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The Political Economy of Domestic Tax Reform in Bangladesh: Political Settlements, Informal Institutions and the Negotiation of Reform

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ABSTRACT *This paper explains the persistence of a tax system characterised by low revenue collection and extensive informality in Bangladesh. It combines analysis of long-term formal and informal institutions and of micro-level incentives shaping negotiation of short-term reform. The system is unusually informal, discretionary, and corrupt, but remains resistant to change because it delivers low and predictable tax rates to business, extensive opportunities for corruption to the tax administration, and an important vehicle for fundraising by political leaders and rent distribution to their elite supporters. We then explore the dynamics of micro-level reform and external pressure within the constraints of this overarching political bargain.*

1 Introduction

Recent years have witnessed increased recognition of the centrality of politics to tax reform in developing countries. However, this research has continued to be characterised by two very different analytical approaches. One approach, growing out of the traditions of historical institutionalism and fiscal sociology, has sought to explain comparative tax outcomes over the long term by focusing on lasting formal and informal institutions that reflect broader political settlements among competing elite groups (Lieberman, 2003; Schneider, 2012). The alternative approach has focused more narrowly on individual reform episodes, focusing on the incentives facing competing interest groups and the efforts of reformists to overcome entrenched opposition (Bates, 1989; Fairfield, 2010, 2013). In this paper, we seek to bridge these two traditions, arguing that tax reform needs to be understood as a product of *both* long-term formal and informal institutional arrangements and short-term negotiation between competing interest groups (Bates, 2010).

We focus on the experience of the domestic tax system in Bangladesh, as it presents a particularly interesting case study owing to the coexistence of two seemingly contradictory realities. On one hand, the domestic tax system in Bangladesh is, by conventional measures, among the least effective tax systems in the world, characterised by manual administration, low revenue, and high levels of discretion and corruption. On the other hand, despite the appearance of significant dysfunction, economic growth has been consistently positive, while high profile tax reform efforts have faced almost across-the-board resistance from political, economic, and administrative elites. Although the co-existence of poor performance and resistance to reform is common in lower-income countries, the depth of the apparent dysfunction and the strength of resistance to reform are comparatively striking. The explanation, we argue, lies in durable informal institutions, norms, and networks – sometimes referred to as a ‘political settlement’ – that ensure that despite extremely high levels of informality,

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discretion, and corruption, the tax system has managed to provide generally low and reasonably predictable tax rates to key economic actors, while serving as a valuable conduit for targeted rent-seeking and patronage politics.

In constructing this argument, we draw on extensive and in-depth interviews conducted over more than a year. The goal of these interviews was highly targeted: to foster close and open relationships with a reasonably representative group of key informants, who were very senior, had direct access to key information, and were willing to have repeated and in-depth discussions with us about the functioning of the system. It is our success in gaining in-depth access to these high-ranking officials and prominent business representatives that has been critical to our findings. The identities of individual respondents have been kept anonymous owing to concerns expressed by respondents, and they are thus summarised here. From among businesses, our key informants have included the owners and/or financial managers of nine local firms, split evenly between the service and manufacturing sectors, and across business activities within each, all of which were willing to offer an in-depth view of their tax experiences and practices.¹ This has been complemented by engagement with three executive committee members from the shop owners' association, in order to gain insight into the experiences of SMEs, as well as three senior tax lawyers and one independent private auditor, who have offered an independent perspective on the tax practices of firms. These interviews have been complemented by detailed interviews with the very highest levels of the national tax agency, including three former Chairmen, one current member of the executive board, and two former and one current Commissioners of taxes. We similarly enjoyed direct access to a variety of donor officials from the IMF and World Bank, who have figured prominently in the reform efforts described here, as well as intensive interaction with leading national academics.² While these in-depth relationships represent the core sources of information, a wide range of complementary, but less in-depth, interviews have also been conducted with a wider range of government officials (both from the tax agency and ministry of finance), businesses (particularly in the ready-made garments, poultry and wholesale sectors) and business associations. This included presentation of preliminary findings on the informal realities of tax payments to a workshop of senior tax and finance officials, which offered broad validation for core key empirical claims of the paper.³

Drawing on this evidence, we begin by describing key features of the overarching bargain between elite groups that has shaped the content and evolution of the tax system. However, we stress that while it has been highly resilient to change, it has not been static. The formal and informal rules have been consistently contested and re-negotiated, with the informal underpinnings of the system challenged by external and domestic pressures. In order to illustrate these micro-political processes we provide a detailed account of repeated efforts to reform the VAT, which offer a particularly clear view of the agency of competing groups in both sustaining and reshaping key features of the prevailing tax bargain. Specifically, our examination of these reform initiatives reveals four broad messages: first, and most obviously, despite the technocratic overtones of reform efforts, reform outcomes have overwhelmingly reflected political incentives. Second, while these reform processes appear both lacking in coherence and to have fallen short of their goals, they are best understood as efforts by elite groups to renegotiate existing relationships while drawing on and sustaining key elements of the underlying political bargain. Third, both external and internal pressures have played a critical role in destabilising existing bargains, and opening the door to incremental reform. And, finally, the very informality that underpins the system implies the potential for a more fundamental destabilisation of existing informal rules of the game – though the current system has remained remarkably resilient to date.

These findings relate closely to a broader literature interested in the so-called 'paradox of Bangladesh' – the coexistence of high levels of economic growth with seemingly very weak governance (Mahmud, Ahmed, & Mahajan, 2008; World Bank, 2007, 2010).⁴ This literature has proposed that the explanation for this paradox lies in the existence of a 'political settlement' that is characterised by intense partisan competition, high levels of corruption, and extensive patronage networks, but which is equally built on informal norms and networks that have ensured predictability and profitability for leading sectors (Ahmed, Greenleaf, & Sacks, 2013; Hassan, 2013; Khan, 2008a, 2010,

2013). This study provides a detailed empirical account of precisely these types of dynamics within the realm of taxation.

The remainder of the paper proceeds in five parts. The first section reviews the existing literature. Section two presents an overview of key features of the tax system in Bangladesh. Section three describes key elements of the political settlement that has underpinned the tax system. Having painted this broader picture, section four then seeks to illustrate the micro-politics of reform through a detailed analysis of two critical, and closely related, instances of reform: the original introduction of a value-added tax in 1991 and efforts initiated in 2009 to reform the original law. Finally, section five concludes.

2 Political Settlements and the Micro-Politics of Reform

Most research exploring the political economy of tax reform has focused on the micro-politics of tax reform, conceptualising the challenge of reform in terms of the need to mobilise political forces in favour or reform, while weakening opposition. At the core of this research is an expectation that reform of tax policy and administration will be politically difficult: those who are threatened by tax reform ('the losers') are generally more concentrated, organised, and politically influential than the broad groups that stand to benefit most from expanded public spending (Ascher, 1984, 1989; Bates, 1989; Fairfield, 2010, 2013).

