A. Sector Performance, Problems, and Opportunities

1. The proposed project focuses on the use of information and communication technology (ICT) to provide services in support of government operations (public administration) in two crucial areas: tax administration, and land administration. The use of ICT is important because it has the power to transparently improve service delivery. Moreover, it can facilitate access to information, which is an important prerequisite for governance improvements in public administration.

2. **Tax administration.** In Bangladesh, the total tax–gross domestic product (GDP) ratio remains very low compared with other Asian countries (Figure 1). Evasion of taxes, both direct and indirect, is significant, negating the built-in progressive characteristics of the tax system. Low revenue severely restricts the government's ability to implement its poverty reduction strategy and affects its welfare and service delivery programs. Low revenue also limits the funds available to finance development activities, particularly much-needed infrastructure development.

3. However, the government is fully aware of the urgent needs for reform, and several tax reform measures were announced in the budget for FY2010. These include online filing of income tax returns, organizational restructuring, and creating a tax-friendly environment by simplifying the tax laws and providing important taxpayers’ services.

![Figure 1: Revenue Performance as % of GDP](image)

GDP = gross domestic product, VAT = value-added tax.

4. Despite recent progress, there remain serious challenges which may impede the achievement of the desired revenue targets in the coming years. Some of these challenges are discussed below.

5. **Narrow tax base.** The existing narrow tax base is a serious bottleneck for enhancing the tax–GDP ratio. The agriculture sector, with 48% of the labor force depends on agriculture, is kept out of the tax net. Similarly, inward remittances are fully exempted from income taxes.
Currently, around 5.5 million workers are working abroad, and they remitted about $10 billion in 2009.

6. **Existence of huge underground economy.** It is estimated that the size of underground economy was 23% of GDP in 1997, and it rose to 38% of GDP in 2005. Existence of this huge underground economy and capacity constraints of the tax department to unearth this hidden economy is a serious impediment to raising the tax–GDP ratio.

7. **Widespread tax exemption.** Direct taxes are severely affected by various exemptions in different sectors. Tax exemptions have different objectives such as (i) protecting infant industries, (ii) controlling prices of essential commodities, (iii) promoting growth in targeted sectors, and (iv) fostering growth in line with the government’s development agenda. There is no clear evidence that tax incentives always promote industrialization and growth in a sustained manner.

8. **Absence of automation.** The manual tax management system used by the National Board of Revenue (NBR) is largely outdated, prohibiting implementation of many international best practices in tax administration. Recently, the NBR has initiated an automation program with clear objectives to (i) increase transparency of the tax filing and assessment process, (ii) consolidate taxpayers’ information in a centralized database, and (iii) provide relevant information to taxpayers.

9. **Land administration.** Bangladesh has a very complex pattern of land ownership. Like some other developing countries, the history of land reforms in Bangladesh is spread over centuries. Feudalism was at its worst in the time of colonial rule. Struggle by peasants spread over a century gave them their stable rights to tenancy through the Bengal Tenancy Act (1885). However, feudalism was legally abolished through the implementation of State Acquisition and Tenancy Act (1950). All lands in Bangladesh are ultimately owned by the government, but since the abolition of the zaminder (landlord) system in the 1950s, all tenants have come directly under the control of the government. The tenants have the right to buy, to sell, or to mortgage their land. The State Acquisition and Tenancy Act (1950) provided for abolition of Permanent Settlement (1793) created by the colonial administration, whereby collection of revenue was left with the zaminder or their collecting agents. All these measures required the government to update and maintain its record of rights.

10. Various government entities and hierarchies deal with the land management system, including (i) Ministry of Land, (ii) Department of Land Records and Surveys (DLRS), (iii) registration department under the Ministry of Law, (iv) field administration offices including divisional commissioner, (v) district administration, (vi) upazila administration, and (vii) the judicial system. Land policy and revenue administration is the responsibility of the central government, i.e. the Ministry of Land. The DLRS under the Ministry of Land is responsible for surveying, mapping, and preparing the record of rights, and the maintenance of these. The Board of Land Administration and office of the Land Reforms Board deal with the formulation and implementation of land reform measures. The country is divided into seven divisions headed by divisional commissioners who act as appellate authority against decisions taken at the district level on matters of land administration. The divisions are divided into 64 districts headed by the deputy commissioner, who is also the collector of the land revenue. The collector is responsible for the entire land revenue administration in his or her district. He or she is assisted by an additional deputy commissioner in-charge of revenue. Districts are further divided into 481 upazilas (subdistricts), which is the basic administrative unit for land management. There is a full time assistant commissioner of land at the upazila to update the
land record of rights and to issue land certificates. There are several *tahsil* offices in each *upazila*, which are local field units for collecting land revenue. One of the main problems that has impeded land administration reforms is that Bangladesh's land management has been divided in terms of authorization. The land ministry looks after the survey and record issues, while the law ministry handles the registration process.

