Domestic resource mobilisation for inclusive growth and development: Priority reform areas

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- Historically, Bangladesh has maintained a low revenue-to-GDP ratio, hindering its ability to finance public services and infrastructure development. The country continues to face serious revenue mobilisation challenges, limiting its ability to fund essential development priorities and reducing its fiscal resilience to external economic shocks.
- This policy brief provides a snapshot of Bangladesh's current domestic resource mobilisation (DRM) landscape and offers a few recommendations, the implementation of which should be considered urgently. These include broadening the tax net, reducing reliance on indirect taxes, digitising processes, enhancing enforcement, and building taxpayer trust through efficient use of public funds.
- With careful and progressive fiscal reforms, Bangladesh can establish a resilient tax system that supports stable revenue generation, promotes inclusive growth, and positions the economy for long-term success.

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Introduction

Domestic resource mobilisation (DRM) is a critical driver of economic development, enabling a country to generate adequate revenue to finance public services, reduce reliance on external borrowing, and support long-term investments in infrastructure, education, healthcare, and social protection. A well-functioning DRM system is essential for ensuring macroeconomic stability and fostering inclusive growth. However, despite its sustained economic growth over the past several decades, Bangladesh continues to face serious revenue mobilisation challenges, limiting its ability to fund essential development priorities and reducing its fiscal resilience in the face of external economic shocks.

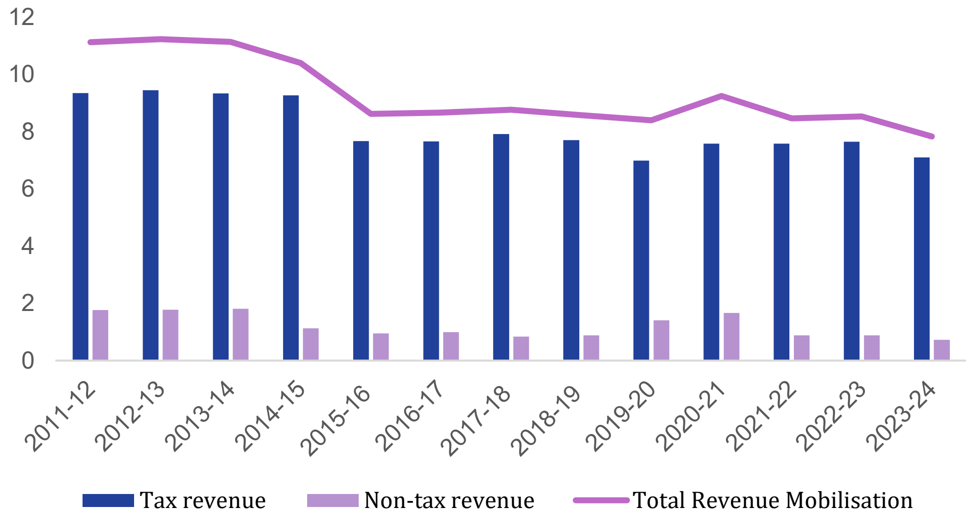
Bangladesh’s tax revenue collection remains among the lowest globally. Its tax-to-GDP ratio, a key indicator of revenue mobilisation efficiency, has remained stagnant at around 8%, persistently lagging behind that of neighbouring countries such as Nepal (23.4%) and India (20%). Bangladesh's current public expenditure is about 13.5% of GDP (IMF, 2024), which is smaller than many comparator countries (India 29%, Nepal 24%, and Vietnam 20%). Even with this low level of public expenditure, Bangladesh has consistently maintained a budget deficit of approximately 5% of GDP, primarily financed through a combination of internal and external borrowings. The growing reliance on borrowing has led to a rising debt burden, with interest payments consuming a significant share of public expenditure. In the fiscal year 2024-25, over 14% of the national budget was allocated solely for interest payments on government debt. If revenue generation remains stagnant, this proportion is expected to increase further, exacerbating fiscal stress and limiting the government's ability to invest in key development priorities.

Given that a lot has been written and discussed on domestic resource mobilisation (DRM) in Bangladesh, this policy brief provides a snapshot of the current DRM landscape and offers a few recommendations, the implementation of which should be considered urgently.