Research has focused in particular on resistance from two sources: business taxpayers and the tax administration itself. Among the former, most focus has been on the collective action potential of larger businesses, which may also enjoy personal ties to the political and administrative leadership (Bird, 1992; Elizondo, 1994; Fairfield, 2013; Quinn & Shapiro, 1991). More recently, research has noted the potential for well-organised small businesses and shop owners to become mobilised in response to certain types of reform (Prichard, 2009, 2010). Meanwhile, growing attention has been paid to resistance by tax administrators with vested interests in defending existing ways of doing business, patronage networks, and areas of authority and autonomy (Devas, Delay, & Hubbard, 2001; Fjeldstad, 2003, 2006; Joshi, Prichard, & Heady, 2012; Prichard, 2009; Varsano, 2003). As with other areas of civil service reform, administrators may be able to undermine reform through both overt resistance and through non-cooperation with implementation (Grindle & Thomas, 1991).

Given the expected strength of resistance, the core message from this literature is the paramount importance of high-level political and administrative leadership, and of strategies for overcoming resistance from vested interests (Ascher, 1989; Bird, 2008; Durand & Thorp, 1998; Elizondo, 1994; Fairfield, 2010; Fjeldstad, 2006; Harberger, 1989; IMF, 2011; Khalilzadeh-Shirazi & Shah, 1991; Morrissey, 1995). In turn, research has long suggested that fiscal crises and moments of political transition can be critical to opening new opportunities for reform, as they can serve to strengthen support for reform while disrupting existing networks of resistance (Fjeldstad & Moore, 2008; Keen & Lockwood, 2010; Mahon, 2004; Sanchez, 2006). As importantly, international pressure and support – most often from the IMF – has often been an important driver of at least superficial reform (Fjeldstad & Moore, 2008; Keen & Lockwood, 2010; Mahon, 2004; Prichard, Brun, & Morrissey, 2011; Sanchez, 2006).

However, while these studies offer a clear understanding of key actors and their narrow interests, they may fail to adequately capture the role of formal and informal institutions in shaping the durability of key features of tax systems. With this in mind, a relatively distinct literature has focused not on the micro-politics of specific reform episodes, but on the long-term characteristics of tax systems, rooted in slow-changing institutions and political bargains among elites (Di John, 2010; Lieberman, 2003; Lledo, Moore, & Schneider, 2004; Luong & Weinthal, 2004; Martin, Mehrotra, & Prasad, 2009; Melo, 2007; Schneider, 2012; Tilly, 1992). This approach is closely related to the broader work of North, Wallis, and Weingast (2009), who argue that development outcomes are rooted in formal and informal institutions, which are best understood as the outcomes of implicit and explicit bargains among competing elites. As Khan (2010) explains, these bargains ensure that 'the distribution

of benefits is consistent with the distribution of power in society', and thus provide a framework for maintaining stability (p. 18).⁵ More simply, this literature suggests that understanding tax outcomes requires a focus not primarily on short-term interest group competition, but on the role of formal and informal institutions and the broader bargains, norms, and networks governing elite interactions (Helmke & Levitsky, 2004).

Recent scholarship has increasingly adopted the concept of a 'social order' or 'political settlement' to describe these durable and comparatively institutionalised bargains and norms governing the distribution of rents among elite groups. However, while this language has usefully drawn attention to the strength and persistence of informal 'rules of the game', this literature has also been accused of sometimes implying a misleading degree of permanence and institutionalisation, while obfuscating the role of agency in continuously re-shaping the existing rules of the game.⁶ With this risk in mind, this paper draws on a smaller branch of recent research on 'political settlements' that has sought to consciously combine an analysis of long-lived institutions and political bargains with a focus on the micro-level politics surrounding specific reforms (Khan, 2013).⁷ While this approach has deep roots in the history of political economy research, this merging of micro and macro analysis has been largely and surprisingly absent from existing studies of tax reform, and thus offers a more complete understanding of the experience in Bangladesh and a possible framework for future tax research.

3 Tax Reform and the Tax System in Bangladesh

Bangladesh presents a fascinating case in which to explore the political economy of taxation. In its broad characteristics, the tax system in Bangladesh resembles those of most other developing countries: administration is led by the National Board of Revenue (NBR), which is divided into three divisions: Direct Tax, VAT, and Customs. Like most lower-income countries, a significant share of revenue is collected at the border (37% in 2009–2010), while domestic taxes are primarily from the VAT (35%) and income taxes (28%), of which taxes on corporate profits are the most important element (Ahmed, 2011).

However, despite a formal structure similar to most lower-income countries, overall performance has lagged behind. Total revenue collection achieved meaningful gains from 2007 through 2011, reaching 10.4 per cent of GDP before plateauing in subsequent years. However, this total still lags well behind neighbouring countries, as well as many lower-income countries in Africa.⁸ More striking has been the slow pace of policy and administrative reform, as the domestic tax system overall continues to be characterised by a weak policy framework, very limited administrative modernisation, a high degree of administrative fragmentation, significant human resource constraints, and weak enforcement mechanisms. While a range of incremental reforms have been introduced in recent years (discussed below) – and are felt to have contributed to the uptick in revenue – they have changed the systems largely at the margins. Meanwhile, broad weaknesses have persisted despite a regular procession of internationally-sponsored reform initiatives, and during a period in which more significant reform has taken root across much of the developing world (Fjeldstad & Moore, 2008).

The most basic challenge has been the continuing *weakness of the overall policy framework*, which, despite modest recent progress, continues to be characterised by an enormous range of exemptions, incentives, and special regimes. These range from the existence of simplified VAT regimes to significant scope within the law for tax officials and political elites to grant comparatively discretionary benefits.⁹ This directly undermines revenue collection, but equally complicates administration, undermines equity in the system, and introduces significant scope for officials to exercise discretion in both policy and administration.

This space for discretion within the law is closely linked to the broader challenge of *very limited administrative modernisation*. Most tax systems in lower-income countries have sought to progressively increase reliance on self-reported tax returns, voluntary compliance, and risk based auditing, with at least some success. By contrast, and despite modest recent progress, NBR has largely maintained an outdated 'control' based system, which relies on the physical monitoring of taxpayers

in order to enforce compliance. This is reflected, among other things, in extremely low levels of automation, and has allowed NBR officials to retain substantial discretion and thus, opportunities for collusion with, or extraction from, taxpayers.

