. <u>Expenditure :</u>		
Section III	Revenue Expenditure	100 to 179
Section IV	Capital Expenditure	180 to 190
	Public Debt and Advances (Repayment)	191 to 199
Section V	Development Expenditure	200 to 299
Section VI	Public Account (Expenditure)	300 to 320

Public Account;

The Public Account is that part of the exchequer of the Republic which contains receipts other than those of the Consolidated Fund. The Public Account mainly relates to the transactions such as, Government Employees' Provident Fund (State Provident Fund), Post Office Savings Bank Deposits, proceeds of Savings Schemes and various other deposit accounts (viz. judicial deposit, foreign aid deposit, local funds, etc.). It also includes depreciation funds of government commercial departments, various adjusting heads of accounts (suspense and remittance), etc. Its expenditure comprises those disbursements which are set off against its receipts⁹. In respect of all these transactions the GOB acts as the banker or custodian of these funds.

It should be noted here that some of the items of the Public Account represent real cash flows from and into the exchequer, while other items represent only book-keeping transactions. But as a part of the total Annual Financial Statement, the Public Account of the Republic is so construct that the difference between its total receipts and total expenditure always represents a net accretion to or depletion of cash resources in the economy. This is also known as the net domestic capital receipts (plus or minus) and is included in the Consolidated Fund receipts for government spending¹⁰. Interestingly enough, both receipts and expenditure of the Public Account bear the same name but the identification code numbers are different.¹¹

3. Preparation of the Bangladesh Budget

(a) Principles of Preparation

In Bangladesh the budget is prepared for a twelve-month period which begins on July 1, and ends on June 30 of two successive calendar years. The time frame is called a fiscal or financial year. (For example, 1984-85 budget period = 1st July, '84 to 30th June, '85).

The overall budget preparation needs to have a defined time horizon known as budget calendar. The budget calendar of the Government of the People's Republic of Bangladesh is shown in Appendix D. Budgetary measures are adopted on the basis of certain fundamental objectives of economic and financial policies of a country. These objectives are, however, subject to change and influenced by many internal and external factors which are invariably taken into account in formulating the budgetary policies of the government. The distinct policy objectives for budgetary operations and policies in general are:

- i) allocative objective i.e., allocation of resources between the public and private sectors as well as within these sectors for promoting income, employment and output of the nation;
- ii) distribution function, i.e., distribution of income and wealth in conformity with the society's preference pattern; and
- iii) stabilization function i.e., maximising employment consistent with reasonable price stability and a satisfactory rate of growth¹².

In Bangladesh the budgetary preparation involves every year¹³:

- i) formulation of proposals and decisions of running the finances of the government,
- ii) an authorisation for raising the revenue and to incur expenditure,
- iii) a forecast of the results expected in order to formulate future budgetary policy;
- iv) some criteria to determine the relative impact of items under the revenue or the expenditure for attaining the pre-determined objectives during a year.

In Bangladesh following the theoretical policy guide-lines, the 'Annual Budget' is prepared on the consideration of¹⁴:

- i) Expenditure Objectives; and
- ii) Policy Content.

i) Expenditure Objectives:

According to the expenditure objectives the GOB prepares two types of budget —

- a) Revenue Budget or Current Budget (Non-Development Budget); and
- b) Capital Budget or Development Budget.

The Revenue budget contains the revenue receipts from various tax and non-tax sources of receipts as noted in the earlier section, for meeting the current expenditures. Current expenditures are meant for normal running of the various government departments and services like the following¹⁵:

- i) General Services:
 - a) General Administration
 - b) Law and Order
 - c) Defence
 - d) Other General Services.
- ii) Fiscal Services;
- iii) Foreign Affairs;
- iv) Social and Community Services;
- v) Economic Services;
- vi) Subsidies, Grants-in-Aid, Contributions;
- vii) Interest Payments and Transfer Payments;
- viii) Other Unexpected, Unallocable Expenditures.

In general, the expenditure which does not create any asset is treated as revenue expenditure. In addition, all grants to institutions and other organisations are also treated as current expenditure. The 'Revenue Surplus' or (deficit) in any particular fiscal year is the difference (positive or negative) between revenue receipts and revenue expenditure.

In the capital budget or development budget of the GOB, the receipts by which the development activities are financed include¹⁶—

- i) Total Internal Resources Comprising —
 - a) Revenue surplus from the revenue budget on the basis of existing taxes and duties.
 - b) New tax measures,
 - c) Net domestic capital receipts,
 - d) Extra budgetary resources,
 - e) Net outcome of the food budget,
 - f) Recoveries of loans granted to autonomous bodies, and
 - g) Sale of government property, treasury bills, etc.

ii) Total Foreign Assistance Comprising —

- a) Project aid,
- b) Non-project aid (counterpart funds of commodity aid) and
- c) Others.

Capital payments which mainly include development expenditure are designed for the purpose of creating capital assets, which add to the existing economic potential and generate investment activity in the economy. The main feature of expenditure in this budgetary account is that these must involve development of infrastructure or acquisition of permanent assets of public utility like irrigation, industrial projects, etc., purchases of land and intangible assets, capital transfer, etc.

The capital transactions are often termed as 'Collective Investment' whereas the current expenditures are termed as 'Collective Consumption'. The former not only change the form but also increases the volume of the gross assets of the government while the latter reduces the gross assets of the government. In identifying the capital expenditure, however, the criteria like life expectancy, revenue producing, depreciation, amortization and capital formation are also considered¹⁷.

ii) Policy Content:

According to the policy content, budgetary preparation in Bangladesh involves:

- a) Proposals for mobilization of resources both internal and external,
- b) Proposals of revenue expenditure for carrying out basic functions of the government,

- c) Proposals of expenditure for development work i.e., ADP,
- d) Credit and liquidity programme, i.e., money budget; and
- e) Authorisation for implementation of budgetary policies¹⁸.

(b) Preparation of the Revenue Budget

Budget preparation is a two-way process of reaching decisions on the size and composition of expenditures and revenues.

The process of budget formulation in Bangladesh is initiated by the Ministry of Finance of the GOB, by issuing budget circulars and directives indicating the principles to be followed in projecting the expenditure and for estimating government income¹⁹. Circulars and directives are issued to the officers in charge of the administrative units where expenditure and collection of receipts will take place. It should be noted here that both estimates of revenues and expenditures should take account of forecasts of economic, demographic, and other conditions of the economy. In a primary-producing country like Bangladesh, economic forecasts are, however, subject to wide ranges of error, but forecasts of some kind cannot be avoided in making budget estimates and budget circulars and directives are made accordingly as far as practicable.

In Bangladesh the circulars and directives are made according to the constitutional provisions and their statutory rules, orders and instructions like²⁰ —

- a) General Financial Rules (GFR),
- b) Bangladesh Financial Rules (BFR),

- c) Treasury Rules (TR), and
- d) Financial Delegation Orders (FDO).

In addition to these, there are defined authorities (known as 'Estimating Authority') responsible for estimating income by areas of activity and watching the progress of collection. Again, there are assigned authorities (known as 'Controlling Authority') responsible for control over expenditure in each demand for grant. The list of authorities are also published by the Ministry of Finance of the GOB²¹.

According to the prescribed rules, the original estimates are framed in greater details by the Agencies and Departments (Administrative Units) keeping in view the trends of past actuals, current trends and future expectations and commitments. The estimating officers of the respective administrative units send their estimates to their 'Controlling Authority (Administrative Ministries or Divisions)'. The latter examine and pass them on to the 'Controller General of Accounts' (CGA) and the Ministry of Finance with their recommendations. The revised estimates for the current year and the budget estimates for the coming year are accordingly made. Meanwhile the CGA forwards the estimates received by him after some re-processing and adding to them the figures of actuals for the previous year²². A set of budget documents showing overall budgetary information of the Bangladesh Budget is placed in Appendix E.

The estimates as recorded by the controlling officers are further scrutinised, checked and balanced in details by the Ministry

of Finance in accordance with the specified forms meant for the estimates in question. On completion of the scrutiny of budget estimates, the Ministry of Finance indicates in a brief note, the basis of judgement about the estimates to be adopted, along with a statement of the supporting reasons, and send it to the 'Controlling Authority' concerned. At a later stage, a series of discussions are held between the representatives of the Finance Division and the Controlling Officers of concerned Ministries and Divisions. And finally, at these discussions, the latest figures of actuals and the estimates are finalised and accepted for inclusion in the 'National Budget',²³.

(c) Preparation of the Development Budget

In Bangladesh 'Development Budget' or Annual Development Programme (ADP) as it is commonly known, is an integral part of the Annual Budget which relates mostly to investment within the framework of the Five-Year Plan. It is the link between the Annual Plan as prepared by the Planning Commission of Bangladesh and the Annual Budget prepared by the Ministry of Finance of Bangladesh. Annual Plan is a disaggregated outlook within the Five-Year Plan framework. Following the Annual Plan the Annual Development Plan (ADP) or Annual Development Budget is drawn²⁴.

The process of preparation of the Annual Development Budget (ADB) thus, involves a close and continuous collaboration between the Planning Commission and the Ministry of Finance. The ADP is, however, primarily formulated by the Planning Commission in consultation with the different Ministries/Divisions and Agencies in

terms of sectoral priorities and programmes to fit into the overall outlay as decided by the Ministry of Finance/Planning Commission.

When the total outlay of the ADP along with sectoral allocations are decided, this is made known by the Planning Commission to the different Ministries/Divisions and Agencies who prepare their respective development projects/schemes in the prescribed proforma given by the Planning Commission known as 'Project Proforma' (PP) for inclusion in the ADP²⁵. Project schemes are classified into three categories as shown below on the basis of their processing, costing and approval.

- Category 'A' : All Projects/Schemes costing upto
Tk. 20 million
- " 'B' : All Projects/Schemes costing over
Tk. 20 million and upto Tk. 50 million
- " 'C' : All Projects/Schemes costing more than
Tk. 50 million.

This categorisation of projects/schemes with cost limitations, however, is flexible and changes over time with the changing needs of the economy. In general, the National Economic Council (NEC) is the highest authority for approval of projects/schemes of any cost range. Besides and below it, there are:

- a) the Executive Committee of the NEC;
- b) the Project Evaluation Committee (PEC) for every sector in the Planning Commission; and
- c) the Departmental Project Evaluation Committee (DPEC) for every Ministry/Division.

The authority component to approve the projects/schemes are as under:

- Category 'A' : Minister-in-charge of the concerned Ministry on the recommendation of DPEC;
- Category 'B' : Minister-in-charge of Planning on the recommendation of the Planning Commission's PEC; and
- Category 'C' : Executive Committee of the NEC on the recommendation of the PEC of the Planning Commission and the Minister-in-charge of the Ministry of Planning.

The Planning Commission of Bangladesh sets general rules/principles following which the schemes/projects are included in the ADP. Accordingly, after the development programmes of various Ministries/Divisions and Agencies are finalised and decided upon, the Planning Commission compiles the ADP and submits the same to the NEC/Cabinet for approval. After the NEC has approved the ADP, the Planning Commission sends them to the Ministry of Finance for reflection in appropriate form in the budget. The Finance Ministry accepts the account of development programme as prepared by the Planning Commission and puts it in the accounting framework of its annual budget in the name of 'Demand for Grants and Appropriations' (Development)²⁶.

4. Approval Procedure

According to the constitutional prerequisite, the procedure of approval of the 'Annual Financial Statement' in Bangladesh can be viewed from three distinct points:

- i) When the Parliament is in Session,
- ii) When the Parliament is not in Session, and

iii) When the Parliament stands dissolved.

(i) When the Parliament is in Session

It is important to note here that a budget presented to the Parliament is preceded by a discussion and approval of the Cabinet although the Finance Minister is responsible for its preparation and presentation. Proposed expenditure from the Consolidated Fund is submitted to the vote of the Parliament in the form of 'Demand for Grants', commonly referred to as 'Voted' expenditure, governed by the provision of Article 89(ii) of the Constitution of the Republic cited earlier.

In accordance with Article 87 of the Constitution of Bangladesh, cited earlier, discussions on budget take place in three stages, namely²⁷:

- (a) a general discussion on the budget as a whole;
- (b) discussion on the demand for grants and appropriations in respect of charged expenditure; and
- (c) discussion and voting, if required, on the demand for grants and appropriations relating to other expenditure.

(a) At the first stage, members of the Parliament can discuss the budget as a whole or a part thereof or can raise any question of principle involved therein. At this stage, the Finance Minister replies to the various questions, but neither a motion is allowed to be moved nor it is allowed to the vote of the House [Article 89(i)].

(b) After the general discussion, discussions on 'Demand for Grants Relating to Charged Expenditure' start, but in accordance with Article 89(i) they are neither submitted to the vote in the Parliament nor any motion can be moved for its reduction.

(c) Finally, according to the provisions of Article 89(i) of the Constitution, proposed expenditure from the Consolidated Fund outside the category of charged expenditure is submitted to the 'vote' of the Parliament in the form of 'Demand for Grants'.

This is commonly referred to as 'Other Expenditure' as distinct from 'Charged Expenditure'²⁸. Ordinarily, each Ministry proposes demand for grants separately but in cases where Ministry-wise classification can not be made readily, the Finance Minister can include in one demand for grants containing:

- a) a statement of total grants proposed; and
- b) a statement of detailed estimate under each grant divided into items.

At this stage motions are allowed to be moved on such grants to reduce a demand for grants but not to increase a grant or to alter the destination or purpose of the grants²⁹.

A member of the Parliament, under such motion, for reduction of a demand, can raise questions on a specific policy and suggest an alternative, known as 'Disapproval of Policy Cut', can suggest a reduction of a specified demand by a specific amount called 'Economy Cut', and can throw specific grievance within the spheres of responsibility of the government called 'Token Cut'³⁰.

It is important to note that the expenditure of the 'Public Accounts' of the Republic does not require a similar treatment of

approval as is required for the 'Consolidated Fund', because its expenditures are set off against its receipts³¹.

After the Parliament has discussed the 'Charged Expenditure' and voted on the 'Demand for Grants', the two are embodied in an 'Appropriation Bill' introduced in the Parliament under the provision of Article 90 of the Constitution, cited earlier³². When the Bill is passed in the Parliament it then becomes an 'Appropriation Act' which forms the basis for all withdrawal from the Consolidated Fund. Thereafter, the Bill is sent to the Head of the State for his formal signature following which the budget becomes operational³³.

The same Parliamentary procedure is also applicable to the 'Supplementary Budget' as well as to the 'Excess Budget'. The 'Supplementary Budget' takes into account additional needs which may have arisen during the year and the 'Excess Budget' embodies additional expenditure that may subsequently be found to have taken place after the close of the year in excess of the demand granted by the Parliament through the Annual and Supplementary Budgets for a particular year³⁴.

Again, when the full procedure leading to the enactment of the Appropriation Bill has not been completed before the commencement of a financial year, the Parliament has the power to make, pending the completion of procedure, an advance grant in respect of estimated expenditure for a part of the financial year known as 'Voted Account', which, however, is subsequently merged in the amount granted for the whole financial year³⁵.

(ii) When the Parliament is not in Session

At any time when the Parliament is not in session, if the President is satisfied that Circumstances exist 'which render immediate action necessary', he may 'make and promulgate such an Ordinance as the circumstance appears to him to require, and any Ordinance so made shall, as from its promulgation, have the like force of law as an Act of the Parliament'³⁶. Again, an Ordinance so made, is to be laid before the Parliament at its first meeting following the promulgation of the Ordinance, 'and shall, unless it is earlier repealed, cease to have effect at the expiration of thirty days after it is so laid or, if a resolution disapproving of the Ordinance is passed by the Parliament before such expiration, upon the passing of the resolution'³⁷.

(iii) When the Parliament Stands Dissolved

At any time when the Parliament stands dissolved and the situation that exist 'which render such action necessary', the President may 'make and promulgate an Ordinance authorising expenditure from the Consolidated Fund' which 'have the like force of law as an Act of the Parliament'³⁸. Here again, the Ordinance so made, 'shall be laid before the Parliament as soon as may be and the provisions of Articles 87, 89 and 90 shall, with necessary adoption, be compiled within thirty days of the reconstruction of the Parliament'³⁹. However, the method of preparation of budget remains the same as they are when the Parliament is in existence.

5. Budget Implementation

Budget implementation or execution is an administrative process which delineates the function between the Ministry of Finance, GOB, and the spending agencies. After the budget has been passed by the Parliament, its implementation rests with the executive Ministries along with their attached and subordinate office. It is thus the responsibility of the spending authorities to ensure that the funds allotted to them are actually spent on the purposes specified in the budget. In other words, the preparation as well as implementation authority should be guided by the fact that a budget implies denial of many requests for funds but allocation to most deserving few. However, the main responsibility lies with the Ministry of Finance, GOB, to see that the approved budget is working on the basis of guided purposes. In other words, the Finance Division of the Ministry of Finance, GOB, is responsible for coordinating the overall discipline in the implementation process of the budgetary proposals and decisions⁴⁰.

The implementation of the budget is also regarded as a part of the budget procedure involving balancing of government income and expenditure. The administrative process involving assessment, collection, enforced collection, legal consequences from individuals, etc. form part of the budget procedure. These together with day to day implementation of the structures of taxes and duties affect the quantum and direction of expenditure involving transfer of resources among different sectors and these, in turn, affect the economic activities during the fiscal year.

Thus the primary concern of the implementation authorities of the budget is to ensure the fulfilment of the financial and economic aspects of outlays. The financial aspects include spending the moneys for purposes specified, maximising government savings, minimising misuses and avoiding lapses or a rush of expenditure towards the end of a fiscal year. The economic task, on the other hand, consists of ensuring that the physical targets of programmes have been achieved.

Under the above circumstances, budget implementation process involves the following interrelated phases:

- a) an allocation system under which expenditure is controlled by release of funds;
- b) acquisition and supervision of funds;
- c) an accounting system that records the government transactions and provides a framework for an analysis of their implementation; and
- d) a reporting system that permits of a periodical appraisal of actual implementation of policies⁴¹.

In Bangladesh for budgetary control and implementation, there is a 'Delegation of Financial Powers', patterned by the Ministry of Finance. This delegation has the power to issue, or refuse to issue, expenditure sanctions within the limit set by the budget⁴². Under the delegated authority of financial powers, administrative Ministries, Divisions and Heads of the Departments are empowered to re-appropriate funds between budget provisions on certain items within the same demand for grants. The Ministry of Finance, however, retains some power, beyond the delegated authority of financial powers. But

reappropriation from one Demand/Grant to another Demand/Grant is not admissible under statutory rules as these are voted by the Parliament or assented by the President. Again, re-appropriation is not admissible from a 'charged' head to a 'voted' head as the voted grant can not be increased except by the Parliament⁴³.

However, it is the accounting system of Bangladesh which acts as the central controlling organisation for the implementation of budget. The accounting system has been designed to ensure the financial control and accountability for the safeguarding of public funds and for the regularity and propriety of expenditure of these funds. No attempt is, however, made here to explain the accounting system of Bangladesh in details but in brief⁴⁴.

In Bangladesh for the regularity and propriety of each individual transaction under the vote, the provision of Principal Accounting Officer (PAO) has been made which is related to a Ministry or a Division and the Secretary or Secretary-in-charge of a Ministry/Division acts as the PAO of the vote/votes of account under it with functions and responsibilities assigned by the Ministry of Finance in 1983⁴⁵.

In addition, under each Ministry/Division there may be one or more heads of departments and under head of department, there may be a number of Drawing and Disbursing Officers with prescribed authority by the existing Financial and Treasury Rules to incur petty expenditures. Again, there is the Chief Accounts Officer (CAO) i.e., head of accounts office, with assigned responsibilities, who provides accounting support to the PAOs and ensure propriety, regularity and accuracy of transactions⁴⁶. In short, after the

budget estimates are approved by the Parliament, the responsibility for the control and use of the budget rests with the PAO, who discharges his duties with the assistance from the heads of department under his control on the one hand and CAOs on the other. This is known as the departmentalisation of accounts⁴⁷.

However, on the accounting side, the main responsibility of preparation and consolidation of the accounts of the Republic lies with the Controller General of Accounts (CGA), who receives and consolidates the accounts from the offices of the CAOs, as well as of the Regional, District and Upasila Accounts Officers. In addition, the audit side is taken care of by the Directors of Audit and the entire accounting and auditing responsibility of the Republic lies with the Comptroller and Auditor General of Bangladesh (C and AG)⁴⁸.

6. Budget Evaluation

In Bangladesh there are three standing committees, constituted by the Parliament, in respect of financial matters of the government i.e. the budget and its proper implementation⁴⁹. These are:

- (i) Committee on Public Accounts (CPA),
- (ii) Committee on Estimates (CE), and
- (iii) Committee on Public Undertakings (CPU).

(i) The CPA or the Public Accounts Committee (PAC), as it is commonly known, is responsible for examination of the annual audited accounts of the public expenditure and consists of not more than 15 members of the Parliament other than Minister, with some assigned responsibilities and functions as laid down by the Rules of Procedure of the Parliament (RPP), quoted below⁵⁰:

"There shall be a Committee on Public Accounts for the examination of accounts showing the appropriation of sums granted by the House for the expenditure of the government, the annual finance accounts of the government and such other accounts laid before the House as the Committee may think fit".

"In scrutinising the appropriation accounts of the government and the report of the Comptroller and Auditor General thereon, it shall be the duty of the Committee to satisfy itself —

- (a) that the moneys shown in the accounts as having been disbursed were legally available for, and applicable to, the service or purpose to which they have been applied or charged;
- (b) that the expenditure conforms to the authority which governs it; and
- (c) that every re-appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority".

"It shall also be the duty of the Committee —

- (a) to examine the statement of accounts showing the income and expenditure of state corporations, trading and manufacturing schemes, and projects together with the balance sheets and statements of profit and loss accounts which the president may have required to be prepared or are prepared under the provisions of the statutory rules regulating the financing of a particular corporation, trading or manufacturing scheme or concern or projects and the report of the Comptroller and Auditor-General thereon;
- (b) to examine the statement of accounts showing the income and expenditure of autonomous and semi-autonomous bodies,

the audit of which may be conducted by the Comptroller and Auditor-General of Bangladesh either under the directions of the President or by a statute of the Parliament; and

- (c) to consider the report of the Comptroller and Auditor-General in cases where the President may have required him to conduct an audit of any receipts or to examine the accounts of stores and stocks.

If any money has been spent on any service during a financial year in excess of the amount granted by the House for that purpose, the Committee shall examine with reference to the facts of each case the circumstances leading to such an excess and make such recommendation as it may deem fit".

(ii) The Committee of Estimates (CE) which is composed of not more than 10 members of the Parliament other than Minister, is empowered to judge whether the estimates presented before the Parliament are prepared with maximum possible efficiency and economy. The functions and responsibilities of the CE as laid down in the RPP are⁵¹;

- "(a) to report what economies, improvements in organisation, efficiency or administrative reform, consistent with the policy underlying the estimates may be effected;
- (b) to suggest alternative policies in order to bring about efficiency and economy in administration;
- (c) to examine whether the money is well laid out within the limits of the policy implied in the estimates; and
- (d) to suggest the form in which the estimates shall be presented to the House" .

(iii) For the examination of the working of the public undertakings a Committee on Public Undertaking is constituted by the Parliament which consists of not more than 10 members of the Parliament other than Minister. The main functions of this Committee specified by the RPP are ⁵²;

- "a) to examine the reports and accounts of the public undertakings;
- b) to examine the reports, if any, of the Comptroller and Auditor-General on the Public Undertakings;
- c) to examine, in the context of the autonomy any deficiency of the public undertakings, whether the affairs of the public undertakings are being managed in accordance with sound business principles and prudent commercial practices; and
- d) to exercise such other functions vested in the Committee on Public Accounts and the Committee on Estimates in relation to the public undertakings not covered by clauses (a), (b) and (c) above and as may be allotted to the Committee by the Speaker from time to time;

Provided that the Committee shall not examine and investigate any of the following, namely —

- i) matters of major government policy as distinct from business or commercial functions of the public undertakings;
- ii) matters of day to day administration; and
- iii) matters for the consideration of which machinery is established by any special statute under which a particular public undertaking is established".

From the above discussion we may conclude that the Bangladesh Budget in practice is a continuous process of preparation, approval,

implementation and evaluation. However, all these four stages are not water-tight compartments — they are interlinked. For example, a proper preparation of the budget requires a proper evaluation of the past budget and approval depends on the nature of preparation, and so on.

NOTES AND REFERENCES

1. This section and the next two are based primarily on The Budget in Brief, Various Issues, Ministry of Finance, GOB.
2. The Budget in Brief, 1986-87, p. 5.
3. Ibid, p. 5.
4. Ibid, p. 2.
5. Such a list was initially published by the Auditor General of India in 1938, in 4 volumes which, however, was reprinted by the Accountant General of Pakistan with certain changes and has again been adopted by Bangladesh. See M. Hossain The System of Government Budgeting in Bangladesh, Hassan Publishers, Dhaka, 1987, p. 88.
6. For revised code list of 1983, see M. Hossain (1987), Appendix 4, p. 144.
7. IMF, A Manual on Government Finance Statistics, 1974, Draft, Washington, 1974.
8. M. Hossain (1987), p. 92.
9. The Budget in Brief, 1986-87, p. 92.
10. Ibid.
11. For code numbers of receipts and expenditure of the Public Account, see M. Hossain (1987), Appendix 2, p. 136.
12. Wayland D. Gardner, Government Finance, Prentice-Hall, 1978, pp. 3-12. Also see R.A. Musgrave, The Theory of Public Finance, McGraw-Hill, London, 1959, pp 4-25, for details.
13. The Budget in Brief, 1986-87, p. 1.
14. Gulam Kibria, Government Budgeting in Bangladesh (mimeo) Ministry of Finance, GOB, August, 1976.
15. The Budget in Brief, 1988-89, p. 17.
16. The Budget in Brief, 1986-87, p. 19.
17. A.M.A. Muhit, Budgetary Policy (mimeo) Ministry of Finance, GOB, July, 1983.

18. The Budget in Brief, 1986-87, p. 2.
19. General Financial Rules, (Undated), Ministry of Finance, GOB.
20. Ibid.
21. S.U. Patwari, Financial Administration in Bangladesh, Dipika, Dhaka, 1985, Also see M. Hossain (1987), pp. 75-7.
22. M. Hossain (1987), p. 77.
23. Ibid, p. 77. Also see The Budget in Brief, 1986-87, p. 2 and 3.
24. Ibid, p. 83.
25. S.R. Deb, "The System of Government Budgeting in Bangladesh". A paper prepared for Special Foundation Course, BATC, Dhaka, 1988.
26. Ibid.
27. See Rules of Procedure of the Parliament of the Peoples' Republic of Bangladesh, Bangladesh Parliament, May, 1988, for details. Also see M. Hossain (1987), p. 79.
28. The Budget in Brief, 1986-87, p. 3.
29. M. Hossain (1987), p. 80.
30. Ibid, p. 81.
31. Ibid, p. 81.
32. The Budget in Brief, 1986-86, p. 3.
33. Ibid, p. 3.
34. M. Hossain (1987), p. 80.
35. Ibid, p. 82.
36. The Constitution of the Peoples' Republic of Bangladesh, 1972, Article 93(i).
37. Ibid, Article 93(ii).
38. Ibid, Article 93(iii).
39. Ibid, Article 93 (iv).
40. The Budget in Brief 1986-87, p. 4.
41. S.R. Deb, "The System of Government Budgeting in Bangladesh", (1988), p. 2.
42. For details, See General Financial Rules.
43. Ibid.

44. For details see Introduction to Government Accounting : A Guide on the Departmental System of Accounting of the Government of Bangladesh, Finance Division, Ministry of Finance, GOB, 1983.
45. M. Hossain (1987), p. 105.
46. Ibid, p. 107.
47. Ibid, p. 108.
48. For details, see Introduction to Government Accounting, 1983. Also see M. Hossain (1987), pp. 108-09.
49. These Committees are formed in accordance with Rules of Procedure of the Parliament (RPP) of the People's Republic of Bangladesh, Bangladesh Parliament, May, 1980.
50. Ibid, Rule No. 223, quoted in M. Hossain (1987), pp. 110-11.
51. Ibid, p. 112.
52. See Rules of Procedure of the Parliament (1980), Rule No. 238 and 239, quoted in M. Hossain (1987), p. 113.

Appendix A

A Classification of Government Revenues

Tax Revenue	Non-Tax Revenue
1. Taxes on Net Income and Profits (corporate, company, or enterprise, individuals and other)	1. Income from Public Enterprises
2. Social Security Contributions	2. Administrative Fees
3. Employers Pay Roll	3. Fines and Forfeits
4. Taxes on Property	4. Sales of Government Property
5. Domestic Taxes on Goods and Services (Sales, excises, turnover, value added, license taxes and others)	5. Others
6. Taxes on International Trade and Transactions (import duties, export duties and others)	
7. Miscellaneous Taxes (Poll taxes, stamp taxes and others)	
Total Revenues (Tax + Non-Tax)	

Source : Adopted from IMF, A Manual on Government Finance Statistics, Draft, Washington D.C., 1974, pp. 159-61.