State of current domestic resource mobilisation in Bangladesh

Historically, Bangladesh has maintained a low revenue-to-GDP ratio, hindering its ability to finance essential public services and infrastructure development. Over the past decade, the total revenue-to-GDP ratio has consistently remained below 10%, and in the last fiscal year, it fell further to below 8% (Figure 1). This decline has been driven by a shrinking share of both tax and non-tax revenues, reflecting structural weaknesses in revenue collection.

FIGURE 1: A low revenue-to-GDP ratio is a significant challenge for driving inclusive growth



Source: Data from Finance Division, Ministry of Finance, Government of Bangladesh

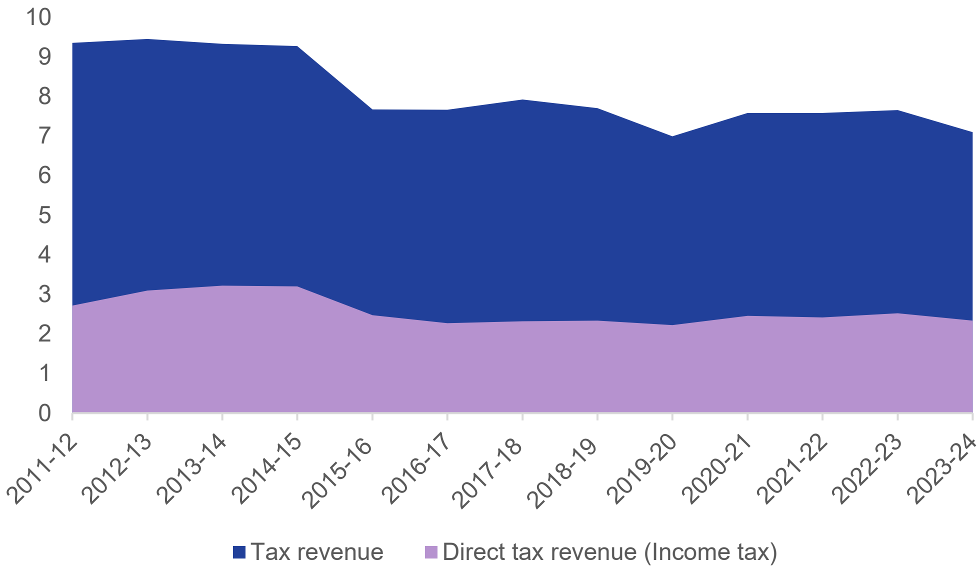
Non-tax revenue as a share of GDP declined from 1.77% in FY2011-12 to 0.88% in FY2018-19 (Figure 1). It subsequently increased in FY2019-20 and FY2020-21, following the introduction of a new law that allowed the transfer of idle funds from state-owned enterprises to the government exchequer.

Despite this temporary increase, non-tax revenue fell back to 0.73% of GDP in FY2023-24 and remained lower than in most comparable countries. In Bangladesh, the primary sources of non-tax revenue include dividends, profits, interest, tolls, levies, and various administrative and service fees. Preliminary data from the Ministry of Finance (MoF) suggest that non-tax revenue growth was strong during the first quarter of FY2023-24 (World Bank, 2024).

A major weakness in Bangladesh's revenue system is its heavy reliance on indirect taxation. Currently, around two-thirds of total tax revenue is generated from trade-based taxes and Value Added Tax (VAT) (Figure 2). While indirect taxes are easier to collect and contribute significantly to government revenue, they tend to be regressive, placing a disproportionate financial burden on lower-income households. Since these taxes are levied on goods and services consumed by all individuals regardless of income level, poorer households end up spending a larger share of their earnings on taxation compared to wealthier individuals. This tax structure exacerbates income inequality and limits the redistributive potential of the fiscal system, as highlighted by Bird and Zolt (2005), who argue that little reliance on direct taxes in developing countries undermines equity and social justice. Similarly, using a cross-country panel regression, Razzaque et al. (2024) show that a greater fraction of government revenue from direct sources has a favourable impact on both income distribution and economic growth, helping to achieve the twin goals of efficiency and equity.