This basic inefficiency of the system has been exacerbated by a *high degree of administrative fragmentation*. Whereas there has been a trend across lower-income countries toward greater integration across administrative units, the NBR remains divided into three highly autonomous divisions: Direct Tax, VAT, and Customs. The relative absence of data sharing across departments severely undermines administration and opens space for collusion, arbitrariness, and abuse, while fragmentation also creates additional costs for taxpayers.

These challenges have been underpinned by *significant human resource constraints* within the NBR. Hiring is subject to the common constraints of civil service recruitment through the Public Service Commission, making the hiring of staff with the specialised skills necessary for modern tax administration particularly challenging. This is in contrast to the trend towards semi-autonomous revenue authorities, with greater flexibility over hiring decisions, elsewhere in the developing world (Devas et al., 2001; Fjeldstad & Moore, 2008; Kloeden, 2011). This has been exacerbated by a highly politicised legal battle, with unresolved court injunctions sharply constraining hiring to the VAT and customs departments from the early 1980s until 2011. This resulted in only slightly more than half of nearly 5000 allocated positions being filled as recently as 2008, while poorly qualified staff have been promoted to senior positions in the absence of new hiring.

Finally, even when tax assessments have been effective, *enforcement mechanisms have been weak*. This has in part reflected the ability of large taxpayers to use political influence, but has also resulted from dysfunction within the judicial system. Lower levels of the appeals process are characterised by widespread corruption and potential for abuse, while cases that escalate to the high court are subject to high costs and processing delays lasting several years or longer. The latter has offered an informal means to delay or avoid tax payments, as no taxes are collected while cases are pending – and it was only in 2011 that the government began to take even modest steps to ease these major delays and revenue losses.¹⁰

The end result of these weaknesses is a tax system characterised by extremely high degrees of informality, widespread discretion, and the regular negotiation of tax liabilities. While large businesses submit tax returns to the government, they are emphatic that these tax returns represent merely a starting point for subsequent ‘negotiations’ with tax officials. Over time, most firms accept this reality and enter into implicit agreements with tax officials that involve regular informal payments and informal negotiation of liabilities between tax officials, lawyers, and auditors, sometimes collectively referred to as the ‘trinity’ or ‘tri-party syndicate’. These agreements are periodically destabilised, particularly when officials are re-assigned, thus initiating new rounds of negotiation around tax liabilities and informal payments. During these ‘transitions’ conflict is more likely, with tax collectors sometimes making larger demands for informal payments, and taxpayers in turn drawing on political patrons or the threat of court challenges to minimise those demands. This basic pattern is repeated for smaller firms, though on a much more constant basis, owing to regular interaction between tax collectors and firms within the manual, control based system of administration. Put most simply, it is a system with an unusually expansive scope for politicisation, collusion, and corruption.

While these limitations of the existing system are significant, they have also long been recognised. What is thus most remarkable about the domestic tax system is its resistance to fundamental change despite almost continuous reform efforts. The past two decades have witnessed a progression of externally supported reform programmes,¹¹ with donor pressure becoming more strident since 2009 owing to mounting concerns with fiscal management in the country. However, while these reform measures have yielded the successful implementation of a wide range of comparatively modest, incremental reform measures, they have generally failed to fully achieve their more ambitious goals or transform deeper weaknesses of the existing system.

This is not to entirely discount existing reform efforts. In recent years the NBR has, among other improvements, introduced taxpayer identification numbers, expanded online tax filing, introduced Alternative Dispute Resolution (ADR) for tax disputes, and expanded the tax net for small firms

through innovative measures like tax fairs. Meanwhile tax revenue has increased from 8 per cent of GDP in 2007 to 10.4 per cent of GDP in 2011. Many senior officials within the tax agency believe that these incremental reforms have played an important role in driving these broader revenue gains. However, while these incremental gains are noteworthy, the broader reality of the reform process is quite different: incremental reform has generally been achieved where it has not threatened the incentives of leading groups, but more fundamental changes have faced steadfast resistance. The result is that, despite marginal gains, the system has remained plagued by the same fundamental weaknesses, noted above, for decades. This is reflected in total revenue figures: while there was a noticeable increase in collection from 2007 to 2011, these gains were from an extremely low base, while revenue collection subsequently stagnated – and fell short of government targets – from 2012 to 2014.

Illustratively, donor demands since 2009 have focused on the implementation of a major VAT reform – as the original VAT had become littered with exceptions and exemptions since its implementation in 1991 – with a secondary focus on reform of the Income Tax Act, which had not been reformed since 1984. Critically, these demands for reform have been backed by their inclusion as increasingly assertive formal conditionality for new IMF lending. However, despite repeated government promises to introduce sweeping new VAT and income tax legislation, the reality of these ambitious reforms has been far more convoluted, characterised by delays, policy reversals, and continuous negotiation as the government has sought to secure the release of IMF funds while minimising the extent of actual reform. What follows correspondingly aims to explain the strength and character of this continued resistance to reform by looking first at the broad political bargain underpinning the domestic tax system and then turning attention to the details of VAT reform efforts.

4 Informal Institutions and the Political Logic of the Tax System

While resistance to tax reform is a common feature of the policy landscape in lower-income countries, the unusual persistence and strength of resistance in Bangladesh is striking. Not only does the existing tax system fail to generate significant revenue for the government, but extremely high levels of corruption and discretion within the system appear anathema to the desire amongst businesses for predictability and low rates. However, despite these apparent drawbacks, leading politicians, businesses, and administrators have vigorously defended key features of the tax system – though often behind closed doors.

Understanding the persistence of this seemingly dysfunctional system demands going beyond the formal features of the system and the formal interests of individual actors. Instead, a full explanation lies in the informal rules, norms, and networks that have shaped *de facto* outcomes and made the existing system mutually beneficial to powerful political, economic, and administrative actors. What follows briefly describes the interests of administrators, businesses, and politicians, before highlighting the ways in which their interests are interconnected within the existing system.

4.1 Bureaucratic Resistance, Rigidity and Politicisation

At a broad level, the NBR itself has been the most steadfast actor resistant to reform. Under the status quo, NBR officials enjoy a large degree of autonomy and substantial discretionary power. This opens the door to systemic corruption that is organised and sanctioned at every level of the administration.¹² As such, many within the NBR are strongly resistant to any reform programme that would reduce their autonomy and discretionary power, including through increased transparency. The strength of bureaucratic resistance is consistent with patterns elsewhere in the civil service (Huque & Rahman, 2003).