11. Land management in Bangladesh is also riddled with fraudulent practices. A survey by Transparency International (Bangladesh) of 2,000 households reveals that (i) 97% of households paid bribes for land registration, (ii) 85% paid bribes for land mutation, (iii) 85% paid bribes to obtain land-related documents, (iv) 83% paid bribes for land survey, and (v) 40% paid bribes to receive land.¹

12. The present land management pattern and registration system is extremely complicated. There are diverse methods in which land records are updated and the problems associated with each of them give rise to numerous disputes. Difficulties in redressing the problem arise due to (i) the absence of an up-to-date database on land records and cadastral index maps, (ii) the lack of transparency in land registration systems, (iii) inadequate land laws, (iv) unclear delineation of state land, and (v) the weakness and inability of the justice system to deal with land disputes.

B. Government's Sector Strategy

13. **Direct taxes and Tax Vision 2021.** Despite severe shortages of staff and logistics, direct taxes have grown persistently over the past few years. The government targets a direct tax–GDP ratio of 18.0% by 2021. Achieving the goals, however, requires critical reforms in both the tax policies and in the areas of tax administration. Accordingly, it is envisaged that ICT will play an important role in achieving the target. The important reform measures are as follows:

(i) **Broadening the tax base.** Broadening the tax base is the most essential among all the tangible reforms for enhancing the tax–GDP ratio. At present, there are around 40 areas of transactions where tax has to be deducted at source. These areas can be expanded by bringing new areas under the scope of withholding tax.

(ii) **Review of tax exemptions.** Taxpayers often use tax incentives as a ploy to transfer income from taxable sectors to tax-exempted sectors. Moreover, tax exemption takes certain sectors of the economy out of the watch and administration of the tax collecting agencies. To increase the tax base, experts have suggested reviewing the tax holiday scheme, exemptions, and allowances provided for different sectors.

(iii) **Strengthening tax identification number cell.** The tax identification number (TIN) gained prominence in 2006. The rationale behind the introduction of the TIN is the change in nature of doing business, which is part of the government's fiscal and tax reform policies to provide unique, quality, and efficient service delivery on taxpayers' tax needs and services. However, the full potential of the TIN cannot be reaped unless tax administration is fully automated.

(iv) **Strengthening audit.** Under the self-assessment regime, audit is vital to ensure that taxpayers are not concealing their financial state of affairs. In fact, audit is the heart of an effective self-assessment system. Needless to say, a

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A comprehensive database of the taxpayers, along with their tax returns, is a prerequisite for risk-based audit. Thus, online filing of tax returns is crucial in creating the database.

(v) **Strengthening tax research and training.** Effective tax administration demands regular research on issues pertaining to tax administration and tax policy. Training is another key area in tax administration. It is important not only for tax officials but also for withholding agents, accounting professionals, tax professionals, and the people working in the judiciary. To make any impact on tax compliance, training should include more stakeholders. Existing tax academy has constraints in terms of organizational capability and resources to facilitate increased tax research and training.

14. **Land administration.** The elected government aims to digitize the country’s entire land records and turns district administration offices into monitoring bodies from their present role of service provider, to ensure transparency and reduce corruption. It has been suggested that the entire activities of land purchase and registration should be done by the DLRS while the assistant commissioner of land should act as a monitor rather than a service provider. Most of the existing land survey records in land offices have been worn out and can easily be forged. The land survey documents should be digitized immediately to provide prompt service as well as keeping records updated.