Appendix B

The Classifications of Government Expenditures

<u>Functional Classification</u>	<u>Economic Classification</u>
1. <u>General Public Services</u> <ul style="list-style-type: none"> a) Defence b) Education c) Health d) Social Security and Welfare e) Housing and Community Amenities f) Others 	1. <u>Current expenditures</u> <ul style="list-style-type: none"> a) Expenditures on Goods and Services; Wages and Salaries; Other purchases of Goods and Services b) Interest Payments c) Subsidies and Other Current Transfers: <ul style="list-style-type: none"> To Public Enterprises; To Other Levels of Government; To Household To Other Resident Transfers Abroad
2. <u>Economic Services:</u> <ul style="list-style-type: none"> a) Agriculture b) Mining c) Manufacturing d) Electricity e) Roads f) Water Transport g) Railways h) Communications i) Others 	2. <u>Capital Expenditures:</u> <ul style="list-style-type: none"> a) Acquisition of New and Existing Fixed Capital Assets b) Purchases of Stocks (inventories) c) Purchases of Land and Intangible Assets d) Capital Transfer
3. <u>Unallocable and Other Purposes:</u> <ul style="list-style-type: none"> a) Interest on the Public Debt b) Other Unallocable 	
Total Expenditures	Total Expenditures

Source : Adopted from IMF, A Manual on Government Finance Statistics, Draft, Washington D.C., 1974, pp. 191-93, 208-09.

Appendix C
Financing of Government Deficit

1. Domestic Financing:

- a) From the Central Bank or Other Monetary Authority (new borrowing less amortization, change in deposits^a, change in currency holdings^a)
- b) From Other Banks (new borrowing less amortization and change in deposits and other liquid claims^a)
- c) From other Lenders (net)

2. Financing from Abroad:

- a) From International Development Institutions (net loans and grants^b)
- b) From Other Lenders (net short-term and long-term debt)
- c) Change in Deposits, Negotiable Securities, and other Liquid Assets^a

Total Financing

Source : Adopted from IMF, A Manual on Government Finance Statistics, Draft, Washington, D.C., pp. 229-30.

- a. A reduction is a source of financing and an increase is a negative item.
- b. Grants are classified as an item reducing the deficit rather than a means of financing in the IMF, A Manual on Government Finance Statistics, 1974. See R. Goode, Government Finance in Developing Countries, Tata McGraw-Hill Publishing Company Ltd., New Delhi, 1968, Tables 2-3, p. 18.

Appendix D

Budget Calendar

<u>Particulars</u>	<u>Last Date</u>
1. Printing and Departmental Estimates	31st July
2. Printing and Distribution of Budget forms (Estimating Officers' forms and Controlling Officers' Forms)	31st August
3. Preparation, Printing and Supply of Budget form to the Accounts Officer concerned	30th September
4. Submission of Estimates by the Estimating Officers	10th October
5. Receipt of estimate in the Accounts Office and Ministry of Finance from the Controlling Officers with 3 months actuals	31st October
6. Receipt of Consolidated Estimates in the Ministry of Finance with 3 months actuals from the Accounts Office	25th November
7. Completion of Examination of Budget Estimate in the Ministry of Finance	20th January
8. Receipt of Schedule of New Expenditure in the Ministry of Finance	22nd January
9. Receipt of 6 months' actuals from the Accounts Office	15th February
10. Completion of review of the estimates on the basis of 6 months' actuals in the Ministry of Finance	28th February
11. Preparation and despatch to press of the 1st Edition of the Budget and Schedule of New Expenditure	1st March
12. Receipt back of the 1st Edition of the Budget from Press and despatch to Ministries/Divisions	10th March
13. Forecast of Foreign Assistance for development programme	14th March

Contd..

Appendix D (Contd..)

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|---|------------------|
| 14. Completion of discussions of the Estimates with Administrative Ministries/Divisions | 28th March |
| 15. Receipt of Final Development Programme from Ministry of Planning | 28th March |
| 16. Presentation of the Budget Estimates to the Cabinet | 7th April |
| 17. Presentation and Printing of Civil Budget Estimate, Details of Receipts and Expenditure, Supplementary Estimate, Finance Minister's Speech and Budget at a glance | May |
| 18. Presentation of Supplementary Estimates to the Parliament | May |
| 19. Presentation of the Budget Estimates to the Parliament | 1st Week of June |
| 20. Authentication of Supplementary Estimates | 1st Week of June |
| 21. Authentication of Budget Estimates | 1st July |

Source : Secretariat Instructions, 1976, Instruction 260(a),
Cabinet Secretariat, GOB.

Appendix E

Budget Documents

The following statements constitute the main set of budget documents of the Government of the People's Republic of Bangladesh:

1. Budget Estimate (The Annual Financial Statement):

It shows the Consolidated Fund and Public Account-wise receipts and disbursement separately for "Charged" and "Other than Charged" expenditure by major heads of account and subsequently total 'Demand for Grants'.

2. Budget Summary Statement:

This document shows the estimated revenue receipts and expenditure as well as capital receipts and expenditure along with proposed transactions of Loans and Advances and sectoral allocation of ADP and its financing.

3. Detailed Estimates of Revenue and Receipts:

This document contains the detailed estimates of revenue and receipts from the major and minor heads in broad categories like Actuals of the last year, Revised Estimates of the current year and Budget Estimates of the coming year.

4. The Demand for Grants and Appropriations:

It is in two volumes (Development and Non-Development) containing estimates of expenditure on revenue and capital accounts proposed to be made from the Consolidated Fund. The Non-Development one indicates detailed head-wise break-up of expenditure while the Development one indicates Project/Scheme-wise estimates along with foreign-aided Projects by Ministry/Divisions/Agencies.

5. Detailed Estimates of Grants (Non-Development)

6. Budget Speech Part I :

It shows the objectives of the budget along with performance of the last year in broad outline.

Contd..

Appendix E (Contd..)

7. Budget Speech Part II:

Contains details with new tax measures for the coming fiscal year.

8. Supplementary Estimates:

This document contains the estimates of additional needs for the current year.

9. Other documents associated with the budget:

- a. Revised Annual Developments Programme (RADP) for the current year prepared by the Planning Commission (PC);
- b. Annual Development Programme (ADP) for the coming year, prepared by the Planning Commission.
- c. Budget Estimates of the Autonomous Bodies, showing detailed break-up of receipts and expenditures of the public sector undertakings; and
- d. Economic Survey, for the evaluation of the performance of the economy in the last year.

Source : Budget Wing, Finance Division, Ministry of Finance, GOB.

Chapter 5

REVENUE RECEIPTS OF THE GOVERNMENT OF BANGLADESH

1. Introduction

Unlike the pre-Kenyansian era, the basic concept of modern budgetary policy, as applicable to all developing countries, is the mobilization of revenues and its allocation for maintenance of a high level of economic activity and growth which postulates capital formation. Hence budgetary policy has a vital role both in regard to the generation and mobilization of resources, and their investment in real capital assets.

Again, the concept of the welfare state has been universally accepted, and government expenditure should be allocated to the fulfilling of the purposes of state policy, to alleviate poverty, to increase employment and socio-economic welfare, to develop infrastructure, etc. In short, the faster rate of growth which is the goal set before all developing countries can be attained with increasing participation of the government in the process of development and this, in turn, means an expansion of the public sector necessitating large public revenue.

A developing country like Bangladesh is characterised by the 'vicious circle' of poverty where both money and capital markets are unorganised and poor. And as noted earlier, about 80% of the total development expenditure is contributed by the government. So, the main responsibility of raising revenues to meet the country's current as well as development expenditure aiming at breaking the vicious circle of poverty lies with the government.

This chapter is an attempt to show the trend of revenue receipts of the Government of Bangladesh (GOB) through budgetary measures from 1972-73 to 1984-85. Here we shall devote ourselves to the analysis of the evolution and growth of tax and non-tax revenue structure of Bangladesh and their composition over the period under study taking different plan periods into consideration.

The total revenue receipts of the GOB have increased during the period under study. This is surely an indication of the growth of the economy. Table 1 shows that the total revenue of the GOB has increased from Tk. 2302 million in 1972-73 to Tk. 35767 million

Table 1

Total Revenue Receipts of the GOB and Its Growth
Rate Per Annum in Percent from 1972-73 to 1984-85

Year	(Tk. in million)	
	Total Revenue Receipts	Growth Rate
1972-73	2302	....
1973-74	3724	61.7
1974-75	6240	67.5
1975-76	8841	41.6
1976-77	9337	5.6
1977-78	11761	26.0
1978-79	14517	23.4
1979-80	16805	15.7
1980-81	22568	24.3
1981-82	23570	4.4
1982-83	24665	5.4
1983-84	28126	13.2
1984-85	35767	27.1

Source: Calculated on the basis of Appendix A to this chapter.

in 1984-85 or the total revenue receipts have increased at a compound rate of about 26.0% per annum during the period under study. The overall growth trend was, however, not secular but cyclical in nature, showing its declining tendency from the early seventies to the early eighties and an increasing tendency in the mid-eighties.

But as regards the performance of the revenue structure of Bangladesh, Table 2 shows that the revenue-GDP ratio of Bangladesh never equalised the average of some selected 14 Asian developing countries including Bangladesh. In other words, the rate of collection of revenue of the GOB was very poor in comparison with other Asian developing countries. However, as we shall see later, mere growth rates of total revenue as well as revenue-GDP ratios are not sufficient to comment on the performance of the revenue structure of a country.

Table 2

Total Revenue as a Percentage of GDP of
Bangladesh and Average Revenue-GDP
Ratios of 14 Asian Developing Countries

Year	Bangladesh	Asian Average
1973-74	5.40	12.57
1974-75	5.03	13.45
1975-76	8.56	14.61
1976-77	9.34	15.00
1977-78	8.44	15.18
1978-79	8.85	15.45
1979-80	8.50	16.01

Contd..

Table 2 (Contd..)

1980-81	10.26	16.46
1981-82	9.37	17.25
1982-83	9.10	16.59
1983-84	8.50	16.75

Source : Col. (2) is calculated on the basis of Appendix A to this chapter, and the rest from International Financial Statistics: Supplement on Government Finance Statistics, IMF, 1986, p. 70.

2. Tax and Non-Tax Revenue : Their Growth and Shares

The revenue receipts of the GOB are divided into two components, viz., receipts from taxation (tax revenue) and receipts from other sources (non-tax revenue). Table 3 shows that the total receipts from taxation have increased from Tk. 1910 million in 1972-73 to Tk. 29675 million in 1984-85 or at a compound rate of about 26.0% during the said period.

The year to year growth rates of tax revenue showed its declining trend from the early seventies to the early eighties and an increasing tendency in the mid-eighties. The overall growth trend was, however, cyclical in nature with an exceptionally high rate in the early seventies and an almost invariable rate in the late seventies to the early eighties. Except in 1973-74, 1974-75 and 1975-76 the growth rates of tax revenue varied between 6.2% and 28.2% over the years.

Table 3

Growth of Tax and Non-Tax Revenue Receipts Per Annum
in Percent and Their Percentage Shares to the Total
Revenue Receipts of the GOB (1972-73 to 1984-85)

(Tk. in million)						
Year	Tax Receipts	Growth Rate	Non-Tax Receipts	Growth Rate	Share of Tax Revenue	Share of Non-Tax Revenue
1972-73	1910	...	392	...	83.0	17.0
1973-74	3003	62.4	621	58.4	83.0	17.0
1974-75	5166	66.4	1074	73.0	82.7	17.3
1975-76	7358	42.4	1483	38.0	83.2	16.8
1976-77	7855	6.7	1482	-00.1	84.1	15.9
1977-78	10074	28.2	1687	13.8	85.6	14.4
1978-79	12330	23.4	2187	29.6	85.0	15.0
1979-80	14645	18.8	2160	-01.2	87.0	13.0
1980-81	18235	24.5	4333	100.6	80.8	19.2
1981-82	19901	9.1	3669	-15.3	84.4	15.6
1982-83	21301	8.0	3364	-08.3	86.4	13.6
1983-84	23955	11.5	4171	24.0	85.0	15.0
1984-85	29675	23.8	6092	46.0	83.0	17.0

Source : Calculated on the basis of Appendix A to this chapter.

Similarly, the non-tax revenue receipts of the GOB have increased over the years. Table 3 shows that the total non-tax receipts of the GOB have increased from Tk. 392 million in 1972-73 to Tk. 6092 million in 1984-85 or at a compound rate of about 26% per annum over the years. But the overall growth trend was declining in nature with see-saw fluctuations varying from the negative (-0.1%) to the positive (100%). By the mid-eighties, however, an increasing growth trend of non-tax revenue is recorded.

But it is interesting to note that despite the cyclical trend of growth of both tax and non-tax revenue receipts, their percentage shares to the total revenue receipts of the GOB remained quite stable over the years. Table 3 shows that more than 80% of the total revenue receipts is shared by the tax revenue, while the rest less than about 20% is shared by the non-tax revenue. Thus the absolute predominancy of the tax revenue in the revenue structure of Bangladesh is distinctly felt for the period under study.

Let us now view the growth trend of total revenue receipts, tax and non-tax revenue receipts and their percentage shares to the total revenue of the GOB taking different plan periods into consideration. Table 4 shows that the yearly average growth rate of total revenue receipts of the GOB declined distinctly from 38.6% in the First Five-Year Plan (FFYP) to 19.5% and 16.3% in the Two-Year Plan (TYP) and the Second Five-Year Plan (SFYP) respectively. The growth

Table 4

Yearly Average Growth Rate of Total Revenue Receipts,
Tax and Non-Tax Receipts and Their Shares to the Total
Revenue During Different Plan Periods

Period	(In percent)				
	Growth of Total Revenue	Growth of Tax Revenue	Growth of Non-Tax Revenue	Share of Tax Revenue	Share of Non-Tax Revenue
FFYP (1973-78)	38.6	39.4	33.9	83.7	16.3
TYP (1978-80)	19.5	20.6	13.1	86.0	14.0
SFYP (1980-85)	16.3	15.2	23.0	84.0	16.0

Source : Calculated on the basis of Table 1 and 3 of this chapter.

trend of tax and non-tax revenue earnings during the plan periods also revealed the same information, except the fact that during the SFYP the non-tax revenue earnings showed an increasing trend.

But the percentage shares of tax and non-tax revenue earnings to the total revenue earnings of the GOB remained almost invariable over the plan periods. Table 4 reveals the fact that the percentage share of the tax revenue accounted for an about five times higher share than that of non-tax revenue over the three plan periods indicating the dominant role of tax revenue over non-tax revenue in the revenue structure of Bangladesh.

The rather low contribution of non-tax revenue to the total revenue of Bangladesh and its see-saw fluctuations demands a close scrutiny.

Non-Tax revenue in Bangladesh comprises profits from the nationalized sectors (manufacturing industries, banking and others), stamp (judicial), registration, interest (debt services), civil administration, mint and currency and collection from other autonomous bodies like railways, postal services, telegraphs and telephone, etc. (Appendix B).

The fact that non-tax revenue contributed very little was due mainly to the poor performance of some of the major heads of non-tax revenue. Thus while heads like debt services, civil administration and mint and currency, for example, recorded an improvement in generating revenue over the years, forest and registration, for example, registered a negligible performance. More seriously enough, net revenue earning from the postal department registered always a

negative figure. Similarly earning from telephone and telegraph (net) was also very poor and it was even negative during the late seventies (Appendix B).

In realising the importance of self-reliance by reducing the dependency of external resources, a considerable emphasis was placed on added surplus generation from nationalised public sector enterprises in the form of non-tax revenue. But their contributions were far from satisfactory for a variety of reasons, such as, inadequate operational freedom, lack of adequate internal and foreign demand, lack of flexibility for adjustment of product prices in response to change in production cost, absence of accountability, shortage of skilled personnel and managerial inefficiencies, irregular power supply, fiscal anomalies, labour unrest, etc¹.

An IBRD report (1982) showed that public sector enterprises of Manufacturing, Energy and Transport Units basically contributed nothing (Table 5) to the government revenue between 1977-78 and 1981-82. In fact, these enterprises recorded a negative contribution for the said period except a negligible positive addition (1.0%) in 1980-81.

Table 5
Losses/Profits of Public Sector Bodies

Sector	(Tk. in million)				
	1977-78	1978-79	1979-80	1980-81	1981-82
A. Manufacturing	-1081	-489	876	586	-904
1. BJMC	-949	-585	1842	593	-1081
2. BTMC	- 58	224	530	-516	-1099
3. BSFI	13	16	40	390	469
4. BESC	48	111	147	124	-120
5. BCIC	-119	23	-23	56	71
6. BFIDC	- 6	- 18	1	10	12
B. Energy	-221	-317	-1570	-315	105
1. BPDB	...	-391	-230	-333	...
2. BPC	...	74	-1340	520	...
C. Transport	- 5	-11	-15	-62	-49
1. BIWTC	...	-14	-20	-41	...
2. BSC	...	- 2	69	113	...
3. BB	...	5	-64	-144	...
D. Total	-1307	-817	-709	209	-848
As % of Total Revenue	-10.5	-5.4	-4.1	1.0	-3.3

Note: BJMC = Bangladesh Jute Mills Corporation BPDB = Bangladesh Power Development Board
 BTMC = Bangladesh Textile Mills Corporation
 BSFI = Bangladesh Sugar and Food Industries BPC = Bangladesh Petroleum Corporation
 BESC = Bangladesh Engineering and Ship building Corporation BIWTC = Bangladesh Inland Water Transport Corporation
 BCIC = Bangladesh Chemical Industries Corporation BSC = Bangladesh Shipping Corporation
 BFIDC = Bangladesh Forest Industries Development Corporation BB = Bangladesh Biman

Source : Bangladesh Energy Report, IBRD, 1982.

From an another report of the IBRD (1984) it would appear that out of 11 years (1973-74 to 1983-84), 6 major nationalised manufacturing units, viz., BJMC, BTMC, BSFIC, BESC, BCIC and BFDC recorded loss in 6 years (Table 6) amounting to Tk. 4011.0 million while profits in 5 years amounted to Tk. 3344.0 million². Table 6 also shows that the ratio of profit to sales in many years was negative and did not exceed 5.3% which was by no means considerable and commensurate with funds invested having alternative uses.

Table 6
Financial Performance of Important Public
Sector Corporations

(Tk. in million)				
year		Pre-Tax Net Profit	Gross Sales	Profit-Sales Ratio (Percent)
1973-74		5.0	4777.0	...
1974-74	(-)	271.0	6200.0	(-) 4.4
1975-76	(-)	507.0	8370.0	(-) 6.1
1976-77	(-)	759.0	9263.0	(-) 8.2
1977-78	(-)	1081.0	12243.0	(-) 8.8
1978-79	(-)	489.0	13602.0	(-) 3.6
1979-80		876.0	16617.0	5.3
1980-81		586.0	19311.0	3.0
1981-82	(-)	904.0	19530.0	(-) 4.6
1982-83		912.0	18620.0	4.9
1983-84		965.0	...	...
1984-85*		955.0	18510.0	5.4

Source : Bangladesh : Economic Trends and Development Administration, IBRD, Report No. 4822, February 24, 1984.

* Statistical Year-Book of Bangladesh, 1987, Bangladesh Bureau of Statistics, GOB.

The low contribution of non-tax revenue to the total revenue in connection with the performance of nationalised public sectors needs further scrutiny. In the context of Bangladesh, the size of the public sector highly fluctuated and often nationalisation was followed by denationalization or privatization of nationalised enterprises. The policy of denationalisation was basically taken during 1975-76 with its rapid implementation from 1981-82. The Government of Bangladesh has denationalised a total of 217 units (partly or totally) between 1976 and 1983 — about 47% of them being denationalised during the last years of the said period³. Thus the trend of non-tax revenue earnings may fall even in the face of an improved economic performance by State enterprises, if disinvestment of public enterprises reduces the size of this sector⁴.

However, some interesting changes are found when we look at the different heads of non-tax revenue earnings of the GOB in different plan periods. Table 7 shows that the receipts of the nationalised sector have started to increase over the three plan periods. During the SFYP this head contributed about 27% of the total non-tax revenue earnings compared to 17% and 19% during the FFYP and TYP respectively, reflecting an improvement in the economic performance of the nationalised sector. Note that banks alone contributed more than half of the total earnings from this head. Though receipts from industries showed a marginal improvement, others contributed almost negligible amounts over the plan period. Interest receipts and railways (net) together contributed about half of the total non-tax revenue receipts during the three plan periods. But

Table 7
Yearly Average Share of Different Heads of Non-Tax Revenue to the Total Non-Tax Revenue During Different Plan Periods

Head	(In percent)		
	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
1. Nationalised Sector	17.1	18.8	26.9
a. Industries	4.8	5.1	9.0
b. Banks	11.7	13.4	17.0
c. Others	0.6	0.3	0.9
2. Interest Receipts	28.0	31.9	22.5
3. Registration Fees	5.0	5.2	4.5
4. Forests	3.2	4.1	5.4
5. Railways	22.4	24.4	22.8
6. Post and Telegraph	-0.4	-0.6	-0.5
7. Others	24.6	16.2	17.2
Total	100	100	100

Source : Adopted from Atique Rahman, "Domestic Resource Mobilization in Bangladesh", Bangladesh Development Dialogue, Dhaka, 1985.

contributions of other heads were negligible and the postal, telegraph and telephone departments have showed even a negative share to the total non-tax revenue earnings of the GOB over the three plan periods.

3. Direct and Indirect Taxes : Their Growth, Composition and Shares

Tax revenue can broadly be divided into direct and indirect taxes. In Bangladesh receipts from direct taxes, as shown in Table 8, increased from Tk. 302 million in 1972-73 to Tk. 5797 million in

1984-85. The compound growth rate was 27.9% per annum varying between a low of 12.9% and a high of 49.3% over the years except a very high

Table 8

Growth of Direct and Indirect Tax Per Annum in Percent and Their Percentage Shares to the Total Tax Revenue of the GOB (1972-73 to 1984-85)

(Tk. in million)						
Year	Total Direct Tax	Growth Rate	Total Indirect Tax	Growth Rate	Share of Direct Tax	Share of Indirect Tax
1972-73	302	...	1608	...	15.8	84.2
1973-74	451	49.3	2652	65.1	14.5	85.5
1974-75	926	105.3	4240	59.8	18.0	82.0
1975-76	1345	45.2	6013	41.8	18.3	81.7
1976-77	1575	17.1	6280	4.4	20.0	80.0
1977-78	1864	18.3	8210	30.6	18.5	81.5
1978-79	2145	15.1	10185	24.0	17.4	82.6
1979-80	2523	17.6	12126	19.0	17.3	82.7
1980-81	3234	28.1	15001	23.7	17.7	82.3
1981-82	4040	25.1	15859	5.7	20.3	79.7
1982-83	4561	12.9	17019	7.3	21.2	78.8
1983-84	4739	4.3	19216	12.9	19.8	80.2
1984-85	5797	22.3	23864	24.2	19.5	80.5

Source : Calculated on the basis of Appendix C of this chapter.

growth rate (105.3%) in 1974-75 and a very low growth rate (4.3%) in 1983-84.

Receipts from indirect tax, on the other hand, as in Table 8, increased from Tk. 1608 million in 1972-73 to Tk. 23864 million in 1984-85 or at a compound rate of about 25.2% per annum varying between a high of 65.1% and a low of 4.4% over the years.

It is also observed that the rate of growth of both direct and indirect tax was oscillating in nature with an uneven growth of absolute amounts⁵.

But the notable feature is that the percentage share of both direct and indirect tax to the total tax revenue remained more or less stable over the years. Table 8 shows that in Bangladesh about four-fifths of the total tax revenue are collected through indirect tax and the rest one-fifth is collected through direct tax. The share of direct tax varied from the lowest 14.5% to the highest 21.2%, and the share of indirect tax, on the other hand, varied between 78.8% and 85.5% over the years. The contribution of direct tax as a proportion of total tax yield, however, has been in general slightly increasing over the years, while that of indirect tax has been decreasing during the same period.

But nonetheless, one can easily understand that indirect tax has been playing a dominant role in the tax structure of Bangladesh since liberation. We like to note here that the dominancy of indirect tax was also present in the pre-liberation period of Bangladesh. Thus Bangladesh inherited the prevailing tax structure from the erstwhile East Pakistan⁶.

Let us now view the growth trend of direct and indirect tax per annum in percent and their percentage share to the total tax revenue during the three plan periods as in Table 9. It is observed that the yearly average growth rates of both direct and indirect taxes during different plan periods showed a steady downward trend. During the SFYP, however, the direct tax showed a marginal upward growth trend.

Table 9

Yearly Average Growth Rates of Direct and Indirect Tax and Their Shares in the Total Tax Yield During Different Plan Periods

Period Period	(In percent)			
	Growth of Direct tax	Growth of Indirect Tax	Share of Direct Tax	Share of Indirect Tax
FFYP (1973-78)	43.6	38.5	17.8	82.2
TYP (1978-80)	16.9	21.5	17.4	82.6
SFYP (1980-85)	18.1	14.5	19.7	80.3

Source : Calculated on the basis of Table 8 of this chapter.

The picture of percentage share of direct and indirect taxes to the total tax revenue shows (Table 9) that more than 80% of the total tax revenue is shared by indirect tax and the remaining less than 20% is shared by direct tax over the three plan periods. Thus indirect tax played a dominant role in the tax structure of Bangladesh over the three plan periods, though a marginal upward trend in case of direct tax and a marginal downward trend in case of indirect tax are registered during the SFYP.

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Table 10 shows the composition of both direct and indirect taxes and their percentage shares to the total tax revenue during the period under study. It is found that the percentage share of income tax as one of the major components of direct tax to the total tax revenue increased almost threefold from 5.4% in 1972-73 to 15.2% in 1982-83. But nonetheless, the share of direct tax as a whole to

Table 10

Composition of Direct and Indirect Tax and Their Percentage Shares
to the Total Tax Revenue Receipts of the GOB from 1972-73 to 1984-85

Tax Head	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-79	1979-80
1. <u>Direct Tax</u>	15.8	14.5	17.9	18.3	20.0	18.5	17.4	17.3
a) Income Tax	5.4	6.2	9.3	11.6	14.6	13.2	12.1	12.5
b) Other Direct Tax	10.4	8.3	8.6	06.7	05.4	5.3	5.3	4.8
2. <u>Indirect Tax</u>	84.2	85.5	82.1	81.7	80.0	81.5	82.6	82.7
a) <u>Foreign Trade</u>	45.5	52.0	38.4	52.5	48.9	54.9	58.7	60.8
i) Import Duty	32.7	39.2	28.9	37.5	33.4	37.5	37.9	39.8
ii) Export Duty	2.8	00.3	00.1	01.0	02.1	2.1	2.5	2.9
iii) Sales (Import) Tax	8.5	11.4	8.9	13.7	13.1	15.0	18.0	17.7
iv) Others	1.4	1.1	0.5	00.3	00.3	00.3	00.3	00.4
b) <u>Taxes on Domestic Goods</u>	35.5	30.9	34.9	27.4	29.4	25.4	22.4	21.0
i) Excise Duty	31.0	26.9	28.2	24.7	26.5	23.3	20.7	19.4
ii) Sales (Domestic) Tax	4.5	4.0	06.7	02.7	2.9	2.1	1.7	1.6
c) <u>Taxes on Domestic Services and Others</u>	3.2	2.6	8.8	1.8	1.7	1.2	1.5	.9

Contd..

Table 10 (Contd..)

Tax Head	1980-81	1981-82	1982-83	1983-84	1984-85
1. Direct Tax	17.7	20.3	21.4	19.8	19.5
a) Income Tax	12.4	14.1	15.4	14.1	13.0
b) Other Direct Tax	5.3	6.2	6.0	5.7	6.5
2. Indirect Tax	82.2	79.7	78.6	80.2	80.5
a) Foreign Trade	58.9	55.9	54.5	54.5	56.2
i) Import Duty	38.5	38.1	39.0	38.3	39.6
ii) Export Duty	2.3	1.1	.5	.5	.7
iii) Sales (Import) Tax	17.6	16.2	14.1	15.0	15.3
iv) Others	.5	.5	.9	.7	.6
b) Taxes on Domestic Goods	22.9	23.01	23.4	25.0	23.3
i) Excise Duty	21.3	22.8	23.3	25.0	23.3
ii) Sales (Domestic) Tax	1.6	.3	.1	...	...
c) <u>Taxes on Domestic Services and Others</u>	.5	.7	.7	.7	.9

Source : Calculated on the basis of Appendix C to this chapter.

the total tax revenue remained almost invariable (about 20%) for the said period. For, the rise in the percentage share of income tax was accompanied by the fall in the percentage share of other direct taxes comprising taxes on property, land revenue, capital gains tax, etc.⁷

The fact that indirect taxes accounted for more than 80% of the total tax revenue in Bangladesh, was mainly because of its easy administration and rapid collection as well as the unduly high rates of customs, excises and sales taxes on import. Let us now explain the contribution of the major components of indirect tax over the period under study.

In Bangladesh import duty, export duty and sales tax on import constitute the main source of revenue from the foreign trade sector in the form of indirect tax. This sector continued to play a dominant role in the tax structure of Bangladesh in general and in the indirect tax system in particular over the years. Table 10 shows that taxes on foreign trade accounted for more than 50% of the total tax revenue by the late seventies and the early eighties. This view is also supported by a recent World Bank Report as shown in Table 11.