However, resistance to reform is not uniform. The senior leadership, made up of the appointed chairman and board members, has traditionally been comparatively reformist in their orientation, as the public face of the agency. However, despite occupying nominally powerful positions, these senior officials have lacked sufficient authority in practice to lead genuine reform.¹³ By contrast, the senior

levels of the front line administration are widely viewed as being aligned against reform, with deputy commissioners the centre of day-to-day networks of corruption and commissioners overseeing these activities. These actors are able to exercise significant influence over de facto administrative performance, and thus over de facto support for, or resistance to, reform. Finally, the rank-and-file of the NBR are the front line of networks of corruption and informal bargaining. As in other developing countries, resistance at this level has been aimed at preventing redundancy, limiting new hiring and skills requirements, and blocking the implementation of effective performance monitoring systems (Devas et al., 2001; Fjeldstad, 2006; Therkildsen, 2004).

4.2 Business Resistance and Reform

The most important resistance to reform has come from the business community, which has at various times been explicitly cited by the government, both publicly and privately, as the reason for altering or abandoning reform initiatives.¹⁴ Business associations, led by the Federation of Business Chambers of Commerce and Industries (FBCCI), have publicly expressed support for reform focused on simplifying procedures, establishing non-governmental dispute resolution processes, and reducing some of the discretionary power exercised by tax officials. However, behind closed doors, powerful firms and industry associations have been far more resistant, fearing that any reform may threaten the significant array of exemptions, special regimes and informal benefits that they currently enjoy.¹⁵

Larger firms have traditionally been most concerned with defending existing incentives, exemptions, and special regimes in the VAT and income tax laws, as well as informal practices that allow for corruption and collusion in reducing the effective tax burden. Their lobbying has been grounded in financial support for both leading parties, and in close relationships between political and economic elites.¹⁶ By partial contrast, small and medium-sized enterprises (SMEs) have been more consistently mobilised in opposition to the VAT, out of a fear of stronger enforcement and increased compliance costs. This reflects their small size and frequent informality, and has resulted in success in pushing for retention of a widely applied presumptive tax regime for small firms. Unlike larger firms, their political influence is grounded in their national organisation and potential for disruptive collective action.

4.3 Political Elites, Informal Networks and the Prevailing Equilibrium

The story told thus far resembles standard explanations of the difficulty of tax reform: entrenched and unified resistance among administrators and business taxpayers has made reform politically untenable. However, on closer inspection this simple story quickly proves incomplete. For one part, it fails to adequately account for the absence of greater business support for reform despite the pervasiveness of informality, discretion, and corruption, all of which are generally cited as barriers to doing business. Equally, it fails to adequately explain the absence of more concerted political leadership for reform despite very limited public revenue, fiscal deficits, and consistent external pressure for reform. It is therefore necessary to move beyond an atomistic account of individual interest groups in order to capture the interconnectedness of elite interests and the informal norms and networks that have ensured shared benefits from the existing system.

4.3.1 Informality, predictability and political neutrality: business and the existing settlement. While firms stand to benefit from collusion with tax officials to lower tax liabilities, the informality of the existing system also exposes them to significant risk. This includes periodic harassment and extraction by administrators, and the risk that political elites may exploit the informality of the existing system to benefit political allies and attack rivals.¹⁷ Given highly charged partisan political competition, Bangladesh's tax system appears on the surface to be well beyond the point at which the potential benefits of collusion should be outweighed by the costs of additional uncertainty – and at which we would expect to see business support for reform.

Why then, has there not been such support? While corruption is extremely widespread, it has also been unexpectedly predictable, kept within manageable bounds, and relatively free of the effects of partisan political competition. This predictability is critical, as it allows firms to treat corruption simply as an additional cost of doing business, without the negative implications for growth that arise from more decentralised corruption (Campos, Lien, & Pradhan, 1999; Wedeman, 1997; Wei, 2000). With the potential costs associated with corruption and informality thus minimised, leading firms have concluded that these costs are outweighed by the benefits of artificially low effective rates through collusion, thus making the status quo relatively desirable.

The greater mystery lies in understanding how and why this predictability has been maintained despite the potential for politicisation and abuse. Bangladesh has long been home to highly adversarial partisan political competition and widespread bureaucratic rent-seeking. Intuitively, this would seem to virtually guarantee that the tax system would be deployed for partisan purposes, or minimally that corruption would become unpredictable and extremely burdensome for businesses.

Why has this not been the case in practice? Part of the answer lies in the existence of strong informal norms and networks governing tax administration. At the level of day-to-day operations, corruption and negotiation are subject to relatively centralised oversight by deputy commissioners and commissioners, thus serving to discipline and regularise front line practices. This centralisation is critical, as it shifts the analytical lens from decentralised and unpredictable corruption to hierarchically organised informal networks managing rents within the NBR.

However, the more important answer lies in the motivations of the political leadership. While Bangladesh is home to highly adversarial partisan political competition, both political parties have informally agreed that the search for *political rents* should not impinge on the primacy of supporting continued economic growth, and the creation of *economic rents* for key actors in the private sector. Despite highly antagonistic political competition, there is a strong commitment to rent sharing in the economic sphere, with continued economic growth serving to expand the size of the economic pie and to defend the entrenched position of the two leading political parties (Hassan, 2013; Khan, 2010, 2011). Consistent with this logic, most firms maintain good relationships with both leading political parties, including making financial contributions to both sides. The same ethos of equitable rent sharing is apparent among senior tax officials who explain that it would be ‘unfair’ to aggressively target particular firms, as this would destroy its prospects relative to its competitors. More simply, at all levels it is understood that rent-seeking and partisan advantage can be pursued at the margin, but must be moderated in order to support continued economic growth.

4.3.2 Rent allocation, economic growth and political patronage: political elites and the existing settlement. The second mystery is the absence of a stronger push for reform by the political leadership despite extremely low levels of revenue collection with which to finance government programmes and patronage networks. On one hand, parts of the political leadership have demonstrated a genuine desire for reform and have, at times, taken concrete steps to pursue that goal.¹⁸ However, political leaders are not only constrained by the strength of organised resistance but have come to benefit directly from the existing tax system. The informality of the system allows it to serve an important political function as a conduit for distributing patronage, as a source of funding for the political leadership, and as a means to preserve and support continued economic growth. On balance this combination of political constraints and political benefits has outweighed the desire for reform, as leaders have opted for the certainty of the current system rather than the uncertainty of change.

To understand this calculus, it is necessary to understand informal links between the political elite, the tax administration, and business leaders. While the tax administration is formally home to four civil service associations,¹⁹ they have been progressively superseded by informal groups that cut across hierarchy, cadre, and political party. These informal groups have enjoyed high level political support – reaching as high as the Prime Minister’s Office (PMO) – which has allowed them to wield increasing power over hiring and promotion decisions, and in turn, to further solidify their powerful position.²⁰ These groups have been essentially non-partisan, with changes in political leadership generally leading to changes in the leadership of these informal networks, but not to broader changes

in their role and organisation. Instead, they have been defined by their centralised control of patronage and corruption networks, and consequent ability to efficiently distribute financial and professional rewards. The overall administrative environment has thus been one in which the *de jure* roles and responsibilities of officials have been largely supplanted by *de facto* power and authority. These informal networks have used this *de facto* authority to generate regular funds for political elites, while allowing political leaders to dispense patronage and rents to leading economic actors – thus ensuring continued support from political actors reaching up to the PMO.