In contrast, direct taxes – such as personal income tax and corporate tax – are more progressive and play a crucial role in ensuring a fairer tax burden distribution. However, as shown in Figure 2, direct taxes have consistently accounted for a much smaller share of total tax revenue. Several factors contribute to this imbalance, including a low number of registered taxpayers, tax evasion, weak enforcement mechanisms, and various exemptions that reduce the effectiveness of direct taxation. The underperformance of direct taxes not only undermines revenue generation but also limits the government's ability to implement pro-poor fiscal policies and public investments aimed at reducing inequality (Razzaque et al., 2023). Improving tax compliance and expanding the tax base is critical for enhancing the contribution of direct taxes to total revenue.

FIGURE 2: Low contribution of direct taxes in total revenue collection



Source: Data from Finance Division, Ministry of Finance, Government of Bangladesh

The challenges in domestic resource mobilisation are further compounded by inefficiencies in tax administration and a lack of transparency in the tax system. Corruption and bureaucratic inefficiencies significantly hinder revenue collection efforts in Bangladesh. Moreover, the prevalence of informal economic activities, which account for a substantial portion of the economy, further limits the tax base and reduces the effectiveness of tax policies (Bussolo and Sharma, 2023). Addressing these issues requires comprehensive reforms in tax administration, including the adoption of modern technologies, capacity building for tax officials, and stronger anti-corruption measures.

The way forward

A comprehensive approach is required to strengthen domestic resource mobilisation in Bangladesh. This approach must address structural weaknesses in the taxation system, enhance compliance, and ensure efficiency in revenue mobilisation. These recommendations outline a strategic roadmap encompassing measures to generate immediate fiscal improvements, expand the tax base, improve efficiency, and create a balanced, transparent, and sustainable taxation system.

There is an urgent need to broaden the tax net by implementing a universal tax registration system linked to the National Identification (NID) database, which would bring more individuals into the formal tax system.

Bangladesh's tax base remains narrow, with a significant gap between the number of registered taxpayers and those who actually submit returns. A streamlined registration system, similar to the United Kingdom's national insurance number framework, would allow authorities to track economic activities more effectively and ensure that eligible taxpayers are identified and included in the tax system. This integration would enhance transparency, reduce underreporting, and simplify tax administration.

Additionally, a nationwide tax registration campaign should be launched to encourage more individuals, particularly those outside major urban centres, to obtain a Taxpayer Identification Number (TIN). Many potential taxpayers, especially small business owners and self-employed individuals in rural areas, remain outside the tax net due to a lack of awareness and accessibility. A targeted outreach programme, combined with mobile registration units and digital platforms, would facilitate easier TIN registration. By expanding the tax base, the government can generate more revenue without imposing additional burdens on existing taxpayers, ensuring a fairer and more inclusive taxation system that supports sustainable economic growth.

Enhancing tax compliance by expanding the Tax Deducted at Source (TDS) mechanism and fully digitising the tax collection process to minimise evasion and improve efficiency should be considered an immediate priority.

Currently, TDS accounts for approximately 60% of direct tax revenue, demonstrating its effectiveness in ensuring automatic tax collection. However, only a fraction of salary taxes are deducted at the source, and many individuals fail to declare additional income when filing returns. To address this, a system should be introduced where employers deduct the full tax liability directly at the source, reducing the likelihood of underreporting and making compliance more straightforward.

Furthermore, the full digitisation of tax payments and return submissions is essential to creating a hassle-free, transparent system with minimal manual intervention. The National Board of Revenue (NBR), with support from the European Union, has already introduced automated methods for personal income tax payments, which were mandatory for certain types of taxpayers. This initiative should be expanded to cover a wider range of taxpayers, along with the development of a centralised database and automated audit procedures. Such measures would enable seamless data exchange between NBR departments, reducing opportunities for corruption and increasing enforcement efficiency. Additionally, taxpayer services should be improved by simplifying tax forms, conducting educational campaigns, and upgrading online platforms to make tax filing and payment more accessible. Strengthening compliance not only helps increase government revenue but also promotes vertical equity, ensuring that tax contributions are fairly distributed and aligned with individuals' ability to pay.