Table 11

Share of Customs Duty and Sales Tax (Import)
in the Total Tax Receipts of Bangladesh

(In percent)

Year	Share	Year	Share
1972-73	48.8	1978-79	62.5
1973-74	52.1	1979-80	64.1
1974-75	39.0	1980-81	61.2
1975-76	55.2	1981-82	56.7
1976-77	54.0	1982-83	56.8
1977-78	58.2	1983-84	54.6

Source : Bangladesh : Economic and Social Development Prospects,
The World Bank Report No. 5409, Vol. IV, April, 1985,
Table 5.2, Appendix A.

It is also observed (Table 10) that the import duty and sales tax on import accounted for almost the entire tax receipts under foreign trade in the form of indirect tax. Furthermore, it may not be irrelevant to note that more than half of the annual import bill was paid for by foreign aid.⁹ An World Bank Report (1985)⁹ showed (Table 12) by disaggregating still further, that foreign aided imports contributed the major part of customs duty and sales tax on import from 1977-78 to 1984-85.

Table 12

Share of Customs Duty and Sales Tax on Foreign Aided Imports in Total Customs Duty and Sales Tax of Bangladesh

(In percent)			
Year	Share	Year	Share
1977-78	47.17	1981-82	43.13
1978-79	50.53	1982-83	51.53
1979-80	42.57	1983-84	44.78
1980-81	37.19	1984-85*	48.58

Source : Bangladesh : Economic and Social Development Prospects, World Bank Report No. 5409, Vol. IV, April, 1985, Table 5.2, Appendix A, Col. 2

* Our calculation

But the contribution of export duty, on the other hand, was very insignificant over the years. This head yielded even less than 3 percent of the total tax revenue and by the eighties it became almost negligible as shown in Table 10. This was primarily a result of the relatively stagnant position of export and the decline of the rate of export duty from 1977-78 to 1984-85 (Table 13) as noted by the World Bank Report (1985)¹⁰. More significantly, however, it reflects the fact that the economy experienced no structural changes in domestic production, which might have enhanced exports and thus self-reliance.

Table 13
**Volume of Total Export, Export Duty and Rate of
 Duty in Bangladesh**

(US \$ million)

Year	Total Export (US \$ in million)	Export Duty (Tk. in million)	Rate of Duty (%)
1977-78	489.788	859	17.54
1978-79	609.272	1241	20.36
1979-80	722.272	2445	20.01
1980-81	710.689	1124	15.82
1981-82	626.969	315	5.60
1982-83	986.000	952	9.66
1983-84	822.000	1057	12.85
1984-85	900.000	...	...

Source : Bangladesh : Economic and Social Development Prospects,
 World Bank Report No. 5409, Vol. IV, April, 1985, Table
 3.6, Appendix A.

Taxes on domestic goods (excise and sales tax) and services, on the other hand, registered a gradual declining trend from more than about 35 percent in the early seventies to about 20 percent and 23 percent in the early and mid-eighties respectively (Table 10). It is also found that excise duties accounted for almost the entire tax revenue under this head over the years. The remaining sales tax on domestic goods and taxes on domestic services together accounted for less than 5 percent of the total tax revenue over the years, except in the fiscal years 1972-73, 1973-74 and 1974-75. And by the eighties sales taxes on domestic goods and taxes on domestic services became almost negligible.

A notable feature of taxes on domestic goods and services in Bangladesh is that only a few items, namely, tobacco (48%), petroleum gas (12.7%), petroleum (5.5%) and cinema entertainment (3.6%) accounted for more than 75 percent of total excise tax in 1982-83¹¹. And in 1984-85, only five items, namely, tobacco (44.7%), petroleum gas (19.3%), petroleum (4.9%), jute manufacture (3.9%) and liquor and narcotics (2.4%) accounted for about 75 percent of total excise tax yield (Appendix D). Clearly the tax base is narrow and together with this, tax evasion, corruption of the collectors, etc. forced the share of excise tax as well as taxes on goods and services to the total tax yield to be low compared to the tax yield from the foreign trade sector.

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Now, looking at the composition of direct as well as indirect taxes, during different plan periods, Table 14 shows that the percentage share of income tax in the form of direct tax registered an increasing trend. The shares of other direct taxes, however, show a declining trend during the TYP with a marginally upward trend during the SFYP.

Revenue collections from the foreign trade sector, particularly import duty and sales tax on import in the form of indirect tax continued to share a higher percentage over the three plan periods compared to other indirect taxes. However, there was a marginally declining tendency from the TYP to the SFYP. The share of export duty, on the other hand, though showing an upward trend during the

SFYP (Table 14). The share of taxes on domestic goods and services,

Table 14

Composition of Direct and Indirect Tax and Their Yearly Average Share to the Total Tax Revenue of the GOB during Different Plan Periods

Tax Head	(In percent)		
	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
1. <u>Direct Tax</u>	17.8	17.4	19.7
a) Income Tax	11.0	12.3	13.7
b) Other Direct Tax	6.8	5.1	6.0
2. <u>Indirect Tax</u>	82.2	82.6	80.3
a) <u>Foreign Trade</u>	49.4	59.6	56.0
i) Import Duty	35.5	38.8	38.9
ii) Export Duty	1.0	2.7	1.0
iii) Sales (Import) Tax	12.4	17.9	15.5
iv) Others	.5	.3	.6
b) <u>Taxes on Domestic Goods and Services</u>	32.8	23.0	24.0
i) Excise Duty	26.0	20.0	24.0
ii) Sales (Domestic) Tax	2.7	1.6	.3
iii) Taxes on Domestic Services	1.6	1.1	.4
iv) Others	2.5	.3	.1
Total (1+2)	100	100	100

Source : Calculated on the basis of Table 10 of this chapter.

registered a downward trend from roughly 33% during the FFYP to 23% during the TYP with a marginal increase upto 24% during the SFYP. But the notable feature is that, except excise duties, the shares of other heads like taxes on domestic goods, taxes on domestic services and others became almost an insignificant source of revenue to the government during the SFYP.

It is thus clear that over the three plan periods, for revenue collection, the GOB relied mostly on indirect taxes in general and taxes on foreign trade in particular.

4. Due and Hinrichs - Musgrave Hypotheses and Bangladesh

The tax structure of Bangladesh as observed confirms the conclusion drawn by John F. Due in a study¹². The author, taking a sample of countries at various levels of per capita income (data relate to 1968-69), showed that indirect taxes were the main stay of revenue for poor countries with per capita income upto \$500 (Table 15) and played a significant role in the tax structure. In Bangladesh where per capita income is below \$200, indirect taxes, as shown in Table 10, play a dominant role thereby confirming the above view.

Due viewed that the main reasons behind this nature of tax structure are probably the unduly higher share of customs, excise and sales taxes, since these taxes are comparatively easy to administer and the rates are simple to deal with. On the contrary, the collection of direct taxes like individual income tax and land revenue is constrained by various administrative and accounting problems¹³.

Table 15
Direct and Indirect Taxes in Tax Structure

Per Capita GNP US \$	No. of Countries Included	All Direct Taxes (%)	All Indirect Taxes (%)	Total (%)
Under \$ 101	20	32	68	100
101-200	11	36	64	100
201-500	19	36	64	100
501-850	9	50	50	100
850-Over	15	68	32	100

Source : John F. Due, Indirect Taxation in Developing Economies,
 Johns Hopkins Press, 1980, Table 9-1, p. 178

The statistics of Bangladesh tax structure also support the hypothesis drawn by Hinrichs and Musgrave that there is a close relationship between the stages of economic development and tax structure¹⁴.

According to Hinrichs, at an early stage of development the ratio of direct tax to indirect tax revenue is high. At the middle stage of development indirect taxation becomes more important and in the later developed stage, direct taxes are again dominant.

At an early stage of development, in a poor agricultural economy, predominantly subsistence in nature, direct taxes like taxes on land, livestock, agricultural products and toll taxes provide the major source of revenue to the government. At the middle stage or during the transition to modernity, with increasing industrialization, gradual expansion of the monetized sector and openness of foreign trade, indirect taxes like excise, sales, customs, etc.

become feasible. At this stage modern direct taxes are also introduced but their contribution is smaller and less elastic than that of customs, excise and sales taxes. At the latest stage, however, when the economy is fully developed, with standardized accounting system and its wide practice, the importance of indirect taxes diminish⁴⁵ and the implementation of modern progressive direct taxes becomes feasible again.

Thus Hinrichs writes, "Looking at tax revenue history in broad perspective, one may be more than half-way justified in saying that the structural movement has been from taxation on (1) agriculture, to (2) foreign trade, to (3) domestic consumption, to (4) net income, individual and business"¹⁵.

Like Hinrichs, Musgrave also thinks that governments of developed countries have much more scope of earning revenues from direct taxes than that of developing countries¹⁶.

Available statistics also support the generalizations of Hinrichs and Musgrave. An analysis of the composition of tax structure of various countries with different levels of per capita incomes shows (Table 16) that while indirect taxes particularly taxes on foreign trade yield the major portion of taxes in developing countries as per capita income rises, income tax as well as other direct taxes assume increasing importance, and in highly developed countries, they contribute the major portion of tax revenue.

The IMF statistics also show (Table 17) that in the 14 least developed countries (Bangladesh belongs to this group) taxes on income and property contribute the smallest percentage of revenues while in the developed industrial countries, these taxes are

Table 16
Average Composition of Tax Structures for a Sample of Countries at
Various Levels of Per Capita Income

(As Percentage of Total Revenue)

Per Capita Income in \$	Income Taxes	Taxes on Property	Taxes on Foreign Trade	Taxes on Production	Total Excluding Pay Roll Taxes	Pay Roll Taxes	Total
Under 100	16.3	4.1	38.5	28.0	96.7	3.3	100
100-200	19.6	2.0	33.4	33.8	96.3	3.7	100
200-300	17.5	3.9	35.2	27.3	91.3	8.7	100
300-400	22.3	5.9	27.9	30.6	81.8	18.2	100
400-500	23.4	8.4	34.7	29.2	84.9	15.1	100
500-900	24.7	7.5	13.5	8.5	85.3	14.7	100
United states	48.2	9.4	0.1	14.3	75.9	24.1	100

Source : R.A. Musgrave and P.B. Musgrave, Public Finance in Theory and Practice, 4th Edn., McGraw Hill Book Company, Singapore, 1984, p. 795.

Note : Data for U.S.A. relate to 1970; for others 1966-68. Sum of all taxes will not equal to total excluding pay roll taxes because of the omission of minor taxes and rounding.

distinctly dominant. Again, taxes on foreign trade contribute the major part of revenue in the least developed countries compared to industrial countries.

Table 17

Composition of Central Government Revenues,
around 1980^a

(In percent)					
Country Group (Number)	Income and Profits	Domestic Goods and Services	Foreign Trade	Social Security Contributions	Non-Tax Revenue
Industrial Countries (20)	33.3	26.0	3.7	25.0	9.0
Semi-Industrial Countries (15)	25.3	30.6	14.5	13.0	11.1
Middle-Industrial Countries (55)	23.7	23.1	28.9	4.1	14.9
Least Developed Countries (14)	17.0	21.7	41.6	1.6	13.0

Source : Government Finance Statistics Year Book, IMF, Vol. 6, 1982.

- a. Unweighted arithmetic means of the percentages for each country in the group. Data will not add to 100 percent because of the omission of property taxes and other minor taxes and rounding. See R. Goode, Government Finance in Developing Countries, Tata McGraw Hill Company Ltd., New Delhi, 1986, Table 4-2, p. 91.

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From the analysis of this chapter it is found that though the total revenue receipts of the GOB increased over the years, the performance was not promising enough from the resource mobilization point of view, since the Revenue-GDP ratios of Bangladesh were well below the international standard (even compared to Asian developing countries) for the whole period under study.

The revenue structure in Bangladesh is dominated by tax revenue. Again, while taxes contribute more than 80% of the total revenue, direct taxes account for less than a quarter of the total tax revenues. In other words, indirect taxes play a dominant role in the tax structure of Bangladesh thereby confirming Due and Hinrich's hypotheses and IMF findings that in the early developing stage of a country a major part of the government revenue is collected from indirect taxes particularly from foreign trade taxes.

In fact, in Bangladesh more than half of the total tax revenue is collected from foreign trade, and taxes on domestic goods and services account for around a quarter of the total tax revenue. The notable feature is that the percentage share of revenue earnings from foreign trade has increased by a considerable margin of which import duty including sales tax on import shared the highest. Export duties in this head accounted for an almost negligible amount indicating the fact that the economy is primarily an import-oriented one and the import are mostly facilitated by foreign aid, not paid by exports. And as such, these findings lend support to the view that even the internal resource mobilization effort of Bangladesh is dependent on foreign aid¹⁷.

NOTES AND REFERENCES

1. For details see R. Sobhan and M. Ahmed, Public Enterprise in an Intermediate Regime : A study in the Political Economy of Bangladesh, BIDS, Dhaka, 1980, Chapter 14, 15 and 18. Also see The Second Five-Year Plan (1980-85), Planning Commission, GOB, Chapter IV, p. IV-2.
2. Bangladesh : Economic Trend and Development Administration, February 24, 1984, IBRD Report No. 4822.
3. See Atique Rahman, 'Domestic Resource Mobilization in Bangladesh', Bangladesh Development Dialogue, Dhaka, 1985, p. 53.
4. An excellent study in this field has been made by R. Sobhan and A. Ahsan. See R. Sobhan and A. Ahsan, Disinvestment and Denationalisation : Profile and Performance, BIDS (Research Report New Series No. 38), Dhaka, 1984.
5. The uneven growth of absolute amounts of both direct and indirect taxes may be due to the changes in tax rates, introduction of new taxes, elimination of old taxes, reduction or exemptions and relatively better or worse collection of some taxes, of which more later in Chapter 8.
6. See M. Hoque, "Taxation and Resource Mobilization in Post-Liberation Bangladesh", Arthonity Journal, Vol. 2, March 1983, University of Chittagong, Bangladesh, Table 2, p. 113.
7. Causes of low contribution of direct taxes will be explained in Chapter 8.
8. See R. Sobhan and T. Islam, "Foreign Aid and Domestic Resource Mobilization in Bangladesh", The Bangladesh Development Studies, Vol. XVI, No. 2, June, 1988, BIDS, Dhaka, pp. 21-41.

9. World Bank, Bangladesh : Economic and Social Development Prospects, Report No. 5409, Vol. IV, April, 1985.
10. Ibid.
11. O.H. Chowdhury, "Effective Tax Rates for Bangladesh: 1984-85", The Bangladesh Development Studies, Vol. XVI, No. 2, June, 1988, BIDS, Dhaka, p. 59.
12. See John F. Due, Indirect Taxation in Developing Economics, Johns Hopkins Press, 1970, pp. 177-80.
13. Ibid.
14. Harley H. Hinrichs, A General Theory of Tax Structure Change During Economic Development, Harvard University Law School, 1966, and R.A. Musgrave, Fiscal Systems, Yale University Press, New Heaven, 1969, pp. 125-67.
15. Harley H. Hinrichs (1966), p. 106.
16. R.A. Musgrave (1969), p. 166.
17. For details see R. Sobhan and T. Islam, "Foreign Aid and Domestic Resource Mobilization in Bangladesh", The Bangladesh Development Studies, June, 1988 and R. Sobhan, The Crisis of External Dependence : The Political Economy of Foreign Aid to Bangladesh, University Press Ltd., Dhaka, 1982, p. 32.

Appendix A
Revenue Receipts and GDP of Bangladesh from
1972-73 to 1984-85

(Tk. in million)

Year	Tax Receipts	Non-Tax Receipts	Total Revenue Receipts	GDP at Current Factor Cost
1972-73	1910	392	2302	42837
1973-74	3103	621	3724	68977
1974-75	5166	1074	6240	123949
1975-76	7358	1483	8841	103198
1976-77	7855	1482	937	99874
1977-78	10074	1687	11761	139204
1978-79	12330	2187	14517	163909
1979-80	14645	2160	16805	197633
1980-81	18235	4333	22568	219799
1981-82	19901	3669	23570	251320
1982-83	21301	3364	24665	272953
1983-84	23955	4171	28126	331068
1984-85	29675	6092	35767	395168

Source : Col. (5) from Statistical Year Book of Bangladesh, Various issues, Bangladesh Bureau of Statistics, GOB and the rest from Fiscal Statistics, 1972-86, Planning Commission, GOB, 1986.

Appendix B

Non-Tax Revenue Receipts of the GOB and Their Composition (1972-85)

(Tk. in million)

Head	1972-73	1973-74	1974-75	1975-76	1986-77	1977-78
1. Stamp (Judicial)	98.5	111.7	270.5	223.7	253.7	280.2
2. Forest	14.4	35.4	47.4	50.6	84.5	109.4
3. Registration	31.9	45.3	110.5	96.8	98.1	120.6
4. Railway (Net)	...	309.4	395.7	515.8	545.1	630.2
5. Postal (net)	(-) 29.7	(-) 35.6	(-) 25.4	(-) 41.0	(-) 68.8	(-) 33.3
6. Telegraph and Telephone (Net)	2.0	53.9	20.6	10.4	(-) 11.5	(-) 34.1
7. Interest	7.1	106.6	168.9	564.7	635.2	475.7
8. Civil Administration	167.1	167.1	347.3	223.7	182.8	360.8
9. Mint and Currency	56.8	56.8	27.8	268.3	247.1	339.0
10. Other Non-Tax Earnings Including Profits/Losses from Nationalised Sectors	61.3	109.1	328.4	322.3	328.6	364.0

Contd..

Appendix B (Contd..)

Head	1978-79	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85
1. Stamp (Judicial)	315.8	290.0	40.0	60.0	50.0	41.8	41.8
2. Forest	160.5	150.2	330.0	350.0	280.0	290.0	360.0
3. Registration	190.7	220.0	230.0	270.0	285.0	300.0	...
4. Railway (Net)	829.9	924.6	1050.0	1250.0	1580.0	1540.0 (-)	298.0
5. Postal (Net) (-)	81.7 (-)	54.5 (-)	37.6 (-)	60.8 (-)	190.0 (-)	129.5 (-)	167.9
6. Telegraph and Telephone (Net) (-)	116.4	85.9	42.2	141.7	123.7	107.6	246.7
7. Interest	1008.7	1205.5	1447.6	1605.3	997.0	1015.7	1400.0
8. Civil Administration	293.5	317.4	121.1	567.0	1083.3	1214.3	1562.3
9. Mint and Currency	322.0	617.9	830.3	1110.1	939.0	931.4	2225.4
10. Other Non-Tax Earnings Including Profits/Losses from Nationalised Sectors	524.6	446.7	531.4	564.2	279.0	917.7	929.7

Source : Bangladesh Economic Survey, 1989-90, Economic Advisory Wing, Finance Division, Ministry of Finance, GOB, Statistical Appendix.

Appendix C

Direct and Indirect Tax Yield of the GOB with Their Composition (1972-85)

Tax Head	(Tk. in million)					
	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78
1. <u>Direct Tax</u>	302	451	926	1345	1575	1864
a. Income Tax	104	192	479	856	1148	1327
b. Other Direct Tax	189	259	447	489	427	537
2. <u>Indirect Tax</u>	1608	2652	4240	6013	6280	8210
i) Import Duty	625	1216	1493	2762	2626	3774
ii) Export Duty	53	8	71	163	214	306
iii) Sales (Mp.) Tax	162	354	459	1009	1026	1513
iv) Other Customs	28	36	25	23	26	28
b. <u>Taxes on Domestic Goods</u>	678	957	1723	2020	2307	2560
i) Excise Duties	592	834	1458	1820	2078	2350
ii) Sales (Domestic) Tax	48	74	157	191	227	210
iii) Jute Tax	38	49	188	9	2	...
c. <u>Taxes on Domestic Services and Miscellaneous</u>	62	81	458	128	132	121
Total Tax Revenue	1910	3103	5166	7358	7855	10074

Contd..

Appendix C (Contd..)

Tax Head	1978-79	1979-80	1981-81	1981-82	1982-83	1983-84	1984-85
1. <u>Direct Tax</u>	2145	2523	3234	4040	4561	4739	5797
a. Income Tax	1490	1618	2267	2804	3280	3389	3859
b. Other Direct Tax	855	705	967	1236	1281	1358	1938
2. <u>Indirect Tax</u>	10185	12126	15001	15859	16740	19216	23864
a. <u>Foreign Trade</u>	7241	8906	10744	11134	11601	13071	16693
i) Import Duties	4675	5820	7029	7581	8303	9189	11753
ii) Export Duties	425	419	221	110	110	224	...
iii) Sales (Imp.) Tax	2225	2599	3211	3236	3000	3584	4557
iv) Other Customs	35	56	85	96	188	177	159
b. <u>Taxes on Domestic Goods</u>	2762	3088	4167	4588	4986	5976	6919
i) Excise Duties	2558	2849	3881	4539	4975	5976	6919
ii) Sales (Domestic) Tax	204	238	306	48	11	...	...
iii) Jute Tax	...	1	...	1	...	...	..
c. <u>Taxes on Domestic Services and Miscellaneous</u>	182	132	90	137	153	169	272
Total	12330	14645	18235	19901	21301	23955	29675

Source: O.H. Chowdhury and M. Hossain, Elasticity and Buoyancy of Bangladesh Tax Structure,
 Research Report No. 80, BIDS, Dhaka, November, 1988, Statistical Appendix, Table 1.

Appendix D

Collection of Excise Duties by Commodities (1984-85)

Commodities	(Tk. in million)
	Excise Duty
1. Tobacco Products	3091.60
2. Petroleum Gas	1336.00
3. Petroleum, Petroleum Oil and Lubricants	336.60
4. Tea	...
5. Vegetable Non-Essential Oil	...
6. Vegetable Products	...
7. Beverages, Other than Wine	16.90
8. Glucose, Dextrose, etc.	8.30
9. Sugar	63.20
10. Biscuit and Bread	44.10
11. Cement	75.40
12. Paints and Varnish	39.90
13. Cosmetics	33.30
14. Soaps and Detergents	101.90
15. Matches	38.90
16. Plastic Products	12.20
17. Rubber and Others	2.10
18. Tanned Leather and Others	...
19. Paper and Paper Board	134.10
20. Bank Cheque	7.00
21. Cotton Yarn and Cotton Fabrics	77.20
22. Man-Made Fabrics and Yarn	6.90
23. Fabrics and Man-Made Fibres and Yarn	7.10
24. Jute Manufacture	255.00
25. Woolen Yarn and Woolen Fabrics	6.10
26. Glass and Glass Ware	28.50
27. Metal Container	11.50
28. Mild Steel Products	124.70
29. Electric Batteries	50.80
30. Electric Bulbs, Tubes, Fans and Parts	43.30

Contd..

Appendix D (Contd..)

Commodities	Excise Duty
31. Ceramics, China Ware Porcelain Ware	35.10
32. Wires and Cables	87.20
33. Hotel and Restaurant	81.20
34. Gold and Silver Products	4.50
35. Cinema Entertainment	128.80
36. Packaging Materials	15.70
37. Radio Receiving Apparatus	58.10
38. Mechanised Vehicles	47.90
39. Shoes	23.30
40. Wooden Furniture	77.80
41. Medicine, Medical Products (Allopathic), Insecticide, Pesticide, etc.	136.80
42. Welding Electrodes	22.90
43. Steel, Steel Pipe and G.I. Pipe	32.70
44. Oxygen, Carbon, Oxide, etc.	26.80
45. Sodium Silicate	5.30
46. Glycerine	6.60
47. Telephone and Teleprinter	11.40
48. Plastic Bag	3.00
49. Insolation Board	2.00
50. Nuts, Bolts, Screws	1.40
51. Electric Goods and Fittings	.60
52. Cinematographic Film	5.70
53. Sanitary Ware and Lazed Tiles	6.80
54. Liquor and Narcotics	166.20
55. Miscellaneous	3.20
Total	6919.20

Source : Fiscal Statistics, 1972-73 to 1985-86, Planning Commission, GOB, 1986.

Chapter 6

REVENUE EXPENDITURE OF THE GOVERNMENT OF BANGLADESH

1. Introduction

This chapter is an attempt to briefly look at the expenditure side of the revenue budget of the Government of Bangladesh over the period under study. Revenue expenditure is often called current or non-development expenditure. According to the Ministry of Finance of the GOB, the expenditure which is made for normal running of the various government departments and organs and does not create any asset and in fact reduces government saving for development purposes in the form of 'collective consumption' is treated as revenue expenditure¹.

The broad categories of revenue expenditure under different heads are the following²:

- A. Wages and Salaries;
- B. Purchases of Commodities and Services; and
- C. Transfer Payments.

The bulk of the expenditure on revenue account is made for wages and salaries paid to the government employees, personal allowances, and medical and other compensations. It also includes dearness allowances and other allowances paid to the government employees³.

A considerable amount is spent on the purchases of commodities and services for the purpose of current use of the government. Travelling and daily allowances are also included in this category. Service charges, such as postal and telephone charges, rent and taxes,

etc. are included in this head. Expenditure on contribution to the international agencies, like U.N. etc. has been treated as purchase of services except for I.B.R.D., I.M.F. and A.D.B., which is in the nature of financial investment⁴.

Transfer payments do not involve directly a demand on goods and services. The items which are included in current transfer payments are interest payments (domestic and external), grants (paid to educational institutions, local bodies, corporations and other organisations), subsidies, pensions, scholarships, relief payments, etc⁵.

In an underdeveloped country like Bangladesh, where the bulk of capital expenditure is financed by foreign aid/assistance, non-development current expenditure deserves a special scrutiny. For, the excess of revenue receipts over revenue expenditure (revenue surplus) denotes the savings of the government which is made available for financing development programmes. In other words, the extent of domestic resource mobilization greatly depends on the size of revenue expenditure. The higher the revenue expenditure, the lower the revenue surplus and the more dependency on foreign aid. Here lies the importance of the analysis of the revenue expenditure of the GOB.

In this context, it should be noted here that one of the major problems for any appropriate analysis of revenue expenditure under different heads is the occasional changes in the accounting system as well as the transfer of certain items from one head to another. The more important problem is, however, the peculiar arrangement of minor heads as cited in budget estimates and other documents of the Bangladesh Budget.

Problem is also associated with the fact that it is not always possible to know the exact nature of expenditure, how the money is actually spent, the extent of real benefit derived out of it, the amount of wastage and so on. Thus though it is essential to explain revenue expenditure from the perspective of all these different angles, it will not be possible to do so due mainly to the lack of available data. Taking all these limitations into consideration let us try to give a brief account of the revenue expenditure of the GOB as far as practicable over the period under study.

2. Growth Pattern of Revenue Expenditure

The total revenue expenditure of the GOB has increased considerably over the years. According to the fiscal data available from the Ministry of Finance of the GOB, it is found (Table 1) that total revenue expenditure increased from Tk. 2131 million in 1972-73 to Tk. 29300 million in 1984-85. In other words, total revenue expenditure of the GOB has increased at a compound rate of about 24.4% per annum during the whole period under study. Table 1 shows that the growth rate of total revenue expenditure was very high in 1973-74 (62.45%) and 1974-75 (63.35%) and very low in 1975-76 (12.47%) and 1980-81 (10.40%). However, the overall growth trend of revenue expenditure was declining in nature.

It was quite natural for the first two years of the newly emerged Bangladesh after liberation that the growth rate of revenue expenditure was very high. After liberation, the Government had to rearrange its various unorganised departments, organs, bodies and agencies caused by war damage. Moreover, the Government had to face the unprecedented problem of giving relief and rehabilitation to the

refugees who had fled the country during the liberation period.

Besides, the Government had to spend a huge amount of money to meet many unforeseen circumstances during the first few years of the regime. In 1972-73, Bangladesh experienced a country-wide drought and a devastating flood in 1974, facing which the Government

Table 1

Growth of Total Revenue Expenditure of the GOB
from 1972-73 to 1984-85

Fiscal Year	Total Revenue Expenditure	(Tk. in million)
		Growth Rate Per Annum in Percent
1972-73	2131	...
1973-74	3462	62.4
1974-75	5655	63.3
1975-76	6360	12.5
1976-77	7693	20.9
1977-78	9406	22.3
1978-79	10876	15.6
1979-80	13419	23.4
1980-81	14816	10.4
1981-82	18497	24.8
1982-83	21477	16.1
1983-84	25030	16.5
1984-85	29300	17.0

Source: Calculated on the basis of Bangladesh Economic Survey, 1989-90, Statistical Appendix, Ministry of Finance, GOB.

had to spend a huge amount of money in the form of non-development expenditure. Mr. Tazuddin Ahmed, the first Finance Minister of Bangladesh thus pointed out in his first budget speech that the budget of 1972-73 was not at all development-oriented rather it was

relief, rehabilitation and reconstruction-oriented in nature⁶.

However, leaving these two higher growth rates of 1973-74 and 1974-75, the growth rates of revenue expenditure were quite moderate varying between the low of 10.41% and the high of 23.31%. Again, the growth rate was not uniform but fluctuating in nature.