The ability of the political leadership to deploy the NBR to deliver patronage to business allies has been important to strengthening informal ties linking political elites to leaders within the business community. As noted above, while leading businesses may have closer ties to one or the other of the leading political parties, they have generally offered political and financial support across partisan lines. Rather than competing primarily to elect one or the other political party to power, large businesses have had a primary interest in the continuation of the broader status quo. Within this status quo each political party has delivered special benefits to its closest allies, but not exclusively, as they have been equally committed to maintaining a foundation of support to leading firms and sectors across the partisan divide, in an effort to sustain high levels of economic growth. The ability of political elites to exercise informal influence over senior officials within the NBR has been critical to this relationship, as the tax system has been an important conduit for delivering economic benefits, and retaining large business support.

On the surface, a rules-based system with uniformly low tax rates could achieve the same economic objectives as the current system, while raising additional revenue and significantly reducing informality and uncertainty. However, this fails to recognise the broader political role of the existing system. The existing system offers the political leadership control over the distribution of patronage and economic rents through the tax system. This has been a key source of direct and indirect political financing: leading businesses have incentives to offer political support and financing that cuts across partisan lines, while central control of networks of corruption within the NBR has made the tax system an important conduit for political financing. Meanwhile, businesses continue to benefit from lower tax rates through corruption and collusion – along with an assurance that politically motivated tax demands will be kept within manageable bounds – while the tax administration benefits from bribes and from continued autonomy and discretion.

While the benefits of the system are thus clear, it is essential to recognise the informal – and potentially fragile – basis for its continuation. At the core of current arrangements is an apparent contradiction: the system promises low and predictable rates to key business actors through collusion and corruption, while also offering significant discretion and rent-seeking opportunities to tax officials and political actors. The challenge thus lies in finding a sustainable balance between the seemingly contradictory need for predictability for businesses on one hand and the need for discretion for the state and government on the other.

Finding this balance is inherently complex, as the discretion enjoyed by state and political leaders holds a constant risk: that those actors may abuse their discretion in pursuit of short-term gains, but at the expense of the interests of other groups and the long-term bargain. To date, this temptation has largely been kept in check. Political leaders from both political parties have benefitted their allies at the margin, but have not employed the system as a weapon against opponents. Tax administrators have sought to maximise their benefits, but without fundamentally jeopardising competition among firms – in part because businesses have retained the ability to turn to the courts, or political leaders, in cases of perceived abuse. And, finally, businesses have gained enough from lower rates, and the general predictability of the system, to be willing to tolerate moderate levels of uncertainty and rent-seeking.

That said, it is not difficult to see the risks inherent in a system that relies on informal understandings among actors with potentially contradictory short-term interests. And, indeed, most actors view the current system as imperfect in at least some respects. However, it is a compromise that has minimally delivered both economic growth and relative political stability. As such, both political and economic elites appear to prefer the imperfect system that they know to the uncertainty, in terms of tax burdens and political alignment, implied by deeper reform. This is consistent with Ascher's (1989)

observation that, ‘the frequently negative “reflex” reaction to a new tax reform initiative on the part of many groups is typically due not just to expected losses but also to the risk of incurring costs that cannot be anticipated’ (p. 464).

5 Negotiating Reform: The Case of VAT Reform Efforts

The description so far captures the broad contours of the ‘political settlement’ governing the tax system over several decades. However, while key features of the system have been long-lived, they have not been static. Key features of the system have been regularly contested and re-negotiated, with continuity maintained through the strategic choices of key actors. The remaining analysis seeks to illustrate these micro-political processes through a focus on two prominent and related reform episodes: the original introduction of the VAT in 1991, and subsequent efforts to reform the existing VAT since 2009. The analysis aims particularly to highlight three elements not touched on by the discussion so far. First, the important role of negotiations between domestic elites and international actors in putting stress on existing informal arrangements. Second, the specific strategies adopted by the government and other actors in negotiating incremental reform within the context of existing informal rules, norms, and networks. Finally, the ways in which unexpected political events have opened new spaces for reform by disrupting key features of the existing political bargain around taxation.

5.1 The 1991 VAT Reform

The original introduction of the VAT was initiated in the late 1980s under the military government of General Ershad, briefly derailed by the victory of the pro-democracy movement, and then quickly revived by the democratically elected Bangladesh Nationalist Party (BNP) (1991–1996). The reform was undertaken in response to perilously low levels of revenue collection, and under pressure from the IMF, which sought a highly simplified and uniform policy regime.

Drafting of the law was undertaken largely in secret, led by a Bangladeshi ex-IMF official, a small group of officials from the Ministry of Finance, and limited business representation. As such, most businesses and members of the NBR only became aware of the proposed reform when the draft law was rapidly prepared for implementation and placed before Parliament. Consistent with government fears, significant resistance immediately emerged from both businesses and the NBR, with the opposition Awami League threatening *hartal* (general shutdown) unless the VAT law was abolished.

The government responded by seeking a strategy that could simultaneously satisfy powerful local constituencies as well as IMF demands for reform. It was able to do so by drawing on both formal and informal bargains with key stakeholders. The Awami League was persuaded to quiet its opposition after significant lobbying by the reform leadership, the World Bank, and IMF. It feared being branded irresponsible and ‘anti-market’, while, more tellingly, this compromise was an early example of aggressive partisan political competition being moderated in order to manage key areas of economic regulation. Meanwhile, the political leadership relied on its clientelistic relationship with the leadership of the FBCCI in order to solicit a formal statement of support. Informal norms and networks were critical, as large businesses were persuaded that their interests would be protected following reform, whether formally or informally.

The government subsequently pursued more explicit compromises in order to address persistent resistance from smaller businesses and front line NBR officials. Small and medium businesses, particularly in the wholesale and retail sectors, were placated with the introduction of the so-called ‘package system’ – a simplified tax regime that would effectively guarantee lower taxes and expanded scope for negotiation with tax officials. Meanwhile, NBR officials were granted various concessions allowing them to retain a degree of discretion and control through, for example, continued requirements that prices used in calculating VAT liabilities be approved by tax officials. Critically, NBR

officials successfully resisted efforts aimed at re-organising or modernising the administration by drawing on their high level political patrons to defend the administrative status quo.