A market-based property valuation system for land and apartments should be established to eliminate undervaluation practices and ensure accurate tax collection.

The current system allows buyers and sellers to underreport transaction values, resulting in significant revenue losses. This issue is particularly severe in urban areas like Dhaka and Chattogram, where real estate prices have surged, yet officially recorded values remain artificially low. It has been repeatedly pointed out that tax authorities lose billions of taka annually due to these undervaluation practices, with untaxed money dominating real estate transactions. A stalled government initiative to revise land values based on clusters has further delayed necessary reforms in property taxation (Financial Express, 2022).

Corruption and elite influence contribute to this problem, as politically connected individuals often receive favourable treatment in property valuation and taxation. The International Growth Centre (IGC) (2023) has highlighted that corruption in taxation reduces revenue collection and discourages formal property transactions and long-term investment. To address this, a centralised digital property valuation database should be implemented to ensure accuracy and transparency. At the same time, property tax rates should be adjusted to a fair level to encourage compliance while preventing excessive tax burdens on accurately valued transactions. These measures would help curb corruption, increase government revenue, and create a more equitable property taxation system.

Introducing inheritance and unused land taxation can help tackle excessive wealth concentration and ever-rising social inequality while improving government revenue.

To reduce wealth inequality and enhance revenue collection, Bangladesh should implement a progressive inheritance tax to prevent the untaxed transfer of wealth across generations. A tiered tax structure based on asset value and inheritance size should be introduced, ensuring exemptions for small estates to protect middle-income families. Additionally, a robust enforcement mechanism is necessary to prevent tax evasion by affluent individuals, particularly through offshore accounts and hidden assets.

Speculative landholding has become widespread due to low land taxes, allowing individuals to accumulate land as a store of wealth without utilising it productively. Land ownership in Bangladesh is highly unequal, with the top 5% of households owning 26.4% of cultivable land, while the top 10% control 39.7%. In contrast, the bottom 25% of landowning households possess only 3.8%, highlighting significant resource concentration (Ahmed et al., 2024). Bangladesh's current property tax system, contributing only 0.27% of GDP, lacks mechanisms to distinguish between productive and non-productive land use, failing to deter speculation. Implementing a tax on unused land would incentivise productive use, reduce speculative behaviours, and generate additional revenue while also addressing land scarcity and urban development challenges.

Strengthening tax enforcement to curb tax evasion is a priority for enhanced revenue collection.

It is essential to ensure that the cost of tax evasion must be higher than the benefits from it. Weak tax enforcement means taxpayers can evade taxes easily with little chance of being caught. Most taxpayers will evade taxes in such a scenario of weak enforcement and little tax morale. This is why tax evasion remains a significant challenge in Bangladesh, leading to substantial revenue losses and undermining the country's fiscal stability. Bangladesh loses approximately USD 0.4 billion annually to global tax abuse, which accounts for 1.6% of total tax revenue or, equivalently, 31% of the total annual health budget (Tax Justice Network, 2024). A greater focus on high-risk taxpayers, including corporate entities and high-net-worth individuals, would improve compliance and deter fraudulent tax practices.

To deter tax evasion effectively, the tax authority must be more efficient in detecting evasion. This can be done utilising a few points made in this paper, including digitised and harmonised systems where different data sources e,g,- NID, VAT, income tax, customs and even payment systems exchange data and select cases for automated auditing. The government must also impose stricter penalties on non-compliance, particularly for corporate entities and high-income individuals who underreport income or engage in tax avoidance schemes. Existing penalties for tax fraud and evasion should be reviewed and increased to ensure they serve as a credible deterrent. Additionally, strengthening the legal framework for prosecuting tax offenders, alongside fast-tracking tax dispute resolution mechanisms, would reinforce accountability and reduce the backlog of pending cases.

Another critical area for reform is taxpayer education and public awareness. Many individuals and businesses fail to comply with tax regulations due to a lack of understanding of the filing process and their legal obligations. The government should invest in nationwide awareness campaigns, taxpayer assistance centres, and community outreach programmes to improve tax literacy and encourage voluntary compliance. Simplifying tax return procedures, particularly for small businesses and informal sector workers, would further reduce the administrative burden and improve participation in the formal tax system.