Another notable feature is that the growth rate of revenue expenditure fell down from 63.31% in 1974-75 to 12.41% in 1975-76, and the trend of growth never exceed the limit of 25% upto 1984-85. This was due mainly to the fact that the Government after meeting the problems of relief, rehabilitation, reconstruction and administrative reorganisation so far, took the policy of austerity through curtailing unnecessary or lower-priority expenditure from 1975-76⁷. But we like to note that the absolute amounts of revenue expenditure increased considerably over the years.

The relatively higher levels of total revenue expenditure in absolute term were in general due to ⁸ —

- a) enhancement of basic salary, medical allowances, dearness and other allowances caused by the revision of pay scales after regular intervals and sanction of compensatory allowances to the government employees;
- b) filling up of the vacant posts and creation of new posts from time to time in different departments;
- c) enhancement of contingency charges like purchases of goods and services for the government offices due to price inflation;
- d) increase in the rate of grants and subsidies to the different government bodies and agencies;
- e) rise in the rate of interest, both internal and external; and

f) meeting the unexpected problems caused by natural calamities like floods, droughts, cyclones, etc.

In Bangladesh a considerable amount of GDP is spent on current revenue expenditure in each and every year. Table 2 shows that the share of revenue expenditure in GDP of Bangladesh varied between 4.5% and 7.9%. As it stands, the share of revenue expenditure seems to have a tendency to fluctuate. However, it cannot be categorically stated that the increase of non-development expenditure was all unnecessary. Again, the analysis of the total revenue expenditure is too crude to give any real idea about the nature of government expenditure. At this stage it is, therefore, pertinent to examine the different heads of revenue expenditure.

Table 2

Revenue Expenditure as Percentage of GDP of Bangladesh (1972-85)

Year	GDP at Current Factor Cost (1)	Revenue Expenditure (2)	(Tk. in million)
			Revenue Expenditure as % of GDP (3)
1972-73	42837	2131	5.0
1973-74	68977	3462	5.0
1974-75	123949	5655	4.5
1975-76	103198	6360	6.2
1976-77	99874	7693	7.7
1977-78	139204	9406	6.7
1978-79	163909	10875	6.6
1979-80	197633	13419	6.8
1980-81	219799	14815	6.7
1981-82	251320	18496	7.3
1982-83	272953	21477	7.9
1983-84	331068	25030	7.5
1984-85	395168	29300	7.4

Source: Col. (1) Statistical Year Book of Bangladesh, Various Issues, Bangladesh Bureau of Statistics, GOB; and the rest from Bangladesh Economic Survey, 1989-90, Statistical Appendix, Ministry of Finance, GOB.

3. Revenue Expenditure Under Different Heads

In this connection it is to be mentioned here that changes in accounting classification from time to time, as noted earlier, make very difficult or rather impossible any appropriate analysis in this regard. More seriously enough, the classification of major heads of revenue expenditure, as mentioned in Chapter 4, was not often maintained in the fiscal data supplied by the Finance Division, Ministry of Finance of Bangladesh. For analytical simplicity, however, in accordance with Bangladesh Economic Survey, 1989-90, Statistical Appendix we have rearranged the heads of revenue expenditure as under:

- a) Administration including Fiscal Services and Foreign Affairs;
- b) Debt Services;
- c) Education and Health;
- d) Civil Works;
- e) Defence;
- f) Railways; and
- g) Miscellaneous.

Table 3 shows that the total revenue expenditure has increased under all heads over the years with some exception. The notable feature is that under all heads except 'Debt Services', the growth rates were higher for the first two or three years after liberation for obvious reasons which gave the budgets of the first two or three years a non-developmental character.

Administration:

Under the head of 'Administration', the total revenue expenditure has increased from a meagre Tk. 8.60 million in 1972-73 to Tk. 6280 million in 1984-85. The compound rate of growth of revenue

expenditure under this head was about 18% per annum over the period. However, the annual growth rates were more or less uniform though not steady from the late seventies to the early eighties, except 1982-83. The main reasons for the growth of revenue expenditure under this head were, among others, the following⁹:

Table 3

Growth Rate of Revenue Expenditure in Percent
under Different Heads from 1972-73 to 1984-85

(Tk. in million)

Year	Administration		Debt Services		Education and Health	
	Total	Growth	Total	Growth	Total	Growth
1972-73	860	...	134	...	562	...
1973-74	1254	45.8	183	36.5	792	40.9
1974-75	1462	16.6	313	71.0	996	25.7
1975-76	1557	6.5	407	30.0	1095	9.9
1976-77	1998	28.3	877	115.4	1285	17.4
1977-78	2327	16.5	686	-21.7	1687	31.3
1978-79	2703	16.1	1087	58.4	2210	31.0
1979-80	3296	21.9	1041	-4.2	2388	8.0
1980-81	3978	20.7	1163	11.7	2883	20.7
1981-82	4651	16.9	2172	86.7	3188	10.8
1982-83	4618	- .1	2254	3.7	3960	24.2
1983-84	5346	15.8	2743	21.7	4940	24.7
1984-85	6280	17.5	3183	16.0	6524	32.0

Contd..

Table 3 (Contd..)

Year	Defence		Civil Works		Railway		Miscellaneous	
	Total	Growth	Total	Growth	Total	Growth	Total	Growth
1972-73	202	..	44	..	..	..	329	..
1973-74	420	107.9	215	388.0	279	..	318	-3.4
1974-75	708	68.6	520	141.8	380	36.2	1275	301.0
1975-76	1109	56.6	346	-33.6	541	42.3	1305	2.3
1976-77	1514	36.5	73	-87.8	617	13.9	1330	2.0
1977-78	1442	-4.7	392	436.5	703	14.0	2170	63.0
1978-79	1485	3.0	476	21.3	800	13.8	2116	-2.5
1979-80	2427	63.4	519	9.2	953	19.2	2794	32.1
1980-81	2742	13.0	563	8.3	1237	29.7	2250	-19.5
1981-82	3475	29.7	617	9.6	1389	12.3	3003	33.4
1982-83	4184	20.4	701	13.6	1681	21.0	4069	35.5
1983-84	4270	2.1	774	10.4	1700	1.1	5257	29.2
1984-85	4927	15.4	862	11.3	..	..	7522	43.1

Source : Calculated on the basis of Bangladesh Economic Survey, 1989-90, Statistical Appendix, Ministry of Finance, GOB.

- a) enhancement of medical and conveyance allowances and sanction of compensatory allowances, dearness allowances, etc;
- b) filling up of the vacant posts in different offices;
- c) creation of new districts, upazilas, circles and metropolitan magistracy for Dhaka, Chittagong, Khulna and Razshahi cities;
- d) recruitment of more police personnel, raising of the Ansar Battalion and raising of the companies of Bangladesh Rifle (BDR);
- e) increase in the rate of contribution to U.N., Commonwealth Secretariat and Islamic Conference, etc;

- f) opening of new Missions abroad and purchases of building etc., for the Bangladesh Missions; and
- g) increase in the prices of fuel and other articles, etc.

Debt Services:

The total revenue expenditure under the head of 'Debt Services' has increased from Tk. 134 million in 1972-73 to Tk. 3183 million in 1984-85. The compound rate of growth of revenue expenditure under this head was about 30% per annum over the years. The growth rate of revenue expenditure under this head was the highest in 1976-77 (115.41%) while there were negative growth rates in the years 1977-78 (-21.7%) and 1979-80 (-4.2%). Table 3 also shows that the annual growth of revenue expenditure under this head was neither uniform nor steady — it was rather fluctuating. The growing amounts under this head from year to year were, among others, due to the following¹⁰ :

- a) repayment of larger treasury bills;
- b) more demand for prize money of Prize Bonds;
- c) payment of larger amounts of interest on foreign loans; and
- d) payment of bills to Security Printing Press on account of printing of savings certificates and savings stamps, etc.

Education and Health:

In case of 'Education and Health' the total revenue expenditure has increased from Tk. 562 million in 1972-73 to Tk. 6524 million in 1984-85. The compound rate of growth of revenue expenditure under this head was about 23% per annum over the period. However, the annual growth rates were not uniform but fluctuating in nature

which varied between the highest 40.9% to the lowest 8.0%. The higher amounts under this head from year to year were, among others, due to the following¹¹ :

- a) enhancement of medical and conveyance allowances and sanction of compensatory allowances;
- b) additional fund to continue the supply of text books at subsidized rates by the School Text Book Board;
- c) increasing affiliation of more and more private schools and colleges caused more demand on government fund;
- d) increasing the grants (recurring and non-recurring) to different institutions and cultural organizations;
- e) taking up new schemes/programmes like adult education programme, population education programme, integrated national vaccination programme, etc. for expanding education and health facilities to the mass; and
- f) increasing allowances to the employees of private schools and colleges and nationalisation of new schools and colleges, etc.

Defence:

Under the head of 'Defence' the total revenue expenditure has increased from Tk. 202 million in 1972-73 to Tk. 4927 million in 1984-85. The compound growth rate under this head was about 30% per annum over the years. However, the yearly growth rates were neither steady nor uniform but fluctuating in nature with the highest growth rate of 108.0% in 1973-74 and a negative growth rate in 1977-78. Additional fund from year to year was necessary for the following¹² :

- a) maintenance and purchases of stores and equipments;
- b) construction of accommodation for defence personnel;
- c) new recruitment in the Army, Navy and Air Force at regular intervals; and
- d) increasing the basic salary and other allowances, etc.

Civil Works:

Under 'Civil Works' the total revenue expenditure registered an increase from Tk. 44 million in 1972-73 to Tk. 862 million in 1984-85. The compound rate of growth under this head was about 28% per annum for the said period. Table 3 shows that during the first two fiscal years (1972-73 and 1973-74) after liberation, the growth rate was too high (388.2% and 141.8% respectively) under this head. It was, however, not unreasonable that a damaged economy like Bangladesh, caused by the use of heavy gun-fire during the liberation war, demanded a high expenditure under this head.

The higher amounts of revenue expenditure from year to year under this head were in general mainly due to¹³ ;

- a) maintenance and repair of government buildings and construction of new buildings;
- b) repair of roads, bridges and culverts, etc., and construction of new roads and bridges, etc;
- c) increasing the numbers of the staff, enhancement of medical and conveyance allowances and sanction of compensatory allowances, etc.

Railways:

Under the head of 'Railways' the total revenue expenditure has increased from Tk. 279 million in 1972-73 to Tk. 1700 million in 1984-85. The compound growth rate of revenue expenditure under

this head was about 20% per annum over the period. However, the yearly growth rates were more or less stable during the late seventies and fluctuating during the early eighties. The growth of revenue expenditure under this head from year to year was, in general, among others, due to¹⁴;

- a) reconstruction and repairing of rail roads, bridges, railway communication, etc;
- b) recruitment of new staff and technicians;
- c) purchases of new engines and bogies from abroad; and
- d) enhancement of medical, conveyance and other compensatory allowances and of basic salary caused by the revision of pay scales, etc.

Miscellaneous:

Miscellaneous i.e., other non-development expenditure registered an increase from Tk. 329 million in 1972-73 to Tk. 7522 million in 1984-85. The compound growth rate under this head was about 30% per annum over the years. Higher amounts under this head from year to year were, in general, among others, due mainly to¹⁵;

- a) increase in the number of pension and gratuity cases;
- b) larger amount of subsidy due to the sale of food items at concessional rate; and
- c) meeting unforeseen expenses caused by natural calamities like droughts, floods, cyclones, etc.

One should, however, be very cautious to draw any conclusion merely from the trends of respective growth rates of revenue expenditure under different heads without considering the amounts of absolute change. Table 4 shows the necessary information that demands a close attention.

Table 4

Compound Growth Rates in Percent and Absolute Increase of Revenue Expenditure of the GOB under Different Heads from 1972-73 to 1984-85

(Tk. in million)

Head	Compound Growth Rates	Absolute Increase
1. Administration	18.0	5420
2. Debt Services	30.0	3047
3. Education and Health	22.6	5962
4. Defence	30.5	4725
5. Civil works	28.0	818
6. Railways	19.8	1421
7. Miscellaneous	29.7	7193

Source : Calculated on the basis of Table 3 of this chapter.

From the above table it is found that the revenue expenditure of the GOB under the head of 'Defence', 'Debt Services' and 'Miscellaneous' took the 1st, 2nd and 3rd position respectively from the point of view of compound growth rates in percent over the years. But they took the 4th, 5th and 1st position respectively from the point of view of absolute increase. Interestingly enough, the head 'Education and Health' and 'Administration' took the 5th and 7th position respectively from the compound growth rates point of view. But they took the 2nd and 3rd position respectively from the absolute increase point of view. Similarly, the position of 'Civil works' was 4th in consideration of compound growth rates but its position fell down to the bottom (7th) from the point of view of absolute increase.

Again mere growth rates and absolute increase are not sufficient to give us a clear picture about the trend of revenue expenditure of the GOB under different heads over the years. It is now necessary to have an idea about the relative importance or percentage share of different heads to the total revenue expenditure of the GOB over the years.

Table 5 shows that, with some exceptions, the relative importance of different heads under revenue expenditure remained the same since independence. Thus 'Administration' took the 1st position for all the fiscal years after liberation except 1984-85. On an average, this head constituted 26.4% of the total revenue expenditure over the years. On the basis of yearly average, 'Education and Health', 'Miscellaneous' and 'Defence' took the 2nd, 3rd and 4th position respectively.

It is striking to note that from the early seventies to the mid-seventies, the share of revenue expenditure under 'Education and Health' decreased while the share of 'Defence' increased. And in some fiscal years the share of 'Defence' exceeded the share of 'Education and Health'. However, during the eighties, an increasing share of 'Education and Health' is recorded.

In respect of 'Debt Services' it is observed that though its percentage share decreased in the early seventies, from the mid-seventies to the early eighties it registered an increased percentage share of revenue expenditure. And throughout the eighties the share of revenue expenditure under 'Debt Services' remained almost invariable.

The percentage share of 'Miscellaneous' to the total revenue expenditure was fluctuating over the years and in some fiscal years this head took the 2nd position from the 3rd superseding 'Education and Health'. And in 1984-85 this head took the 1st position. This is an indication of the fact that the GOB had to face many unforeseen and unexpected situations in each and every year, the expenditure of which could not be categorically forecasted in the budget.

The percentage share of 'Civil works' to the total revenue expenditure though registered an increase in the early seventies, from the mid-seventies its importance was gradually diminishing. And on the basis of yearly average it took the lowest position (4.1%). Similarly, the percentage share of 'Railways' to the total revenue expenditure was very poor and its share remained more or less invariable throughout the whole period under study.

From the above analysis one may ascertain some interesting features regarding the growth and pattern of revenue expenditure of the GOB during the period under study:

- 1) The total revenue expenditure of the GOB has increased over the years and constituted on an average about 7% of the GDP (Table 2) showing more and more involvement of the Government in economic activity.
- 2) The highest compound growth rates were registered under the heads of 'Defence', 'Debt Services' and 'Miscellaneous' (Table 3). But the highest absolute increases were registered under 'Miscellaneous', 'Education and Health' and 'Administration' (Table 4).
- 3) 'Administration' recorded the highest percentage share to the total revenue expenditure of the GOB throughout the whole period under study (Table 5). This reflects the fact that the GOB had to spend a huge amount of money for

Table 5

Percentage Share of Revenue Expenditure under Different Heads
to the Total Revenue Expenditure of the GOB from 1972-73 to 1984-85

Head	72-73	73-74	74-75	75-76	76-77	77-78	78-79	79-80	80-81	81-82	82-83	83-84	84-85	Yearly Average
A	40.3	36.2	25.9	24.5	26.0	24.7	24.8	24.6	26.9	25.1	21.5	21.4	21.4	26.4
B	6.3	5.3	5.5	6.4	11.4	7.3	10.0	7.8	7.8	11.8	10.5	11.0	10.8	8.6
C	26.4	22.9	17.6	17.2	16.7	17.9	20.3	17.8	19.5	17.2	18.5	19.7	22.3	19.5
D	9.5	12.1	12.5	17.4	19.7	15.3	13.7	18.0	18.5	18.8	19.5	17.1	16.8	16.1
E	2.1	6.2	9.2	5.4	.9	4.2	4.4	3.9	3.8	3.3	3.3	3.1	2.9	4.1
F	..	8.1	6.7	8.5	8.0	7.5	7.4	7.1	8.3	7.5	7.8	8.8	6.8	6.4
G	15.4	9.2	22.6	20.5	17.3	23.1	19.4	20.8	15.2	16.2	18.9	21.0	25.7	18.9
Total	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0	100.0

Note : A = Administration, B = Debt Services, C = Education and Health, D = Defence, E = Civil Works,
F = Railways and G = Miscellaneous

Source : Calculated on the basis of Table 1 and 3 of this chapter.

the normal running of the government leaving thereby very little as government saving.

- 4) The percentage share of revenue expenditure under 'Defence' to the total revenue expenditure of the GOB has increased markedly showing the overwhelming priority of this field since the mid-seventies.

4. Revenue Expenditure of the GOB during Different Plan Periods

Let us now view the revenue expenditure of the GOB taking different plan periods into consideration. Table 6 shows that the total revenue expenditure of the GOB in absolute term has increased on an average by Tk. 1455 million per annum during the FFYP and by Tk. 2006 million and Tk. 3176 million on an average per annum during the TYP and the SFYP respectively. The growth rates of revenue expenditure, however, showed a declining tendency over the plan periods.

Table 6

Growth Trend of the Total Revenue Expenditure of the GOB during Different Plan Periods

Period	Absolute Increase (Tk. in million)	Growth Rate (In Percent)
FFYP (1974-78)	1455	34.6
TYP (1978-80)	2006	19.4
SFYP (1980-85)	3176	16.9

Source : Calculated on the basis of Table 1 of this chapter.

Table 7 shows the growth rates of revenue expenditure under different heads during the plan periods. It is found that under all heads the growth rates showed a declining tendency during the plan periods except the fact that the growth rates of 'Debt Services', 'Education and Health' and 'Miscellaneous' showed an increasing tendency from the TYP to the SFYP. The notable feature is that for all heads, the growth rates were too high during the FFYP for obvious reasons.

Table 7

Growth Rates of Revenue Expenditure under
Different Heads During Different Plan Periods

(In percent)

Head	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
1. Administration	22.0	19.0	13.8
2. Debt Services	38.6	23.2	25.0
3. Education and Health	24.6	29.0	22.3
4. Defence	48.1	29.7	15.2
5. Civil Works	54.9	15.1	10.7
6. Railways	25.0	16.4	15.6
7. Miscellaneous	45.8	13.5	21.9

Source : Calculated on the basis of Table 3 of this chapter.

In case of percentage share of revenue expenditure under various heads to the total revenue expenditure Table 8 shows that the highest share went to the head of 'Administration' over the plan periods. The notable feature is that while the share of 'Administration' to the total revenue expenditure started decreasing gradually, the share of 'Debt Services' and 'Defence' started

increasing sharply from the FFYP to the TYP and the SFYP respectively.

Table 8

Yearly Average Percentage Share of Various Heads to the Total Revenue Expenditure of the GOB during the Plan Periods

Head	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
1. Administration	27.5	24.7	23.2
2. Debt Services	7.2	9.0	10.4
3. Education and Health	18.5	19.1	19.4
4. Defence	15.4	16.0	18.0
5. Civil Works	5.2	4.1	3.3
6. Railways	7.7	7.2	7.6
7. Miscellaneous	18.5	20.1	19.4

Source: Calculated on the basis of Table 5 of this chapter.

5. Review of the Revenue Budget of the GOB

Revenue budget consists of revenue receipts and revenue expenditure. In Chapter 5 we have explained the receipts side of the revenue budget and in the foregoing sections of the present chapter we have explained the expenditure side of the revenue budget of the GOB. Let us now have an overall view of the budgetary position of the revenue budget of the GOB during the period under study.

As we know, the excess of revenue receipts over revenue expenditure denotes government saving which is added to the domestic resources available for financing investment activities. It is said that government receipts, especially taxation is a form of compulsory saving and is desirable. But it must be realised that taxation by itself only leads to a transfer of funds from the private to the

public coffers. Its effectiveness in promoting capital formulation is limited by the extent to which the increased revenues are used for investment purposes. If they are absorbed by an increase in administrative non-development expenditure, the capital is virtually lost to the economy. In other words, non-development expenditure shrinks government savings leading to a rise in the saving-investment gap thereby raising more dependency on foreign aid.

Table 9 shows the budgetary position of the revenue budget of the GOB from 1972-73 to 1984-85. It is found that both the revenue expenditure and the GDP of Bangladesh have increased steadily over the years. In other words, there is a direct relationship between a rise in the GDP and a rising share of revenue expenditure in the GDP. This relationship can best be expressed by what is known as the 'law of increasing state activities and expenditures' propounded by Adolph Wagner¹⁶ which generalizes a gradual increase in the ratio of government revenue expenditure to the national income. In other words, income elasticity¹⁷ of government revenue expenditure is positive.

Table 9 shows that the income elasticity of revenue expenditure (measured as the ratio of percentage change in government revenue expenditure with respect to percentage change in GDP) varied between 0.5 and 7.7. And on an average the income elasticity of revenue expenditure (1.8) was not only positive but greater than one for the whole period under study. This clearly reflects the fact that revenue expenditure increases faster than the GDP and confirms Wagner's hypothesis in Bangladesh.

Table 9

Budgetary Position of the Revenue Budget of the GOB from 1972-73 to 1984-85

(Tk. in million)

Fiscal year	Revenue Receipts	Revenue Expenditure	Revenue Surplus	4 as % of 2	GDP at Current Factor Cost	4 as % of 6	Income Elasticity of Revenue Expenditure
1	2	3	4	5	6	7	8
1972-73	2302	2131	171	7.4	42837	0.4	..
1973-74	3724	3462	262	7.0	68977	0.4	1.0
1974-75	6240	5655	585	9.4	123949	0.5	.8
1975-76	8841	6360	2481	28.0	103198	2.4	4.2
1976-77	9337	7693	1644	17.6	99874	1.6	7.7
1977-78	11761	9406	2355	20.0	139204	1.7	.5
1978-79	14517	10876	3641	25.1	163909	2.2	.9
1979-80	16805	13419	3386	20.1	197633	1.7	1.1
1980-81	22568	14816	3752	16.6	219799	1.7	.9
1981-82	23570	18497	5073	21.5	251320	2.0	1.7
1982-83	24845	21477	3368	13.5	272953	1.2	1.9
1983-84	28126	25030	3096	11.0	331068	0.9	.8
1984-85	35767	29300	6467	18.1	395168	1.6	.9

Source : Col. (2) from Table 1 of Chapter 5. Col. (3) from Table 1 of Chapter 6. Col. (6) Statistical Year Book of Bangladesh, Various Issues, Bangladesh Bureau of Statistics, GOB.

In Bangladesh the total revenue expenditure increases by 24.4% annually while the GDP increases by 20.3% annually during the period under study. Thus the demand for government revenue expenditure rose faster than the GDP from 1972-73 to 1984-85 thereby justifying Wagner's generalization in Bangladesh¹⁸. This finding is also supported by a World Bank report which shows that in most of the developing countries (data relate to 1960-70 and 1970-80) government consumption was increasing more rapidly than GDP¹⁹.

Again, Table 9 shows that the revenue surplus which is added to the government saving constituted on an average only 16.5% of the revenue receipts over the years. In other words, on an average more than 83% of the total revenue receipts were absorbed by the government revenue expenditure during the period under study. Thus a major portion of collected revenue receipts has gone to meet the growing revenue expenditure rather than to increase the level of government savings to a higher level.

The above finding leads us to conclude that the "Pleasant Effect"²⁰ seems to be in operation in Bangladesh. According to this view governmental revenue expenditure is a direct function of the availability of revenue. In IDCs where collection of revenue is difficult, public expenditures stand at a low level. But as more and more revenues are collected with the availability of more and more sources of revenue their governmental current outlay increases. As a result, additional revenue is associated with an increase in current spending, not with an increase in budget surplus. As Stanley Please states, "The disappointing behaviour of public saving in the

less developed countries in spite of impressive records of tax performance is due to the growth of government current expenditure"²¹.

In Bangladesh, with time, transfer payments like old age pensions, grants to local bodies and so forth have been greatly enlarged. Public health and sanitation programmes have been expanded. Education also claimed a larger share of public expenditure. Salaries of the government employees have increased from time to time and so on. In addition, clamours of political parties for concessions and benefits, and so on have combined to increase public expenditure. As Stanely Please asks, "Is it possible to resist political pressure or popular clamour for increased defence expenditure, salary increases for public officials, and so on when it is known that the money is in the kitty?"²²

Whatever may be the cause, non-development expenditure of the GOB which increased at an accelerated pace ever since 1972-73 can never be justified on any ground. For, during the FFYP, revenue expenditure increased sharply by more than 30% (Table 6) annually as against the projected target of 10%²³. During the SFYP, annual rate of growth of revenue expenditure was projected to be 7.8%, but it actually increased by about 17%. More significant, however, was the fact that revenue expenditure increased at the rate of 21% per annum between 1975-76 and 1978-79, even after the policy of fiscal austerity in various Ministries, Divisions and Public Corporations was introduced in 1975-76²⁴. This is an indication of the fact that 'whatever economy was achieved through reorganisation and other measures was more than offset by an increase in other heads of expenditure'²⁵.

In this connection, it may be mentioned here that large amounts of subsidies to fertilizer, seeds, pesticides and irrigation water in support of agricultural development programmes were paid out of the development budget and 'if included in the revenue budget', as evaluated by the Planning Commission, 'the surplus in the revenue budget would have turned negative in many years'.²⁶

We, therefore, conclude that while in a new country, it was not unnatural for the current expenditure of the government to increase at a high rate during the early seventies, such a high rate of increase in the late seventies as well as in the eighties, was neither warranted nor natural, practically when the principle of fiscal austerity was introduced and subsidies in many areas were almost withdrawn. This contributed not only to misuse of resources but also to diversion of development resources away from the productive sectors.

NOTES AND REFERENCES

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2. Economic Analysis of the Budget, Various Issues, Ministry of Finance, GOB.
3. Economic Analysis of the Budget, 1987-88, p. 11.
4. Ibid, p. 12.
5. Ibid.
6. The Budget Speech, 1972-73, Ministry of Finance, GOB, p. 1.
7. The Budget Speech, 1975-76, Ministry of Finance, GOB; Also see The Second Five-Year Plan, 1980-85, Planning Commission, GOB, Chapter IV, p. IV-2.
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9. Ibid.
10. Ibid.
11. Ibid.
12. Ibid.
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15. Ibid.
16. A. Wagner, "Three Extracts on Public Finance" in R.A. Musgrave and Alan Peacock eds., Classics in the Theory of Public Finance, Macmillan, 1962, p. 8. Also see R.M. Bird, "Wagner's 'Law' of Expanding State Activity", Public Finance/Finances Publiques, Vol. 26, 1971, pp. 1-26.
17. It would be preferable to use the term expenditure buoyancy, since expenditures reflect automatic responses to income growth and also discretionary changes. However, we have followed the practice of other writers and referred to it as elasticity. See R. Goode, Government Finance in Developing Countries, Tata McGraw Hill Publishing Company Ltd., New Delhi, 1986, p. 55.

18. Studies that tried to test Wagner's law in developing countries are, C. Enweze, "Structure of Public Expenditures in Selected Developing Countries : A Time Series Study", Manchester School of Economics and Social Studies, Vol. 41, December, 1973, p. 445; and I.J. Goffman and D.J. Mahar, "The Growth of Public Expenditures in Selected Developing Nations : Six Caribbean Countries, 1940-65", Public Finance/Finances Publiques, Vol. 26, 1971, pp. 57-74, among others.
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20. S. Please, "Saving Through Taxation - Reality or Mirage", Finance and Development, March, 1967.
21. Ibid.
22. Ibid.
23. The Two-Year Plan (1978-80), Planning Commission, GOB, Chapter 1, p. 16.
24. The Second Five-Year Plan (1980-85), Chapter IV, p. IV-2.
25. Ibid.
26. Ibid.

Chapter 7

CAPITAL BUDGET OF THE GOB AND DEPENDENCY ON FOREIGN ECONOMIC ASSISTANCE

1. Introduction

Like many other developing countries of the world, as noted in Chapter 4, the GOB formulates two types of budget namely, revenue budget and capital budget. These two budgets are commonly known as non-development and development budget respectively. In the preceding two chapters we have explained the receipts and expenditure sides of the revenue budget of the GOB respectively. The present chapter is an attempt to explain briefly the receipts and expenditure sides of the development budget of the GOB during the period under study. Finally, an attempt is also made to show the dependency of the Bangladesh Budget (especially development budget) on foreign aid for the said period.

According to the budget document¹, capital receipts are divided into two parts, namely :

- i) Internal Capital Receipts, and
- ii) External Capital Receipts.

Internal Capital Receipts include :

- a) Loans and Advances (net),
- b) Public Accounts :
 - i) Unfunded Debt (net), and
 - ii) Other deposits and Advances (net)
- c) Permanent Debt (net domestic); and
- d) Floating Debt (net) i.e., Promisory Notes and Treasury Bills².

External capital receipts, on the other hand, include foreign loans and grants in the form of³ :

- a) Project Aid;
- b) Non-Project Aid (counterpart fund from commodity aid; and
- c) Food Aid (counterpart fund from food transactions).