C. **ADB Sector Experience and Assistance Program**

15. New ICTs and e-governance applications can provide essential tools and mechanisms for poor communities to hold both policy makers and service providers accountable for a sustained supply of services. ICT applications enable delivery of services more directly to poor people and for poor people to provide feedback (bidirectional information flows). If countries can succeed in strengthening the links and making the route of accountability between policy makers, service providers, and poor people shorter through e-governance, it will be a way of putting the poor at the center of public service delivery and, at the same time, giving the poor a voice to tailor services towards the real needs of the communities.

16. There are many such examples: (i) Lokavani in the Sitapur district of India; (ii) People First Network (PFNet) in Solomon Islands; (iii) Akshaya, Bhoomi, e-Seva and Janmitra in India; and (iv) Sarvadaya Program in Sri Lanka.²

17. Thus, the Asia Development Bank (ADB) recognizes the need for the application of ICT tools for improved governance. Therefore, it was agreed in the country operations business plan for 2010–2012³ that ADB would continue to provide assistance for improving governance in Bangladesh by enhancing governance management capacity. ADB’s assistance will also encompass assistance for improving access to information. Any participatory approach of governance improvements (e.g., online filing of tax returns) cannot get the best results unless access to information is significantly improved.

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Public sector management—especially service delivery—at all levels of government in Bangladesh is ineffective (i.e., delayed, inadequate, not done to standards, and with resource mismanagement). This can be attributed to various causes and manifests in, among others, poor fiscal management, poor access to information, little capacity to fulfill required mandates, and hairani (harassment) and petty corruption at the local level.

In the short-term, the following problems need to be addressed, which can also ensure a proper response to the problem of hairani and petty corruption:

- Absence of online tax filing
- Revenue leakages given weak tax auditing
- On service rights
- On land records

Caused largely by:

- (i) abuse of authority of position in tax administration,
- (ii) no information technology system to streamline electronic tax filing, and
- (iii) no central database of taxpayers

Evident in:

- (i) little streamlined information on tax files, and
- (ii) no risk-based audits carried

No free and prompt access to information on services (nor voice on nonreceipt of such services)

Weak land records management, database, and, consequently, no prompt access to information

Long-term issues to tackle:

- Evident in:
  - Weak land records management, database, and, consequently, no prompt access to information

Strengthening Governance Management Project addresses these causes of the problem and seeks to improve service delivery in tax and land administration through the use of information and communication Technology.
### SECTOR RESULTS FRAMEWORK (PUBLIC SECTOR MANAGEMENT 2010–2013)

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<td>Reduction in incidence of corruption in public offices.</td>
<td>Improved Transparency International ranking on corruption (from current CPI score of 2.4 in 2009 to 2.5 by 2013).</td>
<td>NIS approved</td>
<td><strong>Ongoing</strong></td>
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<td>Improved transparency and accountability in tax administration</td>
<td>A system of risk-based audit is in place (mid-2010 baseline: no risk-based audit). The score in global integrity report on the effectiveness of the tax collection authority improves by two points (end of 2008 baseline: 88).</td>
<td>Online submission of tax returns</td>
<td>Loan 2362: Good Governance Program ($150 million)</td>
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<td>Improved transparency and accountability in land administration</td>
<td>The score in global integrity report on public access to information improves from very weak to weak (end of 2008 baseline: very weak).</td>
<td>Development of a digitized land records management system</td>
<td>TA 4983: Supporting the Good Governance Program ($3 million)</td>
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<th><strong>Indicators with Incremental Targets (Baselines Zero)</strong></th>
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<tr>
<td>NIAC formed Online filing of tax return system will be established for all payers of income tax Users’ access to digitized land records Improved capacity of government staff</td>
<td><strong>Planned</strong> Loan P39452: Governance Management Project ($25 million) TA: Supporting the Governance Management Project ($800,000)</td>
<td>NIS approved and implemented. Office of the National Ombudsman established. Whistleblower protection law enacted.</td>
</tr>
<tr>
<td><strong>Planned</strong></td>
<td></td>
<td>Set up of the online filing of tax return system in most of the income taxcircles (currently there are 303 circles) Digitization of land records completed in 45 upazilas (subdistricts) of five districts on pilot basis Information and service centers established in 20 land offices at 20 upazilas and 20 tax circles (including one at the NBR) Capacity development training provided to approximately 200 NBR and land officials</td>
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