However, the most important compromise lay in an agreement to implement the 1991 reform gradually, and with a multiplicity of rates and special regimes. This stands in sharp contrast to the majority of lower-income countries, particularly in sub-Saharan Africa, where VATs have been implemented comparatively rapidly and with fewer exceptions.²¹ The new VAT was initially applied to only large manufacturing and export industries, both of which were large enough to cope with reporting requirements and had limited liabilities owing to the export of most of their production. Subsequent expansion of VAT coverage was consistently delayed, while the government continued to maintain, and selectively add, special regimes and exemptions. Despite constant pressure from the IMF and World Bank, it was 2004 before VAT coverage had been expanded to all major sectors, while by that time the range of exemptions and discretion that had been added to the law left it resembling the initially envisioned VAT in name only.

This reliance on incremental reform was a strategy to reconcile competing interests by relying on informal understandings and implicit agreements. Delayed implementation allowed the government to get the law passed, and satisfy external actors, but businesses understood that this implied a longer time horizon over which to continue to lobby for delays and exceptions. Put more simply, it created opportunities for a divergence between de jure policy and de facto realities on the ground, both through incomplete implementation and the gradual proliferation of exemptions. This compromise was made possible by an implicit understanding among elites that core business interests would be defended over time, particularly at the level of implementation. This implicit understanding was made possible by the informal norms and networks that underpinned the broader tax system.

5.2 VAT Reform Effort Since 2009

Owing to the variety of exceptions and exemptions that came to characterise the 1991 VAT law, it failed to achieve either the revenue productivity or the economic efficiency that had motivated its introduction. The result was mounting international pressure to introduce a new law, free of many of the existing compromises. As fiscal pressures facing the country mounted, these demands for reform culminated in the IMF making the introduction of a new VAT law a prominent condition for the negotiation of a new US\$1 billion loan.

The new reform process was initiated by the Ministry of Finance in 2009, and saw the government seek to satisfy competing demands by employing many of the same strategies employed during the previous VAT reform process. The initial drafting of the law was again undertaken in relative secrecy, led by the same ex-IMF local expert who had led the drafting of the 1991 VAT law. The government promised throughout that the new VAT law would be passed as part of the 2012 budget process, and would then be followed by a revised income tax law the following year aimed at reducing and rationalising tax exemptions.

As in 1991, the draft law quickly elicited major resistance when it was finally opened to public scrutiny. The most vocal resistance again came from SMEs and NBR officials, both of whom cited capacity constraints and a lack of consultation as their concerns. In practice, however, NBR officials were again primarily concerned with defending existing areas of discretion and control over hiring, while SMEs were focused on preserving the highly advantageous 'package system' for small firms. Resistance from large manufacturing firms was initially more muted, but large firms began to voice stronger concerns when it became clear that the new laws – and particularly changes to the Income Tax Law – might threaten existing exemptions and the scope for collusion with tax officials.

Confronted by this resistance, the government quickly withdrew the proposed VAT law in May 2011, while allowing the income tax reform to gradually lose priority. This followed a common trend in the government's engagement with donors around tax reform, with promises made but then repeatedly delayed, in an effort to maintain access to external funding. However, having learned from previous reform failures, the IMF responded by redoubling their insistence that a new loan agreement would not be concluded without progress on tax reform. Facing a growing liquidity

crisis, the government revived reform plans and began the process of negotiating the formal and informal compromises necessary to satisfy competing interest groups.

Over several months prior to March 2012, the revived VAT legislation was revised in an effort to satisfy the IMF while including a range of concessions to key interest groups. This was aimed both at offering formal policy concessions and at preserving key spaces for informality and discretion within the law. The government agreed in negotiations with the wholesale and retail sectors not to eliminate existing special regimes, and most notably the ‘package system’.²² In a similar concession to large firms, the government conceded that firms above the threshold for VAT registration would have the option of complying with the standard VAT system or of opting for a 5 per cent turnover tax – a seemingly transparent hand-out to a subset of firms with more than adequate capacity for compliance. The government likewise agreed to dramatically reduce the extent of sanctions for non-compliance, to the point of inadequacy.

The largest concessions revolved around preserving administrative discretion for the NBR. Most notably, the NBR was given power to introduce further VAT exemptions ‘in the public interest’ – an amorphous concept open to significant collusion between tax officials and large businesses. In a similar vein, the NBR Board was granted significant scope to interpret important policy and administrative aspects of the law internally, offering further scope for collusion and greater autonomy for the NBR. A similar provision was put in place offering front-line tax officials the power to interpret key legal provisions, rather than such interpretation being reserved for commissioners, thus offering younger officers scope to develop ‘individual fiefdoms’. Finally, and in the same vein, the government reintroduced rules mandating that firms retain extremely detailed operational information – including product-specific input-output tables – which was widely viewed as offering officials opportunities to extract informal payments.

By mid-2012, the government had thus sought to replicate the strategy employed in 1991, preparing a VAT draft to satisfy external demands, while negotiating critical exemptions designed to defend key features of the pre-existing system. This initially appeared to have been successful, as a US\$987 million loan from the IMF was finalised in April 2012, to be disbursed in nine tranches.²³ However, at the final moment, the IMF rejected the compromises embedded in the new draft Act.²⁴ It presented the government with an internal memo detailing issues that would need to be addressed if the second tranche of the loan agreement was to be disbursed.²⁵

With a continued urgent need for financing, the government quickly acquiesced to essentially all of the IMF’s demands,²⁶ while resorting to a strategy of incrementalism and informal agreements in an effort to satisfy domestic constituencies. Mirroring the 1991 VAT law, the critical element of this compromise was a decision to postpone implementation of the new Act until 2015, while postponing changes to the special regimes for SMEs an additional three years, until 2018.²⁷

Superficially, this simply represented an effort by the government to postpone the pain of reform beyond elections scheduled for 2014. However, as with the reform programme in 1991, the decision to postpone implementation held for businesses and NBR officials an implicit opportunity to gradually chip away at the provisions of the Act – a process that was clearly in evidence by late 2014.²⁸ Moreover, continued resistance to administrative modernisation, which had not been subject to such strict conditionality, offered an alternative avenue to undermine implementation of the new Act – a fact not lost on many inside and outside of the NBR. It is these implicit promises of continuity, made possible by the informal norms and networks governing the tax system, that appear to have played a major role in allowing superficial reform to move ahead. The extent to which meaningful reform will actually be implemented in the future is therefore uncertain.

5.3 Common Strategies and Shifting Political Contexts

The most striking feature of these two reform episodes lies in the similarity between the compromises underpinning the 1991 and 2012 VAT laws. In both cases the government sought to satisfy external pressure through de jure policy reform, while retaining key formal and informal features of the pre-existing system. It satisfied domestic constituencies by seeking to retain key areas of discretion and

through a reliance on incremental reform, the latter relying on an implicit promise that postponing reform would create space for carving out additional compromises in the future. These compromises were made possible by the fact that they built on existing informal rules, norms, and networks, which offered credible assurances of continuity despite seemingly significant policy reform. The strength of these informal institutions is apparent in the slow pace of recent reform efforts despite a fiscal crisis and consistently aggressive external pressure.