According to the budget document, capital expenditure of the GOB comprises sector-wise development expenditure under Annual Development Programme (ADP), non-development expenditure within the capital budget, expenditure on food budget and non-ADP projects. However, we are mainly interested with the analysis of sector-wise development expenditure under ADP which constitutes more than 80% of the total capital expenditure of the GOB⁴.

Accordingly, this chapter is organised in the following way. Section 2 deals with the growth and composition of the total capital receipts of the GOB during the period between 1972-73 and 1984-85. Note that the analysis of the composition of external capital receipts of the GOB is not included in this section. This is included in Section 4 where an attempt is made to show the dependency of the Bangladesh Budget on foreign aid. Section 3 deals with the sector-wise development expenditure of the GOB over the years.

2. Growth and Composition of Capital Receipts of the GOB

The total capital receipts of the GOB, as shown in Table 1, have increased from Tk. 4621 million in 1972-73 to Tk. 35518 million in 1984-85. In other words, the total capital receipts of the GOB have increased at a compound rate of 18.5% per annum over the years. The year to year trend of growth of the total capital receipts was, however, fluctuating in nature with a high of 126.1% in 1975-76 and

a low of 14.5% in 1972-73.

The total internal capital receipts of the GOB, as shown in Table 1, have increased from Tk. 933 million in 1972-73 to Tk. 2448 million in 1984-85. The compound rate of growth of internal capital receipts was 8.4% per annum over the years. The year to year growth rates of internal capital receipts were, however, not steady but fluctuating in nature with a high of 290.4% in 1975-76 and a low of 119.3% in 1974-75.

The total external capital receipts of the GOB, as shown in Table 1, have increased from Tk. 3688 million in 1972-73 to Tk. 33070 million in 1984-85. In other words, the total external capital receipts have increased at a compound rate of 20.0% per annum over the years. The year to year growth trend was, however, not steady but oscillating in nature with a high of 123.1% in 1974-75 and a low of 36.9% in 1973-74.

Despite the varying nature of the growth rates of both internal and external capital receipts over the years, their relative shares to the total capital receipts remained almost invariable throughout the whole period under study. Table 1 shows that the external capital receipts constituted on an average more than 90% of the total capital receipts for the whole period under study and about less than 10% of the total capital receipts were shared by the internal capital receipts. Thus the dependency of the capital budget of the GOB on foreign assistance for the whole period under study is easily understood.

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Table 1

Growth of Internal, External and Total Capital Receipts of the GOB (1972-85)

(Tk. in million)								
Year	Total Capital Receipts	Growth Rates	Internal Capital Receipts	Growth Rates	External Capital Receipts	Growth Rates	4 as % of 2	6 as % of 2
1	2	3	4	5	6	7	8	9
1972-73	4621	--	933	--	3688	--	20.2	79.8
1973-74	3951	-14.5	1625	74.2	2326	-36.9	41.1	58.9
1974-75	5550	40.5	360	-77.8	5190	123.1	6.5	93.5
1975-76	11021	98.6	598	290.4	10423	100.8	5.4	94.6
1976-77	8734	-20.7	530	-11.4	8204	-21.3	6.1	93.9
1977-78	11760	34.6	493	-7.0	11267	37.3	4.2	95.8
1978-79	13538	15.1	563	14.2	12975	15.1	4.2	95.8
1979-80	19379	43.1	644	14.4	18735	44.4	3.3	96.7
1980-81	19194	-0.9	1037	37.9	18157	-3.1	5.4	94.6
1981-82	23166	20.7	1306	25.9	21860	20.4	5.6	94.4
1982-83	30179	30.3	1259	-3.6	28920	32.3	4.2	95.8
1983-84	38731	28.3	3897	209.5	34834	20.4	10.1	89.9
1984-85	35518	-8.3	2448	-37.2	33070	-5.1	6.9	93.1

Source: Col. 2, 4 and 6 from The Budget in Brief (1989-90), Statistical Appendix, Table IV and V, Ministry of Finance, GOB.

Internal capital receipts, as noted earlier, comprise loans and advances, public account (unfunded debt, and other deposits and advances), permanent debt and floating debt. Table 2 shows that except for the first two years after liberation, the public account constituted the highest percentage share to the total internal capital receipts of the GOB over the years. On an average, this head constituted about 50% of the total internal capital receipts during the period under study. Table 2 also shows that the two components of public account i.e., unfunded debt and other deposits and advances contributed on an average almost equal share (about 25%) to the total internal capital receipts over the years.

During the early seventies though permanent debt constituted the highest percentage share, from 1975-76 as shown in Table 2, its share declined gradually and on an average constituted 23.0% of the total internal capital receipts. Similarly, a considerable percentage of internal capital receipts was shared by floating debt for the first two years. But after 1974-75, the share of floating debt declined and on an average this head contributed 9.9% of the total capital receipts over the years. The share of loans and advances was very low during the early seventies but increased considerably during the eighties and on an average this head contributed 17.8% of the total internal capital receipts over the years.

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Now taking the different plan periods into consideration Table 3 shows that the rate of growth of the total capital receipts of the GOB though increased from 20.5% during the FFYP to 28.4%

Table 2

Composition of Internal Capital Receipts of the GOB from 1972-73 to 1984-85
and Their Relative Shares to the Total Internal Capital Receipts

Head	72-73	73-74	74-75	75-76	76-77	77-78	78-79
1. Loans and Advances	-61.0 (-6.5)	20.7 (1.3)	87.5 (24.2)	244.0 (40.8)	57.2 (10.8)	-- --	-- --
2. Public Account	107.0 (11.4)	105.1 (6.5)	163.7 (45.5)	328.9 (55.0)	455.2 (85.8)	282.5 (57.2)	420.9 (74.8)
(a) Unfunded Debt	67.3 (7.3)	35.7 (2.2)	84.0 (23.3)	141.6 (23.7)	221.5 (41.7)	162.5 (32.9)	245.0 (43.5)
(b) Other Deposits and Advances	39.7 (4.1)	69.4 (4.3)	79.7 (22.2)	187.3 (31.3)	233.7 (44.1)	120.0 (24.3)	175.9 (31.3)
3. Permanent Debt (Domestic)	637.4 (68.3)	819.3 (50.4)	155.0 (43.1)	-7.4 (-1.1)	-- --	99.2 (20.2)	56.6 (10.1)
4. Floating Debt	250.0 (26.8)	680.0 (41.8)	-45.7 (-12.8)	32.1 (5.3)	18.1 (3.4)	111.2 (22.6)	85.6 (15.1)
Total	933.4 (100)	1625.1 (100)	360.5 (100)	597.6 (100)	530.5 (100)	492.9 (100)	563.1 (100)

Note : Figures in parenthesis indicate percentages; slight discrepancies are due to rounding

Source: The Budget in Brief, 1989-90, Ministry of Finance, GOB, Statistical Appendix, Table IV, p. 46.

Table 3
Growth and Composition of Capital Receipts of the
GOB during Different Plan Periods

(In percent)

Head	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
1. Total Capital Receipts	20.5	28.4	12.9
2. Internal Capital Receipts	-12.0	14.3	30.6
3. External Capital Receipts	25.0	28.9	12.1
4. (2) as % of (1)	12.7	3.8	6.4
5. (3) as % of 1	87.3	96.2	93.6

Source : Calculated on the basis of Table 1.

during the TYP, decreased upto 12.9% during the SFYP. The growth rate of internal capital receipts increased from the negative -12.0% during the FFYP to the positive 14.3% and 30.6% during TYP and the SFYP respectively. External capital receipts, on the other hand, though increased at a compound rate of 25.0% and 28.9% during the FFYP and the TYP respectively, its growth rate declined to 12.1% during the SFYP.

On the basis of yearly averages, as shown in Table 3, internal capital receipts constituted 12.7% of the total capital receipts during the FFYP and 3.8% and 6.4% during the TYP and the SFYP respectively. External capital receipts on the other hand, constituted 87.3% of the total capital receipts during the FFYP and 96.2% and 93.6% during the TYP and the SFYP respectively reflecting the

fact that the capital budgets of the GOB were almost entirely dominated by foreign economic assistance, of which more later.

3. Capital Expenditure of the GOB

Capital or development expenditure generally denotes physical investment under different sectors of the economy within the framework of Annual Development Programme (ADP). Table 4 shows that the the total development expenditure of Bangladesh has increased steadily over the years. In 1972-73, total development expenditure

Table 4
Trend of Growth of Total Development Expenditure
(ADP) of the GOB (1972-85)

(Tk. in million)				
Year	Total Development Expenditure (ADP)	Growth Rates (%)	GDP (at current factor cost)	2 as % of 4
1	2	3	4	5
1972-73	2139.5	...	42837	5.0
1973-74	4648.2	116.9	68977	6.7
1974-75	5250.0	13.2	123949	4.2
1975-76	9650.0	83.8	103196	9.3
1976-77	10037.1	4.2	99874	10.0
1977-78	12026.4	19.6	139204	8.6
1978-79	16028.3	33.2	163909	9.8
1979-80	22597.6	45.3	197633	11.4
1980-81	23689.9	1.2	219799	10.8
1981-82	27152.5	14.6	251320	10.8
1982-83	29760.2	9.6	272953	10.9
1983-84	34326.8	15.3	331068	6.4
1984-85	35084.2	2.2	395168	8.9
FFYP (1973-78)		41.2		7.6
TYP (1978-80)		37.1		10.6
SFYP (1980-85)		9.2		10.4

Source: Col. (2) from The Budget in Brief, 1989-90, Ministry of Finance, GOB, Statistical Appendix, pp. 42-45. Col (4) from various issues of the Bangladesh Bureau of Statistics, GOB.

of the GOB was Tk. 2139.5 million while in 1984-85, it amounted to Tk. 35084.2 million. In other words, total development expenditure increased at a compound rate of 26.2% per annum over the years. The year to year trend of growth rates, however, showed see-saw fluctuations varying between a low of 1.2% in 1981-82 and a high of 116.9% in 1973-74.

Taking different plan periods into consideration, Table 4 shows that during the FFYP (1973-78) total development expenditure increased at a compound rate of 41.3% per annum. During the TYP (1978-80) and the SFYP (1980-85) the rate of growth declined marginally to 37.1% per annum and sharply to 9.20% per annum respectively.

On the basis of yearly averages, during the FFYP, total development expenditure constituted 7.6% of the GDP. During the TYP and the SFYP, total development expenditure constituted 10.6% and 10.4% of the GDP respectively. Table 4 shows that the share of development expenditure to the GDP fluctuates considerably during the initial years but stabilises later on. The periodic averages for the late seventies (1978-80) and for the early to the mid-eighties (1980-85) show that the share of development expenditure to the GDP stabilises around 10% reflecting rather a little change in the structure of development expenditure of Bangladesh for the said period.

We know that the level of government expenditure is usually taken as a measure of government involvement in economic activity of a country. But development expenditure of the GOB amounting to only 10% of the GDP, no doubt, reflects a poor involvement in the

development activities of the country. A U.N. report noted that the involvement of the GOB in its economic activities was very low compared to that of other developing countries of the region surrounding Bangladesh. In fact, amongst 17 developing countries, Bangladesh was at the bottom of the list⁵.

Calculations based on constant 1972-73 prices (wholesale price deflator) as shown in Table 5, may provide us with a better idea about the development expenditure of the GOB over the plan periods. At 1972-73 prices the size of the first ADP of 1973-74 was Tk. 3320 million, by the end of the FFYP it was Tk. 5280 million and rose to Tk. 8310 million in 1979-80 and declined to Tk. 7180 million in 1984-85. At constant (1972-73) prices the size of the ADP grew at a compound rate of 7.3% per annum. The rate of growth, however, varied significantly from plan to plan. During the FFYP, at constant prices, ADP grew at 12.3%, during the TYP it grew at the rate of 25.6% (constant prices) but in the terminal year of the SFYP it declined in real terms.

Table 5
Annual Development Programmes

Year	(Tk. in million)	
	ADP (at current Prices)	ADP (at 1972-73 prices)
1973-74 (Starting Year)	4640	3320
1977-78 (Terminal Year of the FFYP)	12030	5280
1979-80 (Terminal Year of the TYP)	23300	8310
1984-85 (Terminal Year of the SFYP)	34980	7180

Note : Deflator used is WPI (Wholesale Price Indices) with 1972-73 as base.

Source: The Third Five-Year Plan (1985-90), Planning Commission, GOB, Chapter 1, p. 3.

For better understanding, however, it is necessary to explain the growth and pattern of development expenditure under various (major) sectors of the economy. Such an attempt is made in Table 6 where for the sake of analytical simplicity, different sectors, as recorded in the budget documents, are rearranged. Heads which serve almost the same purpose and are related to each other are joined together. Again, we like to note that no attempt is made here to explain project-wise allocation of funds under different sectors but only a general discussion to show the trend and nature of development expenditure over the years is attempted.

Agriculture

Bangladesh is predominantly an agricultural country. This sector (comprising crop production, fishery, forestry and livestock) contributes about 55%⁶ to the GDP and about 85%⁷ of the total population are directly and indirectly related to this sector for employment. During the pre-liberation period, agriculture in Bangladesh was almost primitive in nature and output per acre was one of the lowest in the world. So, from the very beginning, the GOB has been giving all-out effort to improve this sector especially to attain the objective of self-sufficiency in the production of food-grains by ensuring the supply of agricultural inputs and other services to the door-step of the farmers at subsidised rates.

Table 6 shows that development expenditure under this head has increased steadily from Tk. 3401 million in 1972-73 to Tk. 3141.2 million in 1984-85. In other words, development expenditure under this head grew at a compound rate of 20.3% per annum over the years. Table 6 also shows that on an average about 14% of the total

Table 6

Growth of Development Expenditure under Different (Major) Sectors and Their Percentage Shares to the Total Development Expenditure of the GOB (1972-85)

(Tk. in million)

Sector	1972-73	1973-74	1974-75	1975-76	1976-77	1977-78	1978-89
1. Agriculture	340.1 (15.9)	575.8 (12.4)	638.8 (12.2)	1301.8 (13.5)	1529.0 (15.2)	1541.4 (12.8)	2345.1 (14.6)
2. Flood Control and Water Resources	270.0 (12.6)	696.6 (15.0)	860.0 (16.3)	1340.7 (13.9)	1199.1 (12.0)	1427.4 (11.9)	1725.3 (10.8)
3. Industries	16.9 (.8)	525.1 (11.3)	650.0 (12.4)	1166.2 (12.1)	1436.2 (14.2)	1901.2 (15.8)	3040.2 (19.0)
4. Power and Natural Resources	126.8 (5.9)	496.7 (10.7)	780.8 (14.9)	1370.0 (14.2)	1271.4 (12.7)	1628.1 (13.5)	2316.4 (14.4)
5. Transport and Communication	256.4 (12.0)	1096.7 (23.6)	998.3 (19.0)	1796.3 (18.6)	2270.1 (22.6)	2264.6 (18.8)	2565.4 (16.0)
6. Rural Development	262.7 (12.3)	286.3 (6.1)	273.0 (5.2)	659.6 (6.8)	540.0 (5.4)	755.9 (6.3)	1089.1 (6.8)
7. Education, Health and Family Planning	161.8 (7.6)	464.0 (10.0)	582.8 (11.1)	1125.9 (11.7)	989.3 (9.8)	1320.1 (11.0)	1625.6 (10.1)
8. Physical Planning and Housing	102.9 (4.8)	233.5 (5.0)	340.0 (6.5)	690.0 (7.1)	630.2 (6.3)	808.9 (6.7)	966.0 (16.0)
9. Others	601.9 (28.1)	273.5 (5.8)	126.3 (2.4)	199.5 (2.1)	177.8 (1.8)	377.8 (3.1)	355.2 (2.2)
Total	2139.5	4648.2	5250.0	9650.0	10037.1	12026.4	16028.3

Table 6 (Contd..)

Sector	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	Yearly Averages
1. Agriculture	2938.2 (13.0)	3227.5 (13.6)	3698.4 (13.6)	4721.2 (15.9)	4757.7 (13.9)	3141.2 (8.9)	(13.5)
2. Flood Control and Water Resources	2971.6 (13.2)	3571.8 (15.1)	3991.7 (14.7)	3684.1 (12.3)	4695.8 (13.7)	5146.5 (14.7)	(13.7)
3. Industries	5627.2 (15.1)	3367.0 (14.2)	3676.9 (13.5)	3145.1 (10.6)	3325.5 (9.7)	2397.9 (6.8)	(12.0)
4. Power and Natural Resources	3728.9 (16.5)	3530.3 (14.9)	4085.5 (15.1)	5970.8 (20.1)	7939.5 (23.1)	8392.3 (23.9)	(15.4)
5. Transport and Communication	4120.3 (18.2)	4463.5 (16.8)	4405.8 (16.2)	5653.0 (19.0)	3406.5 (9.9)	28 76.7 (8.2)	(17.1)
6. Rural Development	1043.3 (4.6)	1033.8 (4.4)	1126.8 (4.2)	1159.6 (3.9)	1057.3 (3.1)	1102.1 (3.1)	(5.9)
7. Education, Health and Family Planning	2005.6 (8.9)	2324.5 (9.8)	2675.8 (9.8)	2750.9 (9.2)	3205.6 (9.3)	3390.4 (9.7)	(9.9)
8. Physical Planning and Housing	1448.2 (6.4)	1467.4 (6.2)	1774.4 (6.5)	1496.0 (5.0)	1471.6 (4.3)	1081.7 (3.1)	(5.7)
9. Others	694.3 (3.1)	704.1 (3.0)	1714.2 (6.3)	1179.5 (4.0)	4470.0 (13.0)	7555.4 (21.5)	(6.7)
Total	22597.6	23689.9	27152.5	29760.2	34326.8	35084.2	(100)

Note: Figures in parenthesis indicate percentages to the total; slight discrepancies are due to rounding.

Source : Calculated on the basis of statistics from the Budget in Brief, 1989-90, Ministry of Finance, GOB, Statistical Appendix, pp. 42-45.

development expenditure was shared by this sector over the years. The fact that the share of agriculture to the total development expenditure declined sharply in 1984-85 was primarily the result of the reduction and/or withdrawal of subsidies from the agricultural inputs following the World Bank's prescription⁸.

Flood Control and Water Resources:

Flood control and water resources development is an essential pre-requisite for the overall economic development of Bangladesh. Specially, the development of agriculture is largely dependent on the optimum utilisation of the available water resources, both surface and ground, and on the protection from flood that occurs in Bangladesh almost in each and every year causing serious damage to crops and properties. Expenditures under this head are mainly made for providing irrigation, flood prevention, construction of dams, canals, etc.

Table 6 shows that development expenditure of the GOB under this head has increased steadily from Tk. 270.0 million in 1972-73 to Tk. 5146.5 million in 1984-85 or it grew at a compound rate of 27.8% per annum over the years. And on an average 14% of the total development expenditure was shared by this sector during the said period.

Industries:

Bangladesh does not possess a sound industrial base. The pre-liberation union with Pakistan was, as noted earlier, a period of deprivation, especially in the field of industrial development. Thus in 1972-73 (just after liberation) the share of industries constituted only 7.3% of the GDP⁹. Moreover, this sector has

experienced severe damage during the war of liberation in 1971. A provisional estimate by the Planning Commission showed the replacement cost of damaged industrial assets and properties at Tk. 291.5 million of which 77% was in the public sector and the rest in the private sector¹⁰.

After liberation, on March 26, 1972, the GOB took over about 544 abandoned industrial enterprises of the Pakistanis and absentee owners and brought under public ownership about 250 industrial enterprises with 89% of industrial fixed assets. Public corporations were established in various industries like jute, textile, sugar, steel, etc., which were again reorganised and rationalised after the fall of the Muzib regime in 1975.

With a view to accelerating the industrial investment in the country, due importance has been given by the successive governments since liberation. Table 6 shows that development expenditure under this sector has increased from Tk. 15.9 million in 1972-73 to Tk. 2397.9 million in 1984-85. Over the years, this sector shared on an average 12% of the total development expenditure. The notable feature is that during the seventies, development expenditure under this head increased steadily but from the early eighties its share to the total development expenditure started declining. This was mainly due to the fact that the GOB started implementing the policy of denationalisation of losing industrial units especially from 1980-81¹¹. Another striking feature is that though the industrial sector contributed about 8% share in the GDP (yearly average of 1972 and 1985) it got almost equal share in development expenditure

particularly during the seventies with the agricultural sector having on an average 55% share in the GDP during the said period. This reflects the fact that more attention was paid to industries than to agriculture in the successive ADPs during the period under study.

Power and Natural Resources:

The development of industry and agriculture is largely dependent on the optimum utilisation of the available power and natural resources of the country. Regarding this twin basic infrastructure, Bangladesh is not, however, rich enough. So, from the very beginning, this sector, especially power, continued to receive higher attention in the development programmes in view of its crucial bearing on agriculture and industrial progress.

Table 6 shows that development expenditure under power and natural resources taken together has increased steadily from Tk. 126.8 million in 1972-73 to Tk. 8392.3 million in 1984-85 or at a compound rate of about 40% over the years. On an average power and natural resources shared about 16% of the total development expenditure over the years.

Transport and Communication:

After independence, Bangladesh inherited a completely shattered and disrupted transport and communication system. This sector continued to share a higher amount of development expenditure since liberation. Table 6 shows that development expenditure under transport and communication systems taken together has increased from Tk. 256.4 million in 1972-73 to Tk. 2876.7 million in 1984-85. In other words, allocations under this sector grew at a compound

rate of 22% per annum over the years. And on an average, this sector shared 17% of the total development expenditure of the GOB over the years.

Rural Development:

In connection with the agricultural development, the GOB after liberation launched a separate programme, namely, Rural Development Programme which comprises the Integrated Rural Development Programme (IRDP), Sharniror (Self-Reliant) Movement and Food for Works Programme¹². Table 6 shows that this head constituted on an average 6% of the total Development expenditure of the GOB over the years.

Education, Health and Family Planning:

Education is the backbone of a nation. It is a pre-requisite for the successful implementation of national development programmes. Unfortunately, in Bangladesh education could not as yet be spread to the masses. The percentage of literacy in pre-liberation Bangladesh was below the 20% level.

The health facilities in Bangladesh, as a basic infrastructure, were inadequate both in quality and quantity. The pre-liberation health care system was mostly urban-based and extremely limited in terms of medical and nursing personnel, hospital beds, medicine and equipments. The situation aggravated further due to the destruction of many of the hospital buildings and damage of properties relating to health during the war of liberation in 1971.

Above all, the population explosion in the country was a serious challenge to all development efforts of the GOB. Bangladesh is the eighth largest country of the world in respect of size of

population, but she possesses only an area of 55,598 square miles. In 1951 the total population of Bangladesh was 42.0 million, whilst in 1972-73 it increased upto 74.3 million - near about double within a period of 20 years only. Here again, little attention was paid to this serious problem in the pre-liberation days to keep the size of population at a reasonable level so that the basic needs of human life such as food, education, shelter, medical facilities and employment could be provided.

Naturally, more and more attention was expected to be paid by the government to ensure better education and health facilities to the masses and to arrest population growth in the country. But surprisingly enough, education, health and family planning taken together as shown in Table 6 constituted less than 10% of the total development expenditure over the years. In other words, over the years successive government of Bangladesh paid little attention to this vital aspect of development.

Physical Planning and Housing:

The physical planning and housing sector consists of sub-sectors like housing, government offices and institutional buildings, metropolitan development agencies, tourism, ware-houses and community services all of which were under severe damage during the liberation war. Basically, Bangladesh is a land of rivers and as noted earlier its population density is one of the highest (1900 per sq. mile) in the world. Along with these there exists an ever-increasing trend of migration of population from the rural to the urban areas causing serious congestion in the cities and towns. It is, therefore, evident that the programme for physical planning and housing deserved

a high priority in the national development programme and Table 6 shows that on an average this sector constituted about 6% of the total development expenditure over the years.

Others:

Other development expenditure comprising mainly the reconstruction/rehabilitation works (for the first two years after liberation), and development of Upazila infrastructure (from 1983-84) constituted on an average about 7% of the total development expenditure over the years. Note that in 1972-73, 1983-84 and 1984-85 other development expenditure recorded extremely higher percentage shares. This was due to the fact that just after liberation (1972-73) huge amounts were being allocated for the cause of rapid reconstruction and rehabilitation and were included in the development budget. Again from 1983-84, a considerable amount was allocated for the development of the infrastructure of the newly established Upazila Parishad (construction of office building and staff quarters mainly).

4. Dependency of the Bangladesh Budget on Foreign Economic Assistance (1972-85)

In a developing country like Bangladesh, economic growth is generally known to be heavily dependent on foreign aid. Since domestic savings are not sufficient for attaining the desired rate of growth and foreign exchange earnings are inadequate to meet the import requirements, as noted in Chapter 1, external

economic assistance played an essential role in the economy of Bangladesh by meeting both the savings gap and the trade gap.

In this connection it should be noted here that foreign aid in Bangladesh covers so wide areas of analysis and discussions that this topic itself deserves a separate study and a number of excellent studies¹³ are available in this field. However, we are mainly concerned here to measure the dependency of the Bangladesh Budget (especially capital budget) on foreign economic assistance during the period under study.

According to the budget documents, foreign assistance in Bangladesh comprises foreign loans and grants in the forms of food aid, non-project aid (commodity aid) and project aid. In the aid figures prepared by the External Resource Division (ERD) Ministry of Finance, food aid covers only foodgrains. The edible oils, usually programmed by the U.S.A. and Canada as part of food aid, is classified under non-project aid. Project aid relates to physically identifiable projects incorporated into the Annual Development Programme (ADP). The non-project aid, by definition, includes funds for all other items not covered by food and project aid¹⁴.

Let us first draw a picture of the volume of foreign aid inflow into Bangladesh during the period between 1972-73 and 1984-85. In 1971, the country was born as a debt-free nation. But soon the country incurred external debt when she agreed to accept the pre-liberation liabilities of US \$ 636 million in 1974 in the interest of maintaining harmonious relationship with the donors¹⁵.

Table 7 shows that in Bangladesh total commitment of foreign aid during the said period amounted to \$ 17119.8 million of which \$8816.6 million was project aid and \$ 4997.7 million and \$ 3305.5 million were non-project and food aid respectively. Of the total commitment of foreign aid of \$ 17119.8 million, \$ 7496.8 million and \$ 9623.1 million were in the shape of grants and loans respectively¹⁶. In other words, over the years, grants and loans constituted 43.8% and 56.2% of the total commitment of foreign aid respectively.

Of the total commitment of foreign aid of \$ 17119.8 million, total disbursement of foreign aid stood at \$ 12434.7 million which constituted 72.6% of the total commitment. Of the total disbursement of \$ 12434.7 million, \$ 4508.1 million was in the form of project aid, and \$ 4767.4 million and \$ 3161.2 million were in the form of non-project and food aid respectively. Of the total disbursement of foreign aid of \$ 12434.7 million, \$ 6384.0 million and \$ 6050.7 million were in the shape of grants and loans respectively¹⁷. In other words, over the years, grants and loans constituted 51.1% and 48.9% of the total disbursement of foreign aid respectively. Note that in the initial years, Bangladesh received foreign aid mostly in the form of grants and concessionary loans. But the situation underwent recognizable changes as years went by. And over the years, loans have assumed greater proportion in the total aid packet particularly in the late seventies and early eighties.

Table 7

Category-Wise Commitment and Disbursement of Foreign Aid into Bangladesh
(1972-73 to 1984-85)

(In US \$ million)

year	Commitment				Disbursement				8 as % of 4
	Project Aid	Non-Project Aid	Food Aid	Total	Project Aid	Non-Project Aid	Food Aid	Total	
	1	2	3	4	5	6	7	8	
1972-73	317.5	302.1	258.8	878.4	80.0	288.9	182.6	551.5	62.9
1973-74	223.9	176.0	155.1	555.1	124.4	108.1	228.7	461.2	83.1
1974-75	390.5	415.1	461.1	1266.7	143.0	375.7	382.3	901.0	71.1
1975-76	357.3	360.9	240.7	958.9	125.5	361.5	313.5	800.5	83.5
1976-77	279.7	304.1	1431.1	726.9	158.5	254.6	121.6	534.7	73.5
1977-78	582.9	426.1	138.8	1147.8	275.6	380.4	177.8	833.8	72.6
1978-79	855.1	604.4	300.7	1760.2	368.4	482.6	179.0	1030.0	58.5
1979-80	597.9	285.3	270.0	1153.2	469.9	378.5	374.4	1223.1	106.1
1980-81	1001.5	354.9	202.9	1559.3	559.9	392.5	194.1	1146.5	73.5
1981-82	1189.3	513.0	220.6	1922.9	589.3	419.8	230.5	1239.6	64.5
1982-83	799.8	474.4	248.3	1522.5	469.9	452.0	255.5	1177.4	77.3
1983-84	881.7	528.2	285.2	1695.1	552.8	439.2	276.4	1268.4	74.8
1984-85	1339.6	253.1	380.2	1972.9	590.9	431.6	244.5	1267.0	64.2
Grand Total	8816.6	4997.7	3305.5	17119.8	4508.1	4767.4	3161.2	12434.7	72.6

Note: Slight discrepancies are due to rounding

Source : Flow of External Resources into Bangladesh (As of June 30, 1987) External Resource Division,
Ministry of Finance, GOB.

Despite the fact that there were ups and downs in the year to year disbursement of foreign aid, the total volume of disbursed foreign aid in Bangladesh has increased to a great extent over the years. Table 7 shows that the total disbursed foreign aid has increased from \$ 551.5 million in 1972-73 to \$ 1267.0 million in 1984-85 or at a compound rate of about 8% per annum over the years. The notable feature is that the project aid alone increased a compound rate of about 19% per annum while the non-project and food aid increased at the compound rates of about 4% and 3% per annum respectively over the years.

It should, however, be noted here that in the budget documents of Bangladesh only the project aid is recorded in the Demand for Grants which is allocated to finance project expenditure mentioned in the ADP. Over time dependency of development budget on project aid was only increasing. For, in the early seventies, project aid financed only about 33% of the total development expenditure but in 1983-84, for example, this has risen to the level of 51.1%¹⁸. During the period between 1979-80 and 1982-83, the number of foreign-aided projects has been in the region of 27.5% / 36.6% of the total number of projects. On an average about 66% of the total allocation was for foreign-aided projects, and project aid constituted on an average about 35% of the total allocation¹⁹.

But one should note that the project aid forms only one of the components of the total aid. In addition to project aid, non-project and food aid, as noted earlier, are also being received by the GOB. The GOB generates counterpart funds by utilising non-

project and food aid within the economy. These funds are then channelised to finance the GOB-funded projects included in the ADP²⁰.

Therefore, only the ratio of project aid to total project expenditure as recorded in the budget documents does not fully reflect the dependency of development budget of Bangladesh on foreign aid. The extent of dependency of development budget on foreign aid must be understood from the total aid point of view. In other words, the volume of non-project aid and food aid that has actually entered into the GOB-funded projects of the development budget must be taken into consideration, despite the fact that the counterpart funds disbursed can not be differentiated easily.

According to a World Bank estimate, in 1983-84, for example, the share of total aid in the ADP was 92.6% whereas the share of project aid came to 44%. Therefore, the share of non-project and food aid through counterpart funds generated by sale of aided imports of commodities and the surplus from the food budget accounted for 48.6% of the ADP²¹. And over the years, as Table 8 shows, relative shares of non-project and food aid taken together even with the declining trend, in 1984-85 for example, constituted about 53% of the total aid flow into Bangladesh.

However, merely the total volume of foreign aid inflow is not sufficient to comment on the nature of aid dependency of an underdeveloped economy like Bangladesh. In Table 9 we have attempted to measure aid dependence in relation to a number of critical indices of the economy like GDP, investment, development expenditure,

Table 8

Relative Shares of Project, Non-Project and
Food Aid in the Total Aid Volume of Bangladesh

(In US \$ million)

Year	Total Aid Disbursed	Project Aid (%)	Non-Project Aid (%)	Food Aid (%)
1972-73	551.5	14.5	52.4	33.1
1973-74	461.2	27.0	23.4	49.6
1974-75	901.0	15.9	41.7	42.4
1975-76	800.5	15.5	45.7	38.8
1976-77	534.7	29.7	47.5	22.8
1977-78	833.8	33.4	45.2	21.4
1978-79	1030.0	35.8	46.8	17.4
1979-80	1223.1	38.4	30.9	30.7
1980-81	1146.5	48.8	34.3	16.9
1981-82	1239.6	47.3	34.1	18.6
1982-83	1177.4	47.4	33.6	19.0
1983-84	1268.4	48.7	33.8	17.5
1984-85	1267.0	46.6	34.1	19.3

Source : Our calculation is based on the statistics of Flow of External Resources into Bangladesh (As of June 30, 1987), ERD, Ministry of Finance, GOB.

etc. It is found that disbursed foreign aid was on an average about 90% of the development expenditure which constituted on an average more than 9% of the GDP over the years.

Out of 13 years from 1972-73 to 1984-85, the share of disbursed aid in 7 years exceeded the ADP and financed part of the revenue budget, and in other 6 years the share of disbursed

Table 9

Measure of Aid Dependence in Bangladesh : Some Indicators (1972-85)

(In US \$ million)

Year	Disbursed Aid	GDP (Current)	1 as % of 2	Development Budget	1 as % of 4	Aid as % of financing Dev. Budget	Aid as % of Investment
	1	2	3	4	5	6	7
1972-73	551.5	5717.2	9.6	593.0	93.0	N.A.	126.1
1973-74	461.2	8978.0	5.1	587.0	78.6	67.9	65.6
1974-75	901.0	13855.0	6.5	552.0	163.2	N.A.	78.5
1975-76	800.5	7162.0	11.0	566.0	141.4	81.4	107.5
1976-77	534.7	7177.0	7.5	653.0	881.9	62.6	77.7
1977-78	833.8	8803.0	9.4	799.0	104.3	65.4	75.8
1978-79	1030.0	10329.0	10.0	955.0	107.8	62.3	83.3
1979-80	1223.1	11754.0	10.4	1387.0	88.2	61.7	64.9
1980-81	1146.5	12836.0	8.9	1446.7	79.2	63.3	55.6
1981-82	1239.6	11870.0	10.6	1192.6	103.9	61.4	64.9
1982-83	1177.4	11274.0	10.4	1123.7	104.8	NA	NA
1983-84	1268.4	12557.0	10.2	1204.8	105.3	NA	NA
1984-85	1267.0	13469.0	10.0	1351.5	93.8	NA	NA

Source: Col. 1, 2 and 4 from The Flow of External Resources into Bangladesh, 1987, ERD, Ministry of Finance, GOB, Table 2.16 and 2.20.

Col. 6 and 7 from Bangladesh Recent Economic Development and Selected Economic Issues, World Bank, March, 1982.

aid had been in the region of 78/93%. A World Bank estimate also showed that out of 10 years from 1972-73 to 1981-82, the share of disbursed aid in 5 years of the first 6 years after liberation exceeded the ADP and financed part of the revenue budget, and in the last 4 years the share of aid had been in the region of 78/97% .²²

Also it is found in Table 9 that between the period from 1972-73 to 1981-82, aid as percent of total investment of the country had been in the region of 55/126% . And the share of foreign aid and loan financing development budget had been in the region of 61/81% for the said period.

In Table 10 dependency on external economic assistance is measured from a somewhat different angle. On the basis of yearly averages it is found that the net external economic assistance (EEA) in Bangladesh increased steadily over the three plan periods, EEA as a percent of total investment, however, declined from more than 80% during the FFYP (1973-78) to about 69% and 67% during the TYP (1978-80) and the first four years (1980-84) of the SFYP (1980-85) respectively. But this apparent decline of EEA as a percent of total investment does not mean the declining tendency of dependency on foreign aid over the years. For, the net factor service income from abroad as a percent of investment had been increasing from 4.5% during the FFYP plan period to 11.0% and 22.6% during the TYP (1978-80) and the first four years (1980-84) of the SFYP (1980-85) respectively. If this particular flow of external assistance was not available, Bangladesh would have been borrowing an additional amount of Tk. 10 billion²³ per year during

Table 10

Dependence on Aid : Some Indicators

Indicator	1972-73	1978-79	1980-81
	1977-78	1979-80	1983-84
1. Net External Economic Assistance (EEA) (billion taka)	7.74	16.48	25.49
2. EEA as a % of Total Investment	80.80	68.60	67.20
3. Net Factor Service Income as a % of Investment	4.50	11.00	22.60
4. Percentage of EEA Received as Grants	46.20	50.90	54.20

Source : Bangladesh : Economic Development and Social Development Prospects, Vol. IV, Statistical Appendix, Report No. 5409, World Bank, April 12, 1985.

the said period and then EEA as a percent of total investment would have increased rather than decreased.

From the very beginning, though a major part of financing public expenditure (guided by the principle of self reliant growth) was expected to be borne by revenue surplus from the revenue budget, available evidence points to the contrary. Table 11 shows that the revenue surplus, though increased over the three plan periods, constituted only 14% and 15.5% of the ADP and public investment respectively during the FFYP. During TYP, revenue surplus accounted for 21.9% and 31.2% of the ADP and public investment respectively. During the SFYP, revenue surplus constituted 22.7% and 34.4% of

Table 11

Current Account Surplus or Deficit as Percent of ADP
and Public Investment and Financing of Overall Deficit
in Bangladesh during the Three Plan periods

(Tk. in billion)

Head	FFYP (1973-78)	TYP (1978-80)	SFYP (1980-85)
	Average	Average	Average
1. a) Revenue Receipts	7.37	16.65	28.26
b) Revenue Expenditure	6.40	12.35	21.47
c) Surplus (+)/Deficit (-)	0.97	4.3	6.75
2. Annual Development Programme	6.92	19.67	29.39
3. Public Investment	6.40	13.80	19.11
4. 1(c) as % of 2	14.00	21.90	22.70
5. 1(c) as % of 3	15.5	31.20	34.40
6. Overall Deficit Financed by (%)			
a) Capital Receipts and Deficit Financing	12.90	0.70	5.60
b) Foreign Grants and Loans	79.10	75.80	92.90
c) Transfer from Food Budget	8.00	10.50	1.50
d) Others	Nil	13.00	Nil

Source : A. Rahman, "Domestic Resource Mobilization : A Macro Analysis", Bangladesh Development Dialogue, SID, 1985, p. 28.

the ADP and public investment respectively. The net result was that the share of internal capital receipts and deficit financing in financing overall deficit constituted only 12.9% during the FFYP

and 0.7% and 5.6% during the TYP and the SFYP respectively. But foreign grants and loans, on the other hand, financed 79.1% of the overall deficit during the FFYP, 75.8% and 92.9% during the TYP and the SFYP respectively.

Table 11 also shows that the share of transfer from food budget constituted 8%, 10.5% and 1.5% in financing the overall deficit during the three plan periods respectively. But as we have noted, the transfer from food budget is nothing but the counter-part fund generated by the government by utilising food aid within the economy. Thus the share of foreign aid (adding transfer from food budget) stood at about 90% in financing overall deficit during the three plan periods. All these indicate how the development budget as well as investment activities of Bangladesh were foreign aid dependent.

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This was not all. The dependency of Bangladesh Budget becomes more obvious if we take into account the fact that even the revenue budgets of the GOB were heavily dependent on foreign aid for the whole period under study. In Chapter 5, we have observed that on an average more than 50%²⁴ of the total tax collections were contributed by import duty and sales tax on imports. We have also observed that foreign aided imports contributed about 45% of the total import duty and sales tax on import²⁵ during the period between 1972-73 and 1984-85. And with the fact that in all these years more than half of the annual import bills

of Bangladesh were paid for by foreign aid²⁶, it becomes more evident how far even the revenue budget, especially the internal resource mobilization efforts of the GOB were dependent on foreign aid.

Now if we take into account the fact that aid financed imports contribute to the manufacturing of domestic output of such items like cloths, petroleum, etc., and this output contributes to government revenues through excise duties and direct contributions to the government fund by the nationalised enterprises, the contribution of foreign aid flows would appear to be wider in the revenue budgets of the GOB than noted.

Under the above scenario, a fall in foreign aid, working through a fall in imports, would have a direct impact on internal revenue collections as well as development expenditure. For example, when aid disbursements fell much short of what had been programmed into the development budgets, revenue collections of the GOB came down. This together with the lack of adequate aid to finance the development expenditure compelled the GOB to cut down the size of the ADP by 14.4% in 1980-81 and to trim it again in 1981-82²⁷.

Thus over the years, not only the development budget but also the revenue budget of the GOB was guided by the availability of foreign aid. In other words, foreign aid, in the one hand, financed development expenditure, and on the other hand, contributed largely to the internal revenue collections of the GOB by footing the import bill which constituted a greater share to the tax revenue.

In this connection it may be mentioned here that contrary to the rise in foreign aid over the years, the level of domestic savings has not increased. In fact, saving/GDP ratio as noted in Chapter 1, has declined from 4.6% in the terminal year of the FFYP (1973-78) to 4.2% in the terminal year of the SFYP (1980-85). This reflects the fact that foreign aid financed development far from encouraging self-reliance, contributed to a concurrent decline in the capacity to mobilize domestic savings in Bangladesh²⁸. Under the above scenario, for self-reliant growth the essentiality of mobilizing an increased volume of domestic resources on the part of the GOB can hardly be over emphasised.

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Moreover, as a result of growing inflow of foreign aid, the burden of debt servicing had also been increasing which had shrunk revenue surplus in the revenue budget by increasing revenue expenditure over the years since debt service payments constitute a considerable amount of revenue expenditure of the GOB. Table 12 points out the fact that annual debt repayment of Bangladesh increased from \$ 17.5 million in 1973-74 to \$ 170 million in 1984-85. But nonetheless, the net disbursement (difference between the total disbursement and debt repayment) to Bangladesh was only increasing over the years. In 1973-74 net disbursement was \$ 225.2 million whilst in 1981-82 it was as high as \$ 494.3 million. Thus debt repayments were far behind the new injection of loan into the economy which may be contrasted to the World Bank's predicament

Table 12
Debt Service Liabilities of Bangladesh (1972-85)

(In US \$ million)

Year	Total Loan Disbursed	Debt Repayment ^a (Interest+Prin.)	Net Loan Disbursed	Total Outstanding Debt	GDP	4 as % of 5	Total Export Earnings ^b	Debt Service Ratio
	1	2	3 (1-2)	4	5	6	7	8
1972-73	65.0	--	--	--	--	--	--	--
1973-74	242.7	17.5	225.2	501.4	8978.0	5.6	373.0	4.7
1974-75	526.1	70.8	455.3	973.4	13855.0	7.0	355.0	20.0
1975-76	566.7	55.6	511.1	1575.3	7162.0	22.0	367.0	15.1
1976-77	279.2	50.0	229.2	1827.3	7177.0	25.5	406.0	12.3
1977-78	441.0	65.0	376.0	2284.0	8803.0	25.5	535.0	12.1
1978-79	528.1	89.0	439.1	2733.9	10329.0	26.5	598.0	14.9
1979-80	572.5	108.0	464.5	3361.4	11754.0	28.6	743.0	14.5
1980-81	552.8	85.1	467.7	4383.3	12836.0	34.1	741.0	11.5
1981-82	585.8	91.5	494.3	4959.4	11870.0	41.8	652.0	14.0
1982-83	589.9	136.1	453.8	5451.6	11274.0	48.3	719.0	18.9
1983-84	534.6	128.3	406.3	5940.5	12557.0	47.3	822.0	15.6
1984-85	566.2	170.0	396.2	6280.9	13469.0	46.5	971.0	17.5

Note: a) Includes payments in respect of medium and long-term loans only excluding transactions with IMF and other short-term borrowings.

b) Merchandise Export only.

Source: Flow of External Resources into Bangladesh, 1987, External Resource Division, Ministry of Finance, GOB, Table 2.4, 2.5 and 2.6 (Col. 1) and 2.16 (Col. 2, 4, 5 and 7).

that debt service payments of a number of developing countries on that period exceeded current flow of loans²⁹.

The net result was that the total outstanding foreign debt³⁰ of Bangladesh as shown in Table 12 was only increasing over time. In 1973-74 the total outstanding debt of Bangladesh amounted \$ 501.4 million which constituted 5.6% of the GDP. But in 1984-85 it stood at \$ 6280.9 million which constituted 46.5% of the GDP. This exerted a heavy pressure both on the present and the future generation of Bangladesh to come³¹. Table 12 also shows that the debt service ratio of Bangladesh, defined as the repayment of debt as a percentage of the total merchandise export earnings in a particular year, was 4.7% in 1973-74 and rose upto 17.5% in 1984-85. Thus about one dollar out of every five dollars earned through exports was to be paid as interest and repayment of principal indicating a potential constraint on the debt servicing capacity of the country. Note that Table 12 does not include any payments on account of I.M.F. and short-term borrowings for food and crude oil. If the debt servicing of I.M.F. and short-term borrowings are included, the country has already crossed the safe limit of borrowing³².

In this connection it may be mentioned here that the debt service ratio of Bangladesh projected by the World Bank, especially for the second half of the eighties and for the early nineties, ranges between 15% and 17%. This was about equal to the average for the low income economies (14.4%) and below the average for the middle income economies (18.1%)³³. Thus Bangladesh's debt service

ratio of 15% or 17% does not appear to be unusually onerous by the prevailing standards of the less developed countries.

But this does not mean that the debt service payments do not constitute any serious problem for Bangladesh. For a poor country like Bangladesh a burden of 15% or 17% is likely to be much more critical than for a better off economy. Note that over the years, Bangladesh was fortunate to obtain easy soft term loans, and as noted earlier, more than 50% of the total foreign aid inflow was disbursed in the shape of grants which create no debt liability per unit of aid inflow. But in future, with a sudden change in the climate of international relationship, soft loan windows of various lending agencies may be gradually closed. Furthermore, interest and amortisation are also likely to increase as more and more aid matures for payment. And with the possibility that more grant elements of aid may be substituted by more and more loan elements, the debt service payments of Bangladesh may move to a critical level, above the World Bank's³⁴ projected estimate of \$ 196 million in 2000-01.

In addition, external earnings of Bangladesh being relatively less diversified are likely to be accentuated to a lower rate than debt repayment thereby increasing the debt service ratio above the projected estimate of 15% to 17% in the coming years. Another notable feature is that Bangladesh is unfortunately facing chronic balance of payments difficulties since her independence in 1971. The nominal trade gap of US \$ 140 million in 1972-73 increased to US \$ 1,591 million³⁵ in 1982-83. The main reasons for this gap are:

(i) Exports are not expanding proportionately with import requirements and (ii) deterioration in terms of trade. Recession and protectionism to some extent prevented primary exportable commodities of Bangladesh from making significant improvement in her export earnings.

The above circumstances demand that external debt policy of Bangladesh should be intelligently shaped from now on. No doubt, in Bangladesh under its prevailing social structure, the need for increased quantum of foreign aid will remain for some years to come to sustain its development programmes and indeed to meet its needs for current consumption. Therefore, to prevent further deterioration of the debt service ratio, Bangladesh will require favourable terms and composition of aid. Simultaneously, the export expansion programme is to be pursued vigorously both for traditional exports and for diversifying exports into the non-traditional areas. The success, however, depends how far aid on soft terms is actually available and demand for Bangladesh's export items in external markets exists. But the past evidence points to the contrary. It is thus through improved domestic resource mobilization and an efficient management of the economy that Bangladesh may find the solution to this problem.

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Chapter 8

RESOURCE MOBILIZATION THROUGH TAXATION

1. Introduction

This chapter is an attempt to judge the performance of the Bangladesh Budget in relation to the mobilization of resources internally through taxation over the period under study, since taxation constitutes more than 80% of the total government revenue. In doing so, after having a brief note on fiscal strategies for raising more revenue through taxation, we shall explain the tax-GDP ratio and tax effort of Bangladesh and also the elasticity and buoyancy of the Bangladesh tax structure. In this connection problems and policy recommendations (prospects) will also be drawn as far as practicable.

Since independence, the public sector has come to play a dominant role in the economy of Bangladesh. Its scope has been widened by the nationalisation of major industries and by the fact that the private sector has been historically dependent on the support from the public sector. So, the size and composition of government development spending has been extremely important in the context of the rate of economic growth in Bangladesh. In spite of the increasing trend of the private sector development outlay, the public sector in Bangladesh, as shown in Table 1, accounted for, on an average, more than 80% of the total development outlay.

Table 1

**Development Outlay in Bangladesh
Projected for Different Plan Periods
(1973-85)**

(Tk. in million)

Period	Public Sector	Private Sector	Total Outlay
FFYP ^a 1973-78	39520 (88.7)	5030 (11.3)	44550 (100)
TYP ^b 1978-80	32610 (84.5)	6000 (15.5)	38610 (100)
SFYP ^c 1980-85	201250 (78.6)	54730 (21.4)	255980 (100)

Note: Figures in parenthesis indicate percentages.

Source: a) The First Five Year Plan (1973-78), GOB.

b) The Two Year Plan (1978-80), GOB.

c) The Second Five Year Plan (1980-85), GOB.

From the very beginning planners, policy-makers and budget-makers of Bangladesh were aware of the shortage of internal resources for financing development programmes. The First Five-Year Plan noted that the economic progress targeted over the plan period was constrained by the amount of domestic resources available for development, given the level of production and income¹. It was also agreed that at the initial stage Bangladesh was 'not in a favourable position to generate sufficient surplus for development'. However, it was hoped to 'break the vicious circle and to take the

initial significant steps towards establishing an efficient pattern of domestic 'capital accumulation'².

2. Strategy Used in Bangladesh

As bulk of the investment was undertaken in the public sector, the major part of domestic resources would have to be generated in that sector. Accordingly, over the period under study, strategies for augmenting resource mobilization were taken on priority basis and various fiscal steps and measures were proposed.

The First Five-Year Plan projected a total revenue receipts of Tk. 23400 million from the existing taxes and tax rates on the basis of 1972-73 budget estimates and a total revenue (current) expenditure of Tk. 18030 million on the basis of 1973-74 budget estimates. With Tk. 6250 million from additional tax measures (Appendix A), total revenue surplus was projected to be Tk. 11620 million as shown in Table 2. After 1975, more emphasis was given by the policy-makers to raise additional revenue through the system of taxation particularly from the agricultural sector.

But in actual, total revenue surplus reached Tk. 4720 million only or about 45% of the projected target was realised and total domestic resources reached Tk. 9570 million only against the Plan target of Tk. 22450 million (Table 3). Table 3 also shows that capital receipts from the 'Public Account' calculated on net basis turned out to be negative to the extent of Tk. 760 million indicating that the payments were larger than the receipts. The expected

Table 2

Revenue Surplus Projected for the First
Five-Year Plan (1973-78)

(Tk. in million)

Head	Amount
1. Total Revenue Receipts (Existing Taxes)	23400
2. Total Revenue Expenditure	18030
3. Yield from Additional Measures (Discretionary Measures)	6250
4. Total Revenue Surplus (1-2 + 3)	11620

Source : Compiled from The First Five-Year Plan (1973-78),
Planning Commission, GOB, Chapter IV, pp. 37-41.

Table 3

Public Sector Financing during the First Five-
Year Plan (1973-78)

(Tk. in million)

Item	Projected Amount*	Estimated Actual**
A. Domestic Resources:		
1) Revenue Surplus	11620	4720
ii) Net Capital Receipts	3500	-760
iii) Deficit Financing	6270	4810
iv) Other Resources	1060	800
Sub-Total (A)	22450	9570
B. External Resources:		
1) Project Assistance	17070	10180
ii) Project Assistance	17070	15860
iii) Commodity Aid	17070	15860
Sub-Total (B)	17070	30270
Total (A+B)	39520	39840
(A) As Percent of Total	57	24
(B) As Percent of Total	43	76

Note: * At 1972-73 prices

** At current prices

Source : The Two-Year Plan (1978-80), Planning Commission,
GOB. Chapter 1, Table 1.10, p. 14.

amount from additional measures and other sources also did not materialise. As a result, internal resource mobilization fell short of expectation during the Plan period.

The net result of the shortage of domestic resources was the injection of more foreign aid than projected. Table 3 shows that the ratio of domestic resource and foreign aid in financing development programmes turned out to be 24:76 as against the projected ratio of 57:43.

The Second Five-Year Plan also noted the shortage of internal resources as 'a serious challenge to the implementation of the investment programme of the Plan'. Accordingly, 'increasing the share of direct taxes, expanding the tax base of domestic output, and reducing relative dependency on customs' particularly on import duties were proposed to be further intensified'. In this connection a 'crash programme' for improvement of tax administration was also suggested to be undertaken³. The Plan also suggested 'a considerable scope of mobilizing resources through better collection of existing taxes and imposition of taxes on unearned incomes'⁴.

Accordingly, during the Second Five-Year Plan, on the basis of 1979-80 prices, total revenue receipts and total revenue expenditure were projected to be Tk. 129600 million⁵ and Tk. 76030 million⁶ respectively. And with Tk. 15850 million from additional fiscal measures (Appendix B), total revenue surplus was projected to be Tk. 69420 million as shown in Table 4 below. But in actual Tk. 32050 million or 46% of the projected amount was realised⁷. And as a

Table 4

Revenue Surplus Projected for the
Second Five-Year Plan (1980-85)

(Tk. in million)

Item	Amount
1. Total Revenue Receipts (Existing Taxes)	129600
2. Total Revenue Expenditure	76030
3. Additional Fiscal Measures	15850
4. Total Revenue Surplus (1-2 + 3)	69420

Source: The Second Five-Year Plan (1980-85), Planning Commission, GOB, Chapter IV, Table 4.1, p. 3.

result the Plan objective of reducing dependency on foreign assistance was further dampened.

In this connection, it is useful to note that the 'donor agencies', specially the World Bank, were giving much pressure to the Government of Bangladesh for raising more resources internally. They urged that the development of Bangladesh should basically depend upon mobilization of the country's own resources and thus they demanded a declaration of political will for increasing national savings to be followed up by quick and effective action.

In 1974 the World Bank suggested a series of fiscal measures to raise current government revenues with a view to extracting a greater amount of resources domestically. These measures included the raising of the following:

- a) import duties (through increased rates for raw materials and capital goods),
- b) excise duties (specially textile),
- c) sales taxes (with fewer exceptions), and
- d) corporation taxes (to make sure that public sector corporations pay up)⁸.

The Bank also proposed to integrate agricultural and other incomes in the rural sector for tax purposes and to update land records. A gradual 'reduction of subsidies on agricultural inputs, and ultimately the imposition of modest taxes on items like fertilizer, pesticides, seeds and agricultural machineries' were also prescribed⁹. In addition, regarding the case of personal income tax the opinion of the World Bank was that tax administration should be improved and that exemptions, deductions and exclusions should be reduced. In particular, the World Bank urged the GOB to reconsider their decision on the exemption of personal income tax for the civil servants¹⁰.

From the various reports of the World Bank and the statements of the donors, the prescribed strategy for domestic resource mobilization through taxation in Bangladesh may be summarised¹¹ as:

- | | | | | | | | |
|---|---|--|------------|--|------------|--|---|
| <ol style="list-style-type: none"> 1) Import duties, through increased rates for raw materials and capital goods, should be raised 2) Excise duties should be raised 3) Sales taxes should be raised | <table border="0"> <tr> <td style="border-left: 1px solid black; border-right: 1px solid black; padding: 0 5px;"> </td> <td style="padding: 0 5px;">World Bank</td> </tr> <tr> <td style="border-left: 1px solid black; border-right: 1px solid black; padding: 0 5px;"> </td> <td style="padding: 0 5px;">World Bank</td> </tr> <tr> <td style="border-left: 1px solid black; border-right: 1px solid black; padding: 0 5px;"> </td> <td style="padding: 0 5px;">"</td> </tr> </table> | | World Bank | | World Bank | | " |
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|---|-------------------------------|
| 4) Corporation taxes should be raised | World Bank |
| 5) Integration of agricultural and other incomes in the rural sector for tax purposes | " |
| 6) Agricultural inputs should be taxed and subsidies on inputs should be reduced | World Bank, USAID, U.K. |
| 7) In the case of personal income tax, administration should be improved. Also exemptions, deductions and exclusions should be reduced. Higher level of sincerity of the administration is required | World Bank, Norway |
| 8) Revision of the tariff structure of the energy sector by increasing the prices of power and gas | World Bank, U.K. |
| 9) In the case of land tax, tax payment should be borne by the land-owning population | Canada, Sweden, Norway, Japan |

It is obvious that strategies prescribed by the donor agencies to enhance domestic resource mobilization in Bangladesh were designed mainly to increase the tax ratio of Bangladesh. No doubt, the GOB accepted and adopted most of the policies recommended by the donor agencies from time to time. But one may note that the specific policy recommendations towards increasing revenue receipts through a revision of the tax system of Bangladesh were yet to show any positive improvement so far as tax-GDP ratio was concerned during the period under study as examined below.

3. Tax Ratio and Tax Effort

The level of tax collection or tax performance of a country is customarily measured by the ratio of the tax revenue to the gross domestic product (GDP) i.e., the tax-GDP ratio, which may be called simply the tax ratio¹². The tax-GDP ratio of Bangladesh from 1972-73 to 1984-85 is calculated as shown in Table 5. It is observed that the tax-GDP ratio of Bangladesh was as low as 4.2% taking yearly averages of the early seventies. But during the late seventies and the eighties, the tax-GDP ratio increased considerably showing an average ratio of 7.5% and 7.8% respectively.

Table 5
Tax-GDP Ratios of Bangladesh (1972-73 to 1984-85)

(In Percent)	
Year	Tax-GDP Ratio
1972-73	4.5
1973-74	4.5
1974-75	4.2
Yearly Average	4.4
1975-76	7.2
1976-77	7.9
1977-78	7.3
1978-79	7.5
1979-80	7.5
Yearly Average	7.5

Contd..

Table 5 (Contd..)

Year	Tax-GDP Ratio
1980-81	8.3
1981-82	8.0
1982-83	7.9
1983-84	7.3
1984-85	7.5
Yearly Average	7.8

Source: Calculated on the basis of Appendix A to Chapter 5 of this study.