However, despite these similarities, the more recent reform has gone somewhat further than the 1991 reform, particularly in curbing the legal discretion exercised by NBR officials. This reflects the growing assertiveness of more reformist elements of the political leadership, which has been grounded in domestic and external developments, which have subtly shifted the political balance and opened the door for the modest renegotiation of existing rules, both formal and informal.

One such shift in the political context has been the much greater insistence of the IMF during the most recent reform episode. Whereas the IMF eventually accepted the significant exceptions and delays associated with the 1991 VAT law, it was ultimately unwilling to make the same concessions in 2012. This has seemingly reflected two factors: lessons learned from the poor implementation of previous reform programmes, and increased leverage as the fiscal crisis facing the government deepened after 2008. While the limitations of conditionality in forcing meaningful reform are by now well documented, this experience nonetheless appears to speak to the potential for committed international actors to put stress on the existing bargain and open new space for reform.

This international pressure has been combined with more idiosyncratic, but no less important, domestic political shifts. One element of this shift has been an unexpected decline in the power wielded by informal networks of patronage and corruption within the NBR. These networks have historically been stubbornly resistant to reform owing to support from the PMO. However, this political balance was disrupted when their strongest ally within the PMO was abruptly removed from his post in response to allegations of corruption in the procurement of infrastructure contracts. This change empowered the comparatively reformist Minister of Finance. On the policy front, this allowed the Minister to refuse NBR demands that they retain the right to approve prices used in calculating tax liabilities – a provision long opposed by business, but jealously guarded by the NBR. Less obviously, it opened space for the rationalisation of personnel decisions, with new hiring initiated in 2012, followed by a major reshuffling of staff within the NBR in an effort to erode the power of informal networks.²⁹

The other domestic political shift has resulted from renewed discussion of the inherent vulnerability of existing informal practices to politicisation along partisan lines. In recent years, there is increasing evidence of the government occasionally using the tax system for partisan purposes in punishing challengers to the existing balance of political authority.³⁰ The message has rung clear: the tax system will not be employed for partisan political purposes *as long as competing elites do not overtly seek to challenge the broader status quo, characterised by the dominance of existing political parties and economic elites*. Most elites have appeared relatively unconcerned by these developments, remaining confident of the sanctity of the existing bargain as long as they abide by the established ‘rules of the game’. However, these developments have nonetheless highlighted the inherent potential for politicisation offered by highly informal governance practices (Hassan, 2013; Khan, 2008b, 2013). While these instances of politicisation have thus not prompted a major realignment of political interests in the short-term, they do appear to have helped to open new space for gradual reform toward reducing discretion in the system. More abstractly, these developments highlight the potential that any further erosion of trust in the existing bargain among elites could lead to a much more dramatic realignment.

6 Conclusions

The persistent weakness of the tax system in Bangladesh is best understood as the product of well-established informal rules, norms, and networks that have served the broader interests of political, economic, and bureaucratic elites. This ‘political settlement’ has ensured predictably low rates and the

strategic distribution of economic rents, despite the existence of widespread corruption, discretion, and informality. However, this system has not been static. Repeated efforts to reform the VAT system – driven to a significant extent by external pressure – have seen the government seek to re-negotiate existing rules in ways that satisfy both external actors and key domestic constituencies. In doing so, it has drawn on existing informal norms and networks in order to reconcile external pressure for *de jure* policy reform with a desire to preserve key features of the existing system.

Individual reform episodes thus reveal significant continuity, but also highlight the potential for changes in the alignment of power to open new reform opportunities. Growing assertiveness by the IMF, the weakening of informal networks with the NBR, and growing concerns about the potential for the system to be politicised have collectively opened new spaces for incremental reform. While these reforms seem destined to be more limited than the ambitious plans laid out initially, the combination of a new policy framework, the preliminary rationalisation of hiring within the NBR, and a series of more modest reforms are indicative of the potential for reform within the context of a highly resilient elite bargain. More broadly, these events highlight the ways in which the political environment for reform can change in contingent and unpredictable ways and open unexpected spaces for reform, even where existing practices are deeply entrenched (Haggard & Webb, 1993, p. 144).

Finally, while this paper has focused on the tax system, it has sought to illustrate the potential for debates over taxation to act as a lens through which to understand broader political dynamics. Significant recent research has focused on the so-called ‘paradox of Bangladesh’, with informal institutions ensuring the predictable distribution of rents, relative political stability, and continued economic growth despite high corruption and dysfunctional formal governance (Ahmed et al., 2013; Hassan, 2013; Khan, 2013). This paper has provided a detailed view of the functioning of precisely this type of dynamic in the governance of taxation, while highlighting the ways in which formal and informal rules are negotiated and renegotiated in the face of domestic and external stresses.

Disclosure statement

No potential conflict of interest was reported by the authors.

Notes

1. Specifically, in-depth interviews were conducted with firms from the following business activities. From manufacturing: general manufacturing, ready-made garments, aluminium foil and shoes. From services: hotel owner, consulting, two architecture firms and a supermarket owner.
2. These initial interviews were carried out as part of research supported by the World Bank in April–June 2011, with subsequent interviews for this paper conducted periodically throughout 2011 and 2012 with the support of the International Centre for Tax and Development.
3. Wherever possible the details of the account were confirmed through documentary evidence, but in practice access to documentation – beyond public accounts in the news media – was sharply constrained, seemingly reflective of the overall informality and politicisation of the system.
4. For example, in 2006 the World Bank’s World Governance Indicators ranked Bangladesh 204th of 212 for ‘control of corruption’. Bangladesh has risen to 177th of 212 countries since then, surrounded almost entirely by conflict affected and resource rich countries.
5. North et al. (2009) describe this equilibrium as a ‘double balance’.
6. As Bates (2010:755) has written of North et al.’s (2009) framework, ‘This reader, at least, is surprised by the limited role that micro-level reasoning plays in their arguments’. Put somewhat differently, the analysis of political settlements can easily come to imply stasis and inevitability, whereas history tells us that economic reform has frequently been punctuated by sudden political realignment and the opening of new reform possibilities (Ascher, 1989; Bates, 1989; Grindle & Thomas, 1991; Haggard & Webb, 1993; Roe, 1994; Thirsk, 1997).
7. This is particularly appropriate in Bangladesh, as one of the exemplars of this type of approach, Mushtaq Khan (2013), has written extensively about Bangladesh’s broader political economy.
8. Data from ICTD Government Revenue Dataset (Prichard, Cobham, & Goodall, 2014).
9. Most formal exemptions are reflected in Statutory Regulatory Orders (SROs), which reveal a constantly evolving and extensive set of exemptions and incentives, usefully summarised in Business Consulting Services (BCS, 2014). The Government of Bangladesh estimates that formal tax exemptions and incentives amount to between 2.5 per cent and