Table 6

Tax-GDP Ratios of Some Selected Developing Countries

(In Percent)

Country	Tax-GDP Ratio
1. Malayasia	24.5
2. Fiji	22.3
3. South Korea	16.7
4. Burma	16.4
5. Solomon Islands	15.6
6. Sri Lanka	15.1
7. Papua New Guinea	14.8
8. India (1979)	14.7
9. Pakistan	13.6
10. Thailand	12.3
11. Philipines	10.4
12. Bangladesh (1980)*	8.3
13. Nepal	7.3

* The year 1980 is chosen on the ground that Bangladesh registered the highest Tax-GDP ratio in that year during the period under study.

Source: Economic and Social Survey of Asia and the Pacific, United Nations, 1984.

Table 5, however, shows two important points. First, the tax-GDP ratio rose considerably from 1975-76 indicating the fact that fiscal measures did play an effective role in mobilizing internal resources through taxation. One of the main reasons, among others, for such an increase in tax-GDP ratio might be the re-introduction of land revenue in the form of Land Development Tax (LDT) in 1976¹³. Secondly, a notable feature is that from 1975-76 to 1984-85, the tax-GDP ratio has remained more or less invariable indicating rather a failure of government efforts in augmenting additional resources through taxation, other things remaining the same (determinants of tax structure).

The tax-GDP ratio of Bangladesh is low compared to other less developed countries (LDCs) of the world. Table 6 shows that the tax-GDP ratio in Bangladesh remained one of the lowest in some of the selected developing countries. In fact, among the 13 selected developing countries, Bangladesh occupied the 12th position. Only Nepal had a lower tax-GDP ratio of 7.3% than 8.3% of Bangladesh.

However, any judgement of tax performance based merely on such comparison of simple tax-GDP ratios may be misleading, since it fails to take into account the fact that taxable capacities of different countries may vary. So, the actual tax-ratios must reflect both taxable capacity and tax effort. 'Tax effort is the degree to which taxable capacity is used'¹⁴. In the words of Richard Goode, "Tax effort analysis represents an attempt to go beyond simple comparisons of tax ratios to a comparison that takes account of measurable variables that significantly affect taxable capacity"¹⁵.

Using regression technique, a number of studies at the IMF have investigated the statistical relationship between the variables (noted below) affecting taxable capacity and actual tax ratios in developing countries¹⁶. The variables include per capita income, the openness of the economy (the ratio of export plus import to GDP), and economic structure particularly the relative size of agriculture and mining, etc¹⁷. Most of the studies, however, showed a positive relationship between taxable capacity and the shares of these variables in GDP and was statistically found significant by customary standards.

Tait, Gratz and Eichengreen¹⁸ have made an attempt to measure tax effort for a sample of 63 developing countries including Bangladesh for the years 1972-76 by using regression technique incorporating economic variables mentioned above. According to the level of tax effort, countries are grouped into high index, medium index, and low index, where Bangladesh belongs to the low index group¹⁹.

Another attempt is made to measure the tax efforts for a sample of 17 developing countries including Bangladesh in 1984-85 by Chowdhury and Hossain²⁰. The authors incorporated per capita GDP and ratio of exports plus imports to GDP as major explanatory variables²¹. The result (tax effort indices of the 17 selected developing countries) as depicted in Table 7 shows that Bangladesh ranks 16th among 17 selected developing countries both in terms of actual tax-GDP ratio and index of tax effort. Table 7 also shows that the normative tax-GNP ratio of Bangladesh in 1984-85 was

greater than Nepal, Pakistan and even India. But in case of actual tax-GNP ratio it was placed only above Nepal. This is an indication of the fact that the tax administration of Bangladesh (other things remaining the same) failed to mop up the tax potentiality of the country at its desired level.

Table 7

International Comparison of Tax Effort (1984-85)

Country (1)	Actual Tax-GNP Ratio (2)	Normative Tax-GNP Ratio (3)	Index of Tax Effort (2/3) (4)
1. Tunisia	0.278	0.211	1.31
2. Chili	0.251	0.163	1.54
3. Egypt	0.248	0.212	1.17
4. Morocco	0.230	0.204	1.13
5. Sri Lanka	0.211	0.216	0.98
6. Kenya	0.195	0.181	1.08
7. Indonesia	0.183	0.163	1.12
8. South Korea	0.167	0.255	0.66
9. Yemen	0.165	0.149	1.11
10. Turkey	0.149	0.160	0.93
11. Thailand	0.145	0.173	0.84
12. Pakistan	0.123	0.128	0.96
13. India	0.112	0.093	1.20
14. Philipines	0.103	0.151	0.68
15. Burma	0.086	0.083	1.04
16. Bangladesh	0.083	0.133	0.62
17. Nepal	0.076	0.129	0.59

Source : O.H. Chowdhury and M. Hossain, "Tax Structure of Bangladesh : An Overview", The Bangladesh Development Studies, Vol. XVI, No. 4, December, 1988, BIDS, Dhaka, p. 75.

However, mere low tax effort compared to other developing countries is not sufficient to conclude precisely that the tax performance of Bangladesh is poor. A country may be classified as having low or high tax effort. But it does not always indicate that taxes should be raised or lowered. Yet, it provides helpful information to both politicians and policy-makers and suggests 'where to begin in addressing a budget problem'²².

We, therefore, need an optimum level of tax-ratio for developing countries to test whether the tax ratio of Bangladesh is below or above the optimum level. What is the optimum level of tax ratio? The answer is, however, indeterminate and debatable also. Experience does not provide any reliable guidance as to what level of taxation is optimum for less developed countries. No doubt, less developed countries possess low tax ratio and it can be raised through administrative and legislative efforts. But no doctrinaire answer can be given as to where the optimum level lies. For, the factors affecting tax ratio differ greatly from country to country. Critics like Bird and Bolnick argue that conditions differ so greatly among countries that general theorising and quantitative comparisons are not helpful in evaluating policies in a particular country²³.

But nonetheless, attempts have been made to visualize a certain level of tax ratio for IDCs. Martin-Lewis model²⁴ suggested a tax ratio of 20%. U.K. Hicks²⁵ seems to veer around this figure. In a later study Arther Lewis²⁶ suggested that most IDCs need to

raise at least 17% of GDP in taxes and other government revenues. These are the optimum ratios in their view and the tax ratio of Bangladesh is no doubt well below the optimum level.

Perhaps the most acceptable level of tax ratio for Bangladesh is noted by an IMF study²⁷ in 1979. This study viewed that given the structural rigidities of Bangladesh, the tax-GDP ratio should be about 10%. But with 8.3% in 1980-81 or 7.5% in 1984-85, the tax-GDP ratio of Bangladesh, no doubt, showed a poor tax performance.

In this connection, it may be noted here that during the FFYP and the SFYP the tax-GDP ratio of Bangladesh was targeted to be 10%²⁸ and 9.5%²⁹ respectively. According to the Planning Commission's calculation these were the optimum levels of tax ratio for Bangladesh which, however, was never realised.

Furthermore, Bangladesh's tax-GDP ratio is below not just the average for all developing countries (17.5%) but below the levels in Sub-Saharan Africa (17.6%), Asia (14.9%) and Latin America (17.93)³⁰ indicating rather a relatively poor tax performance.

The very low tax-GDP ratio means that tax revenue collections have not kept pace with the growth of the tax base and that the base itself has not grown adequately. Therefore, tax revenue collections can be increased by broadening the tax base and by improving the efficiency of the tax collecting authority.

4. Elasticity and Buoyancy of Bangladesh Tax Structure

The adequacy of a tax system as a toll for mobilizing more resources internally through fiscal measures can also be judged by its elasticity and buoyancy values. The automatic growth in tax revenue due to changes in national income is generally known as the elasticity of tax system which is sometimes called built-in elasticity. On the other hand, the growth in tax revenue caused both by the increase in national income and from discretionary measures such as changes in the rate of tax structure and/or in tax base is known as the buoyancy of tax system.

The measure of income elasticity may be given as:

$$Te = \frac{dT}{dY} \cdot \frac{Y}{T}$$

Where Te = elasticity of tax revenue,

T = tax revenue in the earlier period, and

Y = national income in the earlier period.

A tax system or a particular tax is said to be elastic if the measure exceeds unity and inelastic if it is less than unity.

In an adequate tax system, tax revenue must increase with the growth of the economy without frequent rate adjustment. For, it is not politically always advantageous and palatable to enhance the rate of tax and/or tax base to increase tax effort frequently through legislative measures. So, in an economy like Bangladesh the elasticity of the tax system must be sufficiently high.

But in case of Bangladesh, as shown in Table 8, the elasticity of the tax system was found to be rather low. The elasticity for the whole tax system was less than unity (0.85) indicating the fact that the growth in tax revenue was less than that of national income. Elasticity of indirect tax as a whole and for all its components other than sales tax on import were less than unity. Elasticity of tax on foreign trade was in fact unity, and taxes on domestic goods and services were very inelastic. Direct tax as a whole as well as its components were also very inelastic. Thus the tax revenue in Bangladesh increased less than proportionately to overall growth of national income without discretionary measures³¹.

Table 8

Estimated Buoyancy and Elasticity of Different Taxes in Bangladesh (1975-76 to 1984-85)

Tax Head	Average Buoyancy	Average Elasticity	Contribution of Discretionary * Measures (In percent)
1. <u>Direct Tax</u>	1.08	0.78	27.8
a) Income Tax	1.99	0.94	13.8
b) Other Direct Tax	1.07	0.29	72.9
2. <u>Indirect Tax</u>	1.02	0.87	14.7
i) <u>Taxes on Foreign Trade</u>	1.09	1.01	7.3
a) Import Duty	1.11	0.97	12.6
b) Sales Tax on Import	1.10	1.14	-3.6
ii) <u>Tax on Domestic Goods and Services</u>	0.90	0.61	32.2
a) Excise Duty	0.99	0.66	35.9
<u>Total Tax</u>	1.03	0.85	17.5

* Average buoyancy minus average elasticity as a percent of average buoyancy

Source : O.H. Chowdhuri and M. Hossain, Elasticity and Buoyancy of Bangladesh Tax Structure, Research Report, No. 80, BIDS, Dhaka, November, 1988, Table 3.1, p. 10.

The buoyancy value of the tax system of Bangladesh which combines both the automatic growth in tax collections and the effects of discretionary actions, was estimated to be only 1.03. However, Table 8 shows that the buoyancy values vary from a low of 0.90 for taxes on domestic goods and services to a high of 1.11 for import duty. Interestingly enough, except for taxes on domestic goods and services and its component excise duty, the value of buoyancy for all the major tax heads was greater than unity. Nonetheless, the very low buoyancy value of overall tax system (1.03) indicates why the overall tax-GDP ratio of Bangladesh changed marginally from the mid-seventies to the mid-eighties as noted earlier.

The fact that the buoyancy value was generally greater than the value of elasticity, was the reflection of the positive contribution of discretionary measures to the growth in tax revenue in Bangladesh. The contribution of discretionary actions to the whole tax system, as shown in Table 8, came to around 18% and its contribution to the growth in direct taxes and taxes on domestic goods and services were around 28% and 32% respectively. Strikingly enough, impact of discretionary measures on taxes from foreign trade was very little and in fact its impact had been negative on sales tax on import (-3.6).

The above finding reflects the fact that the tax yield from direct taxes and taxes on domestic goods and services was not only very low compared to that from foreign trade, it was also augmented primarily by frequently introducing new legislative measures. Clearly it was mainly the defective tax system (among other reasons)

that failed to mop up the tax potentiality of the economy. In other words the highly positive contribution of discretionary measures reflects the fact that the tax potentiality of the country was more than what the tax system actually realised without discretionary measures.

It may, however, be noted here that the highly positive contribution of discretionary measures to the growth in tax revenue was due largely to the unequal distribution of income in Bangladesh where the higher income group is not taxed adequately.³² Thus there is the possibility of raising tax revenue by making the higher income group people to pay more taxes. In other words, the discretionary measures, which have proved to be effective in Bangladesh, should be incorporated into the regular tax system.

However, the estimates of elasticity and buoyancy shown in Table 8 reflect some interesting features of the tax system of Bangladesh. First, the elasticity of all direct taxes taken together (0.78) was lower than that of all indirect taxes taken together (0.87). But the buoyancy value of direct tax (1.08) was greater than that of indirect tax (1.02). This is an indication of the fact that discretionary actions played more important role in raising revenue in the case of direct taxes than in the case of indirect taxes.

Second, the highest buoyancy value as well as elasticity was reported for import duty and sales tax on import (individually) and the lowest was in the case of domestic goods and services. Thus imports into Bangladesh were quite highly related to the growth of

income and at the same time, dutiable imports were more responsive to the growth of income than that of total imports.

A decomposition of elasticities of some of the tax heads may provide us with some important information about the tax structure

Table 9
Decomposition of Tax Elasticities (1975-76 to 1984-85)

Tax Head	Built-in Income Elasticity	Built-in Tax-to-Base Elasticity	Base-to- Income Elasticity
1. Direct Tax	0.78	0.71	1.11
2. Income Tax	0.94	0.85	1.11
3. Import Duty	0.97	0.85	1.14
4. Sales Tax on Import	1.14	1.06	1.03
5. Excise Duty	0.66	0.62	1.03

Source: O.H. Chowdhury and M. Hossain, Elasticity and Buoyancy of Bangladesh Tax Structure, Research Report, No. 80, BIDS, Dhaka, November, 1988, Table 3.2, p. 13.

of Bangladesh. Tax elasticity can be decomposed into two components i.e., tax-to-base and base-to-income elasticities³³. Table 9 reveals that in Bangladesh, tax-to-base elasticities were much lower than base-to-income elasticities for the period between 1975-76 and 1984-85. It is found that the low elasticity of excise tax (0.66) was due to the very low tax-to-base elasticity (0.62) compared to a quite high base-to-income elasticity (1.03). Clearly, tax collections failed to keep up uniformity with the tax base or in

other words, excise duty failed to cover its base. This finding supports the view that substantial tax evasion and inefficient tax administration made excise duty an inelastic source of revenue.

Again, Table 9 shows that base-to-income elasticity of direct taxes and its component income tax was greater than unity for the said period in Bangladesh. But tax-to-base elasticity was less than unity. This also indicates the fact that the inefficient tax administration of Bangladesh failed to collect sufficient revenue as direct tax and thereby caused income elasticity of direct tax to be low.

We, therefore, conclude that collection of government revenue in the form of direct tax as well as indirect tax (mainly domestic goods and services) may be increased through improving the efficiency of tax administration thereby covering successfully the bases of such taxes.

5. Avenues for More Revenue

It is, however, practically very much difficult to suggest any tax policy reform for a developing country like Bangladesh. For, the economic system is too complex to allow the design of a formula that works adequately in all situations.

No doubt, Bangladesh is one of the poorest countries with low per capita income in the developing world. Yet, she possesses some potential pockets of generating more resources internally through restructuring the economic system in general and the tax system in particular, as noted earlier. "No nation is so poor that

it cannot save 12% of its national income if it wanted to", observed W.A. Lewis³⁴. Therefore, Bangladesh as an underdeveloped country (with serious shortage of domestic resources) that is determined to break the vicious circle of poverty and to avoid economic stagnation, will have to find ways and means of raising large and growing amount of tax revenue.

However, our observation is that while in the long run much will depend upon how the planning strategy is effectively geared up to enforce policy (structural) changes in the economy, a lot can be achieved in the short run by increasing the flexibility of the tax structure, by improving the efficiency of the tax administration, by reducing tax evasions as well as by broadening the tax base.

In the light of above assumptions we suggest the following changes in the tax structure of Bangladesh that may help in raising more revenues to the GOB.

The very low contribution of direct tax as a whole to the total tax revenue was due mainly to the narrow tax base and poor tax net (low coverage). In 1982, the Finance Minister of Bangladesh in his budget speech noted that roughly 75% of the total income tax came from taxes on companies alone. More seriously enough, in 1982-83, the country had only 280,000 tax payers or less than 0.05% of the total population were covered in the tax net³⁵.

In Bangladesh there are a large number of self-employed persons engaged in small enterprises (shopkeepers, small traders, etc.) both in rural and urban areas along with urban professionals (consultants, designers, etc.) who have assessable income but do not

pay income taxes. They do not and even cannot maintain any proper accounting records required under the prevailing income tax law. These groups successfully escaped the tax net availing the weakness of the income tax law as well as its administration leading to tax evasion. Again, some businessmen do not keep adequate records and accounting books; others maintain two or three books to evade the payment of taxes.

It is, therefore, necessary that through an intensive survey these self-employed persons with assessable income are brought within the tax perview as far as practicable. In this connection, complications in respect of assessments and payments should be ruled out by designing a simple procedure for small business enterprises and other self-employed persons which would improve tax compliance and reduce the work load of tax officials. In addition, the marginal rate of income tax may be reviewed and moderated which is expected to improve tax compliance. Lower marginal income tax rate will also serve as an incentive for stimulating investment and thereby generating more income which will ultimately increase the total tax revenue.

But it demands close attention that the broadening of tax base should not be accompanied by the lowering of tax rates (except the marginal rate) in a country like Bangladesh where tax evasion is pervasive³⁶. For example, to ensure better tax compliance or to make the black money white, tax rates were lowered in Bangladesh in 1976, on the ground that the prevailing high tax rates made tax evasion rather lucrative. In 1976, the Martial Law Regulation-VI

(MLR-VI) gave complete amnesty from any legal consequences and fixed a flat rate of tax of only 30% for the declaration of untaxed income, and again in 1982, MLR-V declared tax amnesty with still lower rate of tax of only 15% for the untaxed income³⁷.

But the response was very poor. Only Tk. 0.08 billion and Tk. 0.37 billion respectively was collected as income tax following the two regulations, whereas the black money in the economy was roughly estimated to be as high as 60 billion taka in 1982 (unofficial Planning Commission data)³⁸. Not only this, out of about 9000 declarants who took the opportunity of paying the tax at the lower rate, only about 5500 paid taxes in actual. Clearly the defect was not in the higher rate of taxation but in the very system of taxation and in tax administration. This leads us to conclude that the reduction in the tax rates can not be justified under the conditions prevailing in Bangladesh³⁹.

In Bangladesh unearned incomes derived from speculative transactions, scarcity rents, intermediations and trade in properties were not properly focussed by the fiscal system throughout the whole period under study. Again, capital gains were also lightly taxed thereby rewarding a non-productive class.

So, the fiscal system needs to focus on all unearned incomes derived from the said sources and should be brought under the income tax perview. Some transactions such as trade in properties can be captured through taxation of capital gains. The rate of capital gains

tax should be increased further. Again, in Bangladesh where wealth is highly concentrated, a large amount of revenue can be obtained from a vigorously enforced tax on a few wealthy persons.

Unlike many other developing countries of the world, the practice of not taxing the salary income of the government employees in Bangladesh was perhaps one of the most serious defects of the tax system. The departments employing these employees were supposed to pay taxes on behalf of them to the Revenue Department, which meant that the income tax payment within the government became a matter of book transfer only. This was not all. In the face of roaring inflation, as noted in Chapter 6, the government not only raised the basic salary of the employees, but also other benefits like house rent, medical allowance, etc. which dampened government savings further. Obviously there was no economic ground to leave them such a tax bonanza where there were to pay taxes.

We, therefore, suggest that the practice of taxing the salary income of government employees should be introduced and no discrimination should be made between different types of income. A general system of income tax payable by everyone earning above one exemption limit should be introduced. In other words, all incomes of a person should be integrated into a 'global statement' of incomes for tax purposes in order that everyone will enjoy only one exemption limit. This will not only increase government revenue but will also have a favourable effect on savings as salaried personnel may like to subscribe in insurance policies, shares and securities (savings bank certificate, etc.) to avail of tax exemptions. But

any unnecessarily high reduction in tax for household and enterprise savings should be avoided by the tax system. For, such a reduction may go against the goal of collecting more tax revenue. In addition, the government officials who have other sources of income including rental income from renting their own houses and apartments should pay taxes on such income. But attention is also needed that taxes should not unduly limit the capacity and willingness to work.

The issue of agricultural taxation in the form of direct tax had been the subject of very much debate and controversy in Bangladesh since liberation. Although this sector constituted almost 60% of the GDP, it could not prove itself as a significant source of revenue to the government for the whole period under study for a variety of reasons.

It is striking enough that while the government of the newly emerging Bangladesh was exploring all the possible sources of revenue in the face of acute resource problem, the government itself froze an important source like land revenue. In mid-1972 the GOB introduced two important changes in the system of land revenue and agricultural income tax through an act generally known as the 'Presidential Order' 96⁴⁰. First, there was the postponement of collection of agricultural income tax for two years from 1973-74; and the second step was to abolish land revenue on land holdings upto 8.3 acres in size⁴¹.

The net effect of exemption of land revenue on land holdings

below 8.3 acres in size was that it virtually exempted 90% of the agricultural land and 99% of the rural people from land revenue⁴². As a result, the government lost a potential revenue of Tk. 61.5 million annually during the period upto 1976⁴³. Clearly, these measures were in direct conflict with the revenue needs and the resource mobilization efforts of the government.

These measures were, however, taken as a step towards the fulfilment of the commitment given by the party in power in its election manifesto (1970)⁴⁴ to ensure social justice and equity to the poor peasants of the then East Pakistan (Bangladesh). But there were sound reasons for the reintroduction of land revenue on the owners of land over, say, 5 acres, especially in 1974, when the country was going through a severe economic and financial crisis. For, in the rural areas, people owning 5 to 8 acres of land were well-to-do ones, particularly due to the rise in the prices of agricultural products as well as the rise in production with the spread of new technology in agriculture⁴⁵. As N. Islam (the then Deputy Chairman of the Planning Commission, GOB) observed, "... at least a beginning could have been made with low rates, which could have been increased over time"⁴⁶.

In the face of the fall in revenue, a beginning was, however, made from 1976 through the introduction of 'Land Development Tax (LDT)' merging land revenue and other taxes. The LDT consisted of a flat rate with a two-tier system for agricultural land: Tk. 3 per acre for all household owning land upto 8.3 acres and Tk. 15 per acre for those owning land above 8.3 acres. In 1982 the

agricultural rates were made highly progressive, with nominal rate ranging from Tk. 3 per acre to a minimum rate of Tk. 145 per acre for land holdings above 25 acres⁴⁷.

But the result was still unsatisfactory due to the problems of implementation. In Bangladesh the farmers virtually kept no accounting records where much of the actual tax assessments were based on discussion and imagination. In addition, home consumption, various exemptions and reductions, lack of political support and difficulty for the tax officials to reach a large number of tax payers in the rural areas made agricultural taxation almost impossible to administer⁴⁸. These together with tax evasion made it an insignificant source of government revenue. The extent of tax evasion was so high that in 1975-76, the yield fell to 16% only of the level reached in 1969-70⁴⁹.

Thus the share of land revenue in the total tax earnings was reduced from 2.2% in 1975-76 to only 1.6% in 1981-82. And in 1982-83 even after the introduction of LDT, the share of land revenue in the total revenue fell to a meagre 1.1%⁵⁰. On the contrary, administrative cost of collecting agricultural tax was so high that in 1985-86 it reached 66% of the tax collections leaving only 34% of LDT revenue available for government use⁵¹.

Another tax relating to land is the stamp duty collected at the time of land transaction. According to a statistical source, the earnings from the stamp duty also fell from 5.36% of the total tax revenue in 1980-81 to 3.9% in 1985-86⁵².

In practice, it is, however, very much difficult to design any tax policy for the agricultural sector. For, it is too inflexible to deal with the instability in agricultural incomes and with the administrative and political difficulties. Politically, the surplus farmers in rural Bangladesh proved themselves as the most powerful pressure group in Bangladesh's politics and limited the scope of extracting more revenue from rural Bangladesh. In the words of R. Sobhan, "The surplus farmers had been a key figure in the rural support base of not just the ruling party but the opposition parties of all complexions of right and left"⁵³.

Despite the problem of administration and politics, however, we believe that there always remains a very considerable scope of raising more and more revenues from the agricultural sector of Bangladesh. In principle, taxation can be levied on input used by the agriculture, on the output produced by this sector, on the incomes generated, on the expenditure made out of those incomes and on the land itself (land tax).

In order to collect a higher incremental income as well as to make the tax system more equitable, an agricultural income tax based on 'potential income' taking into account the differences in productivity of land and cropping intensity, may be introduced. And a presumptive basis of assessing agricultural income may be applied.

In view of the administrative and political problem associated with land tax as well as agricultural income tax we accept the suggestion that the best method of utilizing land taxation is in

financing local governments because it would be seen as a benefit tax or simply as a user charge for local public services⁵⁴. A local land tax with proceeds used for local betterment may enjoy greater acceptance in rural areas than a Central Government tax used to finance projects in far-away places.

In many districts of Indonesia, for example, 60% to 70% of discretionary local revenue is provided by the land tax, despite its low rate of only 0.1% of assessed value⁵⁵. Country experiences (particularly in Latin America) also suggest the brightest future for agricultural land taxation as a resilient source of financing local government expenditure⁵⁶.

A recent survey study⁵⁷ in Bangladesh also confirmed the above view. By an opinion survey this study concluded that the rural people are agreeable to bear additional tax burden if the tax proceeds are spent within the locality for development of physical infrastructure and for provision of input subsidy. But one should note that the local government units in Bangladesh are usually dominated by the rich surplus farmers who may act against this policy. However, a beginning should be made and in this context, tax assessment should be made from the Centre. Above all, there must be some political initiative in its favour.

The present tax structure of Bangladesh, as noted in Chapter 5, is dominated by the share of indirect tax. The situation is unlikely to change in the near future since the preconditions (like monetised economy, honest and reliable accounting, large degree of voluntary compliance, honest and efficient administration

etc.)⁵⁸ for the success of direct taxes are inadequate in Bangladesh. But the most notable feature is that the indirect tax structure is dominated by the foreign trade sector particularly import duty and sales tax on imported goods, financed mostly by foreign aid. This is no doubt a source of uncertainty in revenue collection and hence not desirable.

So, the heavy relative dependency on the foreign trade sector for tax revenue is to be gradually reduced by increased taxation of domestic goods and services. Domestic excise net is to be expanded to new goods hitherto untaxed, rates should be modified with growth of income, and duties should be increased on types of goods previously lightly taxed. Items still under specific rates should be converted into advalorem rates in the context of administrative convenience and rising price level.

The tax base of domestic goods is particularly narrow because of exemptions/reductions allowed to a large number of items subject to excise and sales tax. Many of the exemptions/reductions cannot be justified either on grounds of productivity or social equity⁵⁹.

Thus the yield of tax revenue may be increased substantially by withdrawing or reducing exemptions (tax holidays etc.) and reductions. Rates of import duties should be increased further and higher rates should continue to be applied to luxury items particularly. But special incentive for industrial production and tax incentives for employment creation may be allowed. In other

words, the objective of both protection and revenue enhancement should be secured. In taxing commodities, however, unintended and excessive protection to domestic production should be avoided. Again, explicit and implicit taxes on exports of primary products may be used step by step.

Experiences suggest that for low income countries like Bangladesh, very large revenue gains are not expected from the broadening of bases of excise and sales taxes and therefore the 'Value Added Tax (VAT)',⁶⁰ the most important innovation of the second half of the twentieth century, is expected to be the mainstay of the revenue-raising effort of the government. Moreover, the revenue enhancement⁶¹ and tax neutrality (economic efficiency)⁶² arguments in favour of VAT are well documented. Recently, the GOB, after a long debate introduced VAT replacing turnover or sales taxes in some selected areas which should be broadened as far as practicable.

The local government units in Bangladesh depend to a considerable degree on grants from the Central Government. Although there are provisions for a variety of local taxes, fees, etc. in generating resources internally, only a few are utilized⁶³.

We, therefore, propose that the concept of matching grants to local authorities which rewards local fiscal enterprise and efficiency in resource collection and use may be encouraged. In order to find more stable sources of income, the local government units may be asked to identify new sources of revenue, and

contribution from national government to each local unit may be linked with their own efforts to mobilize local resources. "Neither decentralization nor representative administration can be sustained if local authorities do not develop fiscal self-reliance and become less dependent on grants from the Central Government"⁶⁴.

The tax administration in Bangladesh also lacked much to be desired. Shortage of personnel, inadequate emphasis on training, surveys and investigations, lack of logistic support and arbitrary assessment due to absence of commercial practices in business firms leading to corruption were all weaknesses of the tax administration as pointed out by the Planning Commission of Bangladesh⁶⁵. The staff strength of tax offices has not been increased proportionately with the increase in income and assets particularly in urban areas. All these resulted in rampant evasion of taxes and accumulation of arrear taxes.

In 1977-78 outstanding arrears on account of income, sales and urban property taxes were Tk. 3520 million⁶⁶. In 1973-74 total number of families with taxable income were about 0.5 million, whereas in 1978-79 total number of income tax assesses were only about 0.2 million indicating the extent of tax evasion by individuals⁶⁷. This evasion was rampant, especially in the case of self-employed persons who spread far and near and whom the tax officials could not reach with their existing staff.

Thus improvement of tax administration offers considerable scope to raise additional revenue from the existing taxes. Short and long term programmes for staff development should be undertaken,

training and logistic support should be worked out and implemented on priority basis to upgrade knowledge and skills of tax officials, and modern equipments should be provided. The twentieth century government needs more revenue for development but 'it also demands twentieth century administration'⁶⁸.

In addition, tax education making people more conscious about their tax obligations and tax officials more honest may play an important role in the improvement of tax compliance by the people. "Willingness to be taxed may be affected adversely if the people have no faith in the honesty and integrity of the tax collection system"⁶⁹. Thus the credibility of the tax system needs to be improved. For, a stable tax policy environment encourages tax payers and increases voluntary tax compliance.

Last but not the least, a decisive political as well as administrative will needs to be undertaken to collect revenue through fair and efficient enforcement of the prevailing laws. As Lady Hicks states, "There is no country so poor that it cannot quickly raise additional tax revenue if it has the will to do so"⁷⁰.

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$$T/Y = a + b_{Y_p} + cF/Y = u$$

where a is any constant and u is a stochastic disturbance term and

T = Total tax revenue

Y = Gross national product (GNP)

Y_p = Per capita GNP

F = Sum of import and Export.

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Appendix AYield From Additional Tax Measures Projected
for the FFYP (1973-78)

(Tk. in million)

Year	Amount
1973-74	250
1974-75	600
1975-76	1100
1976-77	1750
1977-78	2250
Total	6250

Source: The First Five-Year Plan (1973-78), Planning Commission,
Government of Bangladesh, Chapter 4, p. 41.

Appendix BYield From Additional Tax Measures Projected
for the SFYP (1980-85)

(Tk. in million)

Year	Amount
1980-81	800
1981-82	1850
1982-83	2950
1983-84	4250
1984-85	6000
Total	1,5850

Source : The Second Five-Year Plan (1980-85), Planning Commission,
GOB, Chapter IV, Table 4.4, p. 9.

Chapter 9

SUMMARY AND CONCLUSION

Bangladesh emerged as an independent state in the year 1971 after a bloody nine-month war of liberation. Before independence this land was a part (East Pakistan) of the then united Pakistan that was created following the partition of India in 1947.

Chapter 1 (Introduction) points out the fact that at liberation, Bangladesh inherited a poor and undiversified economy, characterised by the vicious circle of poverty with underdeveloped infrastructure, stagnant agriculture, very poor industrial base and a rapidly growing population with very low per capita income. In the General Assembly Report, 1975, Bangladesh has been termed as one of the 28 IDCs of the world and more significantly enough, the World Bank and the IBRD experts considered it as 'the test case of development', for, if the problems of Bangladesh could be solved, the other less difficult problems could also be solved.

The country also suffered from export-import gap and saving-investment gap. Saving-investment gap was too wide for any meaningful breakthrough. It is noted that saving-GDP ratio of Bangladesh is pitifully low (around 4%) even compared with other low-income Asian developing countries. Moreover, the war of liberation caused serious damage to physical infrastructure and dislocation in managerial and organisational set up. At this critical juncture, virtually with no domestic resources and foreign exchange reserves, the full functioning of the economic system was neither possible nor practicable.

But the war of liberation raised high expectation for better standard of living through rapid economic growth among the inhabitants of the newly born state. This required the speeding up of the rate of capital formation especially through mobilization of internal resources in the economy. And with the fact that both money market and capital market in Bangladesh were unorganised and poor, and public investment constituted more than 80% of planned investment, the government had to take the full responsibility of mobilizing resources internally for maintaining a desired level of investment and financing development programmes guided by the motto of self-reliant growth.

The task was, however, very much difficult and it pushed the government into a grave dilemma. For, it needed more resources for development, but found virtually no possible pockets for extracting surplus through applying budgetary policies. At the same time it found it necessary to offer certain tax incentives which could encourage private savings and investments.

Also it is noted that from the very beginning the budget-makers of Bangladesh were aware of the objective conditions of Bangladesh and accordingly attempted to raise public savings by exploiting different possible surplus-generating pockets like affluent farmers, traders and nationalised industries. But the pressure of various competing interest groups within and outside the state power basically limited the scope of working of the fiscal instruments in the way of raising more resources for development.

In addition, high non-development expenditure, narrow tax base and its inelasticity, weak and corrupt tax administration, etc. further worsened the problem.

Under the above circumstances, with no real surplus available within the prevailing social system foreign aid became an integral part of financing development programmes and over time Bangladesh became an aid-dependent nation.

However, the new nation of Bangladesh started its budgeting almost from zero. For in Chapter 2 we observed that apart from the British colonial exploitation of about 200 years, this land had to pass through another 25 years (1947-71) under the control of the semi-colonial West Pakistan. During this period, the economic growth that had taken place in Pakistan, actually benefited West Pakistan at the cost of East Pakistan which became poorer in the process of development.

After partition in 1947, though a substantial effort on the part of the Central Government was demanded by East Pakistan to improve its socio-economic conditions, guided by the 'principle of balanced growth' of the two regions, it was never realised. On the contrary, the policy-makers of the Central Government acted in such a way that the initial marginal imbalance between the two regions of Pakistan intensified further during the whole period of united Pakistan.

In actual, the whole period of united Pakistan was based on the transfer of resources from East Pakistan to West Pakistan through a combination of direct and indirect methods particularly

following the discriminating allocation in both capital and revenue budgets in favour of West Pakistan. Thus East Pakistan's share of development expenditure varied from 17% to 36% from 1950 to 1970 and the remaining larger share went on to West Pakistan. Allocation under the revenue budget also benefited West Pakistan since the major part of revenue expenditure was shared by administration and defence services dominated by the West Pakistanis.

An estimate showed that transfer of resources from East Pakistan to West Pakistan amounted to Rs. 31,120 million at the rate of about Rs. 1,556 million per year from 1947-48 to 1968-69.

In the case of distribution of foreign development aid and U.S. commodity aid also East Pakistan's share was 17% and 30% respectively during the period between 1947-48 and 1959-60. Moreover, it is observed that in the case of Central Government's sanctions of investment, loans and grants-in-aid to the two wings, per capita sanction to East Pakistan was very much low compared to West Pakistan.

The Central Government of Pakistan made all possible efforts to develop a wider socio-economic structure in West Pakistan especially by establishing two capital cities at Islamabad and Karachi. The developed infrastructure basically geared up the growth of the private sector in West Pakistan by reducing the cost of production and improving the scope of profitability for further investment. It is also found that the private investors of West Pakistan shared the largest part of loan distributed by the Central Government's credit-giving agencies like IDBP, PICIC and NIT.

In addition, by the early sixties, the Central Government took the policy of extracting surplus from agricultural and then re-channelling it to the private industrial sector. But East Pakistan with a larger share of export from agricultural products like jute and tea, was affected severely by this policy. In fact, the transfer of surplus from agriculture to industry meant a transfer of surplus from the agriculture of East Pakistan to the industries of West Pakistan as the majority of the import and export licence-holders as well as private industrialists were West Pakistanis. Also it is observed that a greater amount of foreign exchange earnings was diverted to West Pakistan from East Pakistan through a surplus in international trade and a deficit in inter-regional trade. An estimate showed that the net transfer of such resources from East Pakistan to West Pakistan was estimated to be Rs. 1050 million at the rate of Rs. 210 million per year from 1950 to 1955.

This direct method of extracting resources from East Pakistan to West Pakistan was also accompanied by other indirect methods. Indirectly, it was achieved through domination and control of private industries as well as trade and finance by the non-Bengali businessmen as a privileged group in East Pakistan. More significantly enough, most of the headquarters of the non-Bengali business firms were located in West Pakistan. Naturally, the profits earned by these firms in East Pakistan were diverted to West Pakistan, indicating a net transfer of resources from East Pakistan to West Pakistan.

The economic exploitation of East Pakistan by West Pakistan as noted in Chapter 2, was mainly possible for the very nature of the power structure of united Pakistan. It is observed that from the beginning to the end, Pakistan was never ruled by democratic government but by civil-military-bureaucratic elites dominated by West Pakistanis where participation of East Pakistani Bengalis was limited. More significantly enough, apart from the Central Government, the post of Chief Secretary and other key posts of the Government of East Pakistan were also headed by West Pakistanis whereas the East Pakistanis, posted in comparatively less important posts with lower echelons, had no room for independent action. Here lies the root of economic exploitation of East Pakistan by West Pakistan.

But the people of East Pakistan, politically the most sensitive people of the sub-continent did not let the above situation unchallenged. It is observed that the language controversy of 1952, together with the issue of economic exploitation rose a strong regional feeling among the East Pakistani Bengalis that ultimately took the shape of a strong regional autonomy movement in East Pakistan. The net result was the disintegration of united Pakistan and birth of a new nation Bangladesh, following the nine-month war of liberation in 1971.

It was thus natural that after liberation, the starting point of economic development of the newly born Bangladesh was not promising enough. For, apart from the economic exploitation, heavy gun-power was used during the war of liberation which

destroyed almost all that was achieved in East Pakistan upto 1971. Even without the war damage, Bangladesh would have been an intolerably poor and over-populated land with negligible natural resources and very low per capita income.

However, the GOB started its budgetary operation from the 16th December 1971. In Chapter 3, it is observed that the system of budgeting that developed in England from 1833 was adopted by the then British Indian Government under the India Acts of 1858, 1909, 1919 and 1935. Subsequently, after the partition of India in 1947, Pakistan also retained the British system of budgeting under the 'Pakistan Provisional Constitutional Order' of 1947, Constitutions of 1956 and 1962.

In 1971, Bangladesh being freed from the united Pakistan inherited the British system of budgeting from Pakistan. At the same time Bangladesh also followed the classification and codification system as embodied in the IMF's Manual on Government Finance Statistics, 1974. However, the system of government budgeting has changed over time in view of the changing need of the society, especially after the partition of India and subsequently after the creation of Bangladesh in 1971. Also it is observed in Chapter 3 that the Constitution of the People's Republic of Bangladesh, 1972, has laid down some significant financial and legislative procedures in respect of constitutional/legal approval of the National Budget.

In practice, the GOB as observed in Chapter 4, prepares separate revenue and capital budgets. The revenue budget contains revenue receipts from various tax and non-tax sources of receipts

for meeting the current expenditure. Capital budget on the other hand, contains internal and external capital receipts for financing development expenditure.

According to the Constitution of the Republic (1972), all accounts relating to receipts and expenditure are grouped into the Consolidated Fund and the Public Accounts of the Republic. On the receipts side, the Consolidated Fund of the GOB includes tax and non-tax revenues, grants, public debt and allowances. On the disbursement side, the Consolidated Fund is categorised into revenue expenditure and development expenditure. The Public Account mainly relates to the transactions such as State Provident Fund, Post Office Saving Bank Deposit, etc. Its expenditure comprises those disbursement which are set off against its receipts and the GOB acts as the custodian of the funds.

According to the procedure laid down in the preparation of the Bangladesh Budget all incomes and expenditures are grouped under budget heads called 'Major Heads', Sub-Heads, Minor Heads and 'Detailed Heads'. Again, the entire receipts and expenditures are arranged with unique 'Code' numbers and 'Descriptive' numbers for the convenience of identification by sources of income and direction of expenditure.

In Bangladesh the process of budget formulation is initiated by the Ministry of Finance through issuing budget circulars and directives to the Officers-in-Charge of the administrative units indicating the principles to be followed in projecting the expenditures and for estimating government income. The circulars and

directives are made according to the constitutional provisions and their statutory rules. In addition, there are 'Estimating Authority' responsible for estimating income by areas of activity and watching the progress of collection and 'Controlling Authority' responsible for control over expenditure. However, it is the Finance Division of the Finance Ministry that after a series of discussions with the Controlling Officers of concerned Ministries and Divisions, finalises the National Budget.

The process of preparation of the development budget or Annual Development Plan (ADP) which relates mostly to investment within the framework of the Five-Year Plan, involves a close and continuous collaboration between the Planning Commission and the Ministry of Finance. It is the link between the Annual Plan as prepared by the Planning Commission and the Annual Budget as prepared by the Ministry of Finance. The Planning Commission sets rules/principles following which the schemes/projects are included in the ADP. The Ministry of Finance by custom, however, accepts the accounts of development programme as prepared by the Planning Commission and puts it into the accounting framework of its annual budget in the name of 'Demand for Grants and Appropriations' (Development).

The annual budget so prepared is presented by the Finance Minister to the Parliament of the Republic for discussions and approval. Constitutionally, 'Charged Expenditures' from the Consolidated Fund are subject to a general discussion but they are neither submitted to the vote of the Parliament nor any motion can be moved

for its reduction. 'Other Expenditures' proposed from the Consolidated Fund is, however, submitted to the vote of the Parliament in the form of 'Demand for Grants'.

After the Parliament has discussed the 'Charged Expenditure' and vote on the 'Demand for Grants', the two are embodied in an 'Appropriation Bill' which, when passed in the Parliament becomes an 'Appropriation Act'. Finally, following the formal signature of the Head of the State, the budget becomes operational.

The same parliamentary procedure of discussions and approval is also applicable to the 'Supplementary Budget' as well as 'Excess Budget'.

But the expenditure of the 'Public Accounts' of the Republic does not require a similar treatment of approval as is required for the Consolidated Fund, because its expenditures are set off against its receipts.

At any time when the Parliament is not in session or stands dissolved, the President, according to the Constitution, may make and promulgate an 'Ordinance' authorising expenditures from the Consolidated Fund which have the like force of law as an 'Act of the Parliament'.

In Bangladesh there is a 'Delegation of Financial Powers', patterned by the Ministry of Finance for budgetary control and implementation. On the accounting side, however, the main responsibility of preparation and consolidation of the accounts of the

Republic lies with the Controller General of Accounts (CGA) and the audit side is taken care of by the Directors of Audit and the entire accounting and auditing responsibility of the Republic lies with the Comptroller and Auditor General (C and AG).

In addition, for budgetary control and implementation there are three Parliamentary Standing Committees with some assigned responsibilities and functions as laid down by the Rules and Procedures of the Parliament (RPP). These are the Committee of Public Accounts (CPA) for examination of the annual audited accounts of public expenditure, the Committee on Estimates (CE) empowered to judge whether the estimates presented before the Parliament are prepared with maximum possible efficiency and economy, and the Committee on Public Undertaking (CP) for the examination of the working of the Public Undertakings.

The nature of the present study summarised above is, however, introductory in nature. The actual analysis of the working of the Bangladesh Budget for the specified period starts from Chapter 5. It is observed in Chapter 5 that the total revenue receipts of the GOB increased from Tk. 2302 million in 1972-73 to Tk. 35767 million in 1984-85 or it increased at the rate of about 26% per annum over the years. This is, no doubt, an indication of the growth of the economy over time. But the performance of revenue collections was not promising enough from the resource mobilization point of view. For, the revenue-GDP ratios of Bangladesh were well below the international standard for the whole period under study.

The revenue structure in Bangladesh is distinctly dominated by tax revenue for the whole period under study. It is observed that more than 80% of the total revenue is shared by tax revenue and the rest less than 20% is shared by non-tax revenue. Again, though an increasing trend of non-tax revenue earning is recorded by the mid-eighties, its percentage share to the total revenue receipts remained quite stable over the years.

The low contribution of non-tax revenue to the total revenue earnings was mainly due to the poor performance of some of the major heads of non-tax revenue like stamp, registration, postal department, telegraph and telephone. More seriously enough, contribution from nationalised public sector enterprises was very poor and banks alone contributed more than half of the total earnings from this head. Though industries showed a marginal improvement over time, other heads contributed almost nothing. Heads like postal department, telephone and telegraph have showed even a negative share to the total non-tax revenue earnings over the years.

Also it is found that while taxes contribute more than 80% of the total revenue receipts of the GOB, direct taxes account for less than 20% of the total tax collections over the years. In other words, indirect taxes played a dominant role in the tax structure of Bangladesh. It is found that though the share of income tax (as one of the major components of direct tax) to the total tax revenue increased almost three-fold over the years, the share of direct tax as a whole to the total tax revenue remained almost invariable for

the said period. For, a rise in the percentage share of income tax was accompanied by a fall in the percentage share of other direct taxes comprising taxes on property, land revenue, etc.

Furthermore, it is observed that the indirect tax structure is dominated by the foreign trade sector comprising import duty, export duty and sales tax on import. This sector alone contributed more than 80% of the total indirect tax collections and more than 50% of the total tax collections over the years. Taxes on domestic goods and services on the other hand, accounted for around a quarter of the total tax revenue of which excise duty alone accounted for almost the entire tax revenue under this head over the years. The notable feature is that only 5 or 6 items accounted for about 75% of the total excise tax yield indicating rather a very narrow tax base. This together with tax evasion, corruption and inefficient tax administration, etc. pushed the share of taxes on domestic goods and services to the total tax yield downward compared to the tax yield from the foreign trade sector.

In this connection, it is observed in Chapter 5 that the above findings confirm Due and Hinrich-Musgrave generalization and IMF's finding that to the early developing stage of a country, the major part of the government revenue is collected from indirect taxes in general and from foreign trade taxes in particular.

More significantly enough, tax collection from the foreign trade sector in Bangladesh was dominated by import duty and sales tax on imports for the whole period under study. It is observed that

import duty and sales tax on import accounted for almost the entire tax receipts under the foreign trade head in the form of indirect tax. Also it is noted that more than half of the annual import bill of Bangladesh was paid for by foreign aid during the period under study.

But the contribution of export duty under the foreign trade sector, on the other hand, was very insignificant over the years which yielded even less than 3% of the total tax revenue; and by the eighties it became almost a negligible source of revenue to the GOB. This is a reflection of the fact that the economy of Bangladesh, experienced no structural changes in the field of domestic production which might have enhanced exports and thus self-reliance.

Under the above circumstances we, therefore, conclude that the economy of Bangladesh is primarily an import-oriented one and the imports are mostly facilitated by foreign aid, not paid by exports. And as such, these findings lead us to conclude further that even the revenue budget of Bangladesh especially the internal resource mobilization effort of the GOB is dependent on the availability of foreign aid.

But while the revenue collections of the GOB showed a poor performance from the resource mobilization point of view, revenue expenditure increased considerably over the years thereby reducing revenue surplus in the revenue budget or government net savings over the years. It is found in Chapter 6 that the total revenue

expenditure of the GOB increased at a compound rate of about 25% per annum and constituted on an average about 7% of the GDP over the years.

In Bangladesh the percentage share of different heads of revenue expenditure to the total revenue expenditure remained almost invariable over the years. Thus the highest percentage share went to the head of 'Administration' for all the fiscal years. This reflects the fact that Bangladesh suffers from a heavy bureaucratic set up and the GOB had to pay a huge amount of money for the normal running of the government during the period under study.

The striking fact is that while the share of 'Education and Health' taken together to the total revenue expenditure remained almost invariable, the share of the head of 'Defence' to the total revenue expenditure of the GOB increased markedly over the years especially since the mid-seventies. Thus the overwhelming priority of 'Defence' expenditure to the revenue expenditure of the GOB is easily understood. More significantly enough, while the percentage share of revenue expenditure under the head of 'Administration' started decreasing gradually especially from the late seventies, the share of revenue expenditure under the head of 'Debt Services' and 'Defence' started increasing sharply.

The excess of revenue receipts over revenue expenditure denotes the government saving which is added to the domestic resources for financing investment activities. It is found that in Bangladesh on an average more than 83% of the total revenue receipts were absorbed by the government's revenue expenditure thereby adding very little to the government saving. Also it is noted that a large

amount of subsidies in support of the agricultural development was paid out of development budget, and if included in the revenue budget, the surplus in revenue budget would have turned negative in many years.

The above finding leads us to conclude that the 'Fleese Effect' seems to be in operation in Bangladesh which states that governmental revenue expenditure is a direct function of the availability of revenue and thus additional revenue is associated with an increase in current spending and not with an increase in budget surplus.

More significantly enough, revenue expenditure in Bangladesh increased faster than the GDP over the years. In other words income elasticity of revenue expenditure in Bangladesh is not only positive but greater than one (on an average 1.7 for the whole period under study). This finding justifies the 'Wagner's Law' in Bangladesh which generalizes a gradual increase in the ratio of government revenue expenditure to national income. Also it is supported by a World Bank report which shows that in most of the developing countries government consumption was increasing more rapidly than GDP during the period between 1969-70 and 1979-80.

In Bangladesh, with time, as noted in Chapter 6, transfer payments like old age pensions, grants to local bodies and so forth have been greatly enlarged. These together with the expansion of public health and educational facilities, etc. along with the clamours of political parties for various concessions and benefits caused governmental non-development expenditure to be mounting over time.

Whatever may be the cause, revenue expenditure in Bangladesh which increased at an accelerated pace ever since 1972-73, can never be justified on any ground especially after 1975-76, when the policy of austerity in various Ministries, Divisions and Public Corporations was introduced and subsidies in many areas were almost withdrawn from the late seventies. This is an indication of the fact that whatever the economy of Bangladesh achieved through reorganisation and other measures was more than offset by an increase in other heads of expenditure.

We, therefore, conclude that while in a newly born country like Bangladesh it was not unnatural for the current expenditure of the government to increase at a high rate during the early seventies after liberation, such a high rate of increase in the late seventies as well as in the eighties was neither warranted nor natural. This contributed not only to misuse of resources but also to diversion of development resources away from the productive sectors and posed a serious problem to the domestic resource mobilization effort of the GOB.

Development expenditure of the GOB, as observed in Chapter 7, also increased steadily at the rate of 26.2% per annum which constituted on an average about 10% of the GDP over the years. A U.N. report, however, noted that the involvement of the GOB in the economic activities of the country was very low compared to that of other LDCs of the region surrounding Bangladesh.

A notable feature is that though agriculture and industry constituted on an average 55% and 8% shares in the GDP, they got

almost equal shares in development expenditure particularly during the seventies. This reflects the fact that more attention was paid to industries than to agriculture in the successive ADPs during the period under study. More significantly enough, the share of agriculture to the total development expenditure declined sharply during the mid-eighties due primarily to the reduction and/or withdrawal of subsidies to the agricultural inputs following the World Bank's prescriptions.

Also it is observed that over the years successive governments of Bangladesh paid comparatively little attention to ensure better education and health facilities to the masses and to arrest population growth in the country. And on an average, education, health and family planning taken together constituted less than 10% share of the total development expenditure over the years.

Capital receipts of the GOB, as observed in Chapter 7, also increased steadily at the rate of about 18.5% per annum over the years. But the most striking fact is that the external capital receipts which increased at the rate of 20% per annum, alone constituted on an average more than 90% of the total capital receipts of the GOB over the years. This reflects the fact, at a glance, that the capital budget of the GOB was almost entirely dominated by foreign economic assistance.

In Bangladesh total commitment of foreign aid during the period under study amounted to \$ 17119.8 million of which \$ 12434.7 million or 72.6% was disbursed. It is found that disbursed foreign

aid (project, non-project and food aid) was on an average about 90% of the development expenditure which constituted on an average about 10% of the GDP over the years.

More significantly enough, in most of the fiscal years under study, the share of disbursed aid exceeded the ADPs and financed part of the revenue budgets. Also it is found that foreign aid as percentage of total investment of the country had been in the region of 55/126% and the share of foreign aid in financing development budget had been in the region of 61/81% for the period between 1972-73 and 1981-82. All these indicate how far the preparation of the development budgets of Bangladesh is dependent on foreign aid.

Moreover, as a result of growing inflow of foreign aid, the burden of debt servicing has also been increasing which shranked revenue surplus in the revenue budget by increasing revenue expenditure over the years. More seriously enough, debt repayments were far behind the new injection of loans into the economy and as a result, total outstanding foreign debt of Bangladesh was only increasing over the years. This exerted a heavy pressure both on the present and on the future generations of Bangladesh to come.

These were not all. In the revenue budgets, as observed earlier, more than 50% of the total revenue receipts were contributed by import duty and sales tax on imports of which about 45% were contributed by foreign aided imports during the period under study. And with the fact that in all these years more than half of the import bills of Bangladesh were paid for by foreign aid, it becomes

evident that even the preparation of the revenue budgets of the GOB was highly dependent on foreign aid. In other words, foreign aid, in the one hand, financed development expenditure, and on the other hand, contributed largely to the internal revenue collections of the GOB during the whole period under study.

We, therefore, conclude that foreign indebtedness in Bangladesh has assumed such huge dimensions that it threatens eventually to enmesh the country into a 'debt-trap'. Under the above scenario, for self-reliant growth the essentiality of mobilizing an increased volume of domestic resources and an efficient management of the economy can hardly be overemphasised.

In Bangladesh mobilization of domestic resources greatly depends on tax revenue since taxation constitutes more than 80% of the total government revenue. Accordingly, as noted in Chapter 8, strategies for augmenting domestic resource mobilization through fiscal measures especially taxation were taken on priority basis during the different fiscal years as well as Plan Periods. But the projected targets were never realised and the tax system of Bangladesh was yet to show any positive improvement so far as tax-GDP ratios are concerned during the period under study.

In Bangladesh tax-GDP ratio changes marginally over the years and from the late seventies to the mid-eighties, tax-GDP ratios were almost invariable reflecting a deceleration in government's efforts for the mobilization of domestic resources through taxation. The two highest tax-GDP ratios are recorded to be 8.3% in 1980-81 and 7.5% in 1984-85 which are well below the average for all

developing countries of the World (17.5%), Sub-Saharan Africa (17.6%), Asia (14.9%) and Latin America (17.9%) indicating rather a poor tax performance of the Bangladesh tax structure compared to other LDCs of the world.

More significantly enough, tax-GDP ratio of Bangladesh is even below the standard (10%) as suggested by the IMF study in 1979 especially for Bangladesh and projected targets of Planning Commission of Bangladesh during the FFYP (10%) and the SFPP (9.5%). In other words, tax administration, other things remaining the same, failed to mop up the tax potentiality of the economy at the desired level during the period under study.

Also it is observed that both the elasticity and the buoyancy value of the Bangladesh tax structure are very low. Built-in-elasticity of the tax system as a whole is found to be less than unity (0.85) and buoyancy value is found to be 1.03 for the period between 1975-76 and 1984-85. Thus tax revenue in Bangladesh increased less than proportionately to overall growth of national income without discretionary measures.

More significantly enough, base-to-income elasticities in Bangladesh for the tax system in general (except sales tax on import), and for direct taxes and taxes on domestic goods and services in particular, was greater than tax-to-base elasticities. This indicates the fact that tax collections failed to cover its bases. It is clear, therefore, that collections of government revenues in the form of direct tax as well as taxes on domestic goods and services may be increased through improving the efficiency of tax

administration thereby covering successfully the bases of such taxes.

In Bangladesh as observed in Chapter 8, the very low contribution of direct tax as a whole to the total revenue is due mainly to the narrow tax base and poor tax net (low coverage). It is noted that a large number of self-employed persons who have assessable income do not pay income taxes by availing the loopholes of the income tax law as well as of its administration leading to tax evasion and corruption. Also it is noted that unearned incomes derived from speculative transactions, scarcity rents and intermediations, and trade in properties are not properly focussed by the fiscal system throughout the whole period under study. In addition, capital gains are also lightly taxed and more seriously enough, government employees do not pay any income tax.

So, the GOB needs to make extraordinary efforts to widen the base of direct tax by bringing self-employed persons within the tax net through designing a simple procedure in respect of assessments and payments. In addition, all unearned incomes should be brought under the income tax purview and some transactions such as trade in properties may be captured through taxation of capital gains with increased rate. Again, salary income of government employees should be brought under the scope of income tax net and a large amount of revenue can also be obtained from a vigorously enforced tax on a few wealthy persons.

Although the agricultural sector constitutes almost 55% of the GDP it could not prove itself as a significant source of revenue

to the government for the whole period under study. In principle, taxation can be levied on inputs used, on the output produced, on the income generated, on the expenditure made out of those incomes and on the land itself. In view of the administrative and political problems associated with land tax as well as agricultural income tax, it is noted that the best method of utilizing land taxation is in financing local governments.

The indirect tax structure in Bangladesh is dominated by the foreign trade sector particularly import duty and sales tax on imported goods, financed mostly by foreign aid which is, no doubt, a source of uncertainty in revenue collection and hence not desirable. Tax base of domestic goods and services is narrow particularly because of exemptions, reductions allowed to a large number of items subject to excise and sales tax. So, to reduce the heavy relative dependency on the foreign trade sector, the domestic excise net should be broadened to new goods, and duties should be increased on types of goods previously lightly taxed. Yield of tax revenue from domestic goods and services may also be increased by reducing and/or withdrawing exemptions and deductions. In addition, import duties should be increased further and higher rates should continue to be applied to luxury items particularly.

Also it is noted that as very large revenue gains are not expected from the broadening of bases of excise and sales taxes, the area of VAT which is introduced in Bangladesh very recently, should be broadened as far as practicable, since revenue enhancement and tax neutrality arguments in favour of VAT are well documented.

Above all, the tax administration of Bangladesh causing rampant evasion of taxes and accumulation of arrear taxes should be improved which will help to raise a considerable additional revenue from the existing taxes. In addition, tax education making people more conscious about their tax obligations and tax officials being more honest may play an important role in the improvement of tax compliance by the people.

Last but not the least, a decisive political as well as administrative will need to be undertaken to collect more revenues internally through fair and efficient enforcement of the prevailing laws. For economic development guided by the principle of self-reliant growth, mobilization of greater resources internally should never be the second best option for the policy-makers of Bangladesh.

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