- 3 per cent of GDP (25–30% of tax collection) (Ahmed, 2011). The government has been unwilling to make more detailed data available, while our research suggests that actual revenue foregone is substantially greater.
10. As of 2011 there were an estimated 16,000 pending cases, amounting to \$1.4 Billion in ‘frozen’ revenues. In 2011, the government introduced an ADR system for more timely out of court resolution of disputes, though these efforts remain in their infancy and are only a very partial solution. (World Bank. Bangladeshi businesses try mediation to resolve their tax disputes. Retrieved from <https://www.wbginvestmentclimate.org/advisory-services/regulatory-simplification/alternative-dispute-resolution/bangladeshi-businesses-try-mediation-to-resolve-their-tax-disputes.cfm>)
 11. Major reform initiatives began with the introduction of the VAT in 1991, and have been followed by a procession of large tax reform programmes since the late 1990s. These have included the World Bank supported ‘Customs Administration Modernization’ (CAM) project, initiated in 1999, the ‘Modernization and Automation Program’ (MAP) initiated in 2005, which was designed to achieve many of the failed goals of the CAM (Mozumder, 2012), ‘Tax Administration Modernization Project’ (TAMP), which was cancelled owing to the poor performance of the MAP project, and the DFID funded ‘Reforms in Revenue Administration’ (RIRA) project, which was similarly not renewed after 2008 owing to poor performance. These are documented at greater length in Hassan and Prichard (2013).
 12. This has been most systematically documented by Transparency International Bangladesh (2011) in a study that received significant attention among public officials.
 13. A remarkable 26 separate chairmen were appointed in the first 38 years of the NBR’s existence. This has reflected control of the appointments process by the political leadership – despite legal provisions calling for internal appointment by the NBR Board – and the repeated removal of chairmen who pursued policies that challenged the interests of the Ministry of Finance, Prime Minister’s Office, or powerful business groups (Transparency International Bangladesh [TIB], 2011).
 14. As discussed at greater length later in this paper, the government explicitly pointed to business resistance as the justification for abandoning plans for a new VAT Law in 2011 (NBR drops plan to introduce new VAT law. 24 May 2011. *Financial Express*. Retrieved from <http://news.priyo.com/business/2011/05/24/nbr-drops-plan-introduce-new-v-26923.html>)
 15. Resistance to reform has been driven particularly by the Bangladesh Garments Manufacturers and Exporters Association (BGMEA), Bangladesh Knitwear Manufacturers and Exporters Association (BKMEA), and various associations of poultry farm owners.
 16. A recent estimate is that 29 owners of Ready Made Garment (RMG) companies were sitting MPs prior to the 2014 elections (Ahmed et al., 2013).
 17. This is an issue that is widely recognised in lower-income contexts, but which has not been the subject of focused academic study. It has more commonly been noted as a feature of the exercise of political power in post-Soviet states (see, for example, Ledeneva, 2006, pp. 91–103, 142–158)
 18. As discussed in greater detail later in this paper, the years since 2009 in particular have seen a range of incremental reforms initiated. More broadly, many NBR chairmen and ministers of finance have shown a desire to lead on reform, but have been stifled in those efforts.
 19. The Executive Associations, the BCS Customs Cadre and Excise, the Non Cadre Inspectors Association, and the Ministerial Staff Association.
 20. Similar patterns in the Bangladesh civil service have been documented by research elsewhere (CGS (Centre for Governance Studies) and BRAC Research and Evaluation Division, 2006; Huque & Rahman, 2003; IGS, 2008).
 21. The commonality of reform measures across lower-income countries, generally following the broader outlines of IMF advice, has led Fjeldstad and Moore (2008, p. 236), for example, to refer to a ‘global reform programme’.
 22. NBR reinstates minimum VAT payment for small shops. (8 July 2012). *The Independent*. Retrieved from <http://news.priyo.com/business/2012/07/08/nbr-reinstates-minim-55210.html>
 23. Bangladesh gets \$987 million from IMF. (11 April 2012). *IMF Survey Magazine*. Retrieved from <http://www.imf.org/external/pubs/ft/survey/so/2012/car041112a.htm>
 24. IMF won’t loosen strings on loans: the lender says it will not release the second installment of \$1 billion if conditions are not met by Nov. (11 October 2012). *The Daily Star*. Retrieved from <http://www.asianewsnet.net/news-37540.html>; IMF Asks Government to Alter VAT Bill. (31 October 2012). *The Daily Star*. Retrieved from <http://archive.thedailystar.net/newDesign/news-details.php?nid=255555>
 25. Of the retention of significant discretion within the NBR the IMF wrote that, ‘The fundamental features of the VAT should be set out in law, not left to the Board (NBR) to prescribe, as this would jeopardise the stability and predictability of the tax’. Of proposals to require firms to report input-output coefficients it wrote that, ‘effective tax agencies do not require such burdensome calculations to facilitate the auditing of taxpayers’. Of plans to introduce a 5 per cent turnover tax as an alternative to the standard VAT, the IMF argued that it ‘undermines the very purpose and key objectives of the new VAT by reducing revenue, complicating administration, and severely impeding its operability’.
 26. IMF okays \$140 million. (22 February 2013). *The Daily Star*. Retrieved from <http://archive.thedailystar.net/newDesign/news-details.php?nid=270006>
 27. NBR proposes major changes to VAT law. (6 October 2012). *The Financial Express*. Retrieved from <http://news.priyo.com/2012/10/06/business-61153.html>
 28. In late 2014, shortly before this article was finalised, the government announced its intention to make fresh amendments to the law in the face of calls for repeal by the FBCCI, while the NBR had issued requests that implementation be delayed. VAT Act to be amended (9 October 2014) *BD News 24*. Retrieved from <http://bdnews24.com/economy/2014/09/10/vat-act-to-be-amended>

29. Mass Transfer at Tax Offices. (21 January 2013). *The Daily Star*. Retrieved from <http://archive.thedailystar.net/newDesign/news-details.php?nid=266073>
30. Perhaps the most well known example is the case of Grameen Bank founder Muhammad Yunus, who came under attack by the government when he began to engage more actively in politics. As part of this process, senior tax officials claim that they were asked to look into bringing a tax case against him. In the same vein, a controversial tax evasion case was brought against Moudud Ahmed, a leader within the opposition BNP party, in early 2012.

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