The Value Added Tax (VAT) system should be reformed to simplify its structure, eliminate inefficiencies, and ensure it operates as a true VAT regime.

The current VAT system is overly complex due to multiple tax rates applied at different stages of production, making administration difficult and creating opportunities for tax evasion. This complexity not only reduces revenue collection but also discourages the growth of small and medium-sized enterprises (SMEs) while incentivising firms to vertically integrate to minimise VAT payments (Mansur, 2024).

To address these challenges, the government should simplify the VAT structure by moving to a unified system with fewer rates, similar to international best practices. Eliminating the cascading effect of taxes—caused by the multi-rate structure and limited input tax credit—will prevent the VAT system from functioning as a multi-stage excise tax. A fully operational input tax credit system must also be reinstated to ensure businesses can claim credits on VAT paid, particularly for suppliers subject to different tax rates. Furthermore, the high 5% advance VAT at the import stage should be re-evaluated, as it increases costs for commercial importers and ultimately raises consumer prices, leading to an undue tax burden. Implementing these reforms will improve compliance, enhance revenue generation, and create a fairer and more efficient VAT system in Bangladesh.

Bangladesh needs to minimise and rationalise tax exemptions to enhance revenue collection, ensure fiscal sustainability, and promote equitable economic growth.

While tax incentives are often used to attract foreign direct investment (FDI) and stimulate economic activity, their long-term effectiveness remains debatable. Excessive tax reliefs have significantly reduced government revenues, with tax expenditures reaching Tk. 163,000 crore in FY25, an 11% increase from Tk. 147,000 crore in FY24. According to the NBR (2024), these exemptions undermine domestic resource mobilisation efforts, which are critical for self-reliance and sustainable development. Alarmingly, total direct tax collection from the corporate sector in some years has been lower than the revenue lost through corporate tax expenditures, highlighting the urgency of reform (Eusuf, 2024).

One of the primary concerns is the widespread use of tax exemptions in economic zones and other areas, which allow multinational corporations and domestic firms to benefit from tax holidays and reduced tax rates. While these measures aim to create a business-friendly environment, evidence suggests that they often attract short-term, profit-driven investments rather than fostering long-term industrial development. Additionally, tax exemptions have contributed to resource concentration, disproportionately benefiting large corporations and wealthier individuals while limiting revenue collection that could be used for essential public services such as education, healthcare, and infrastructure.

To address these challenges, the government must undertake a comprehensive review of all Statutory Regulatory Orders (SROs) issued by the NBR to assess their economic impact. Exemptions that have been in place for extended periods without clear sunset clauses should be phased out to ensure that only those with demonstrated benefits remain (Mansur, 2024). Additionally, stricter guidelines for granting tax breaks must be enforced to prevent abuse and ensure that incentives align with national development priorities.

Encouragingly, the government has already initiated steps to reduce tax benefits for investors in private economic zones starting from FY25. However, further reforms are necessary, including the implementation of a transparent tax expenditure framework that clearly outlines the revenue impact of tax incentives and ensures periodic evaluation of their effectiveness. The government should also consider introducing a cap on total tax exemptions to limit revenue losses and ensure a fairer distribution of tax burdens.

Additionally, enhancing enforcement mechanisms is crucial to prevent tax avoidance strategies that exploit exemptions, particularly by large corporations and politically connected entities. Gradually shifting towards performance-based tax incentives, where businesses receive tax benefits only if they meet specified employment, investment, and productivity targets, will ensure that tax incentives contribute to genuine economic growth rather than merely serving as a means of tax avoidance.

Bangladesh must develop a long-term integration and automation strategy and enhance the capacity of the NBR to modernise tax administration, improve efficiency, and reduce opportunities for corruption.

While initial steps have been taken, the lack of integration between different tax wings remains a significant barrier. Establishing a centralised system that connects VAT, Direct Taxes, and Customs would enhance coordination, facilitate real-time monitoring, and improve enforcement. A well-integrated tax administration system would allow authorities to cross-check financial records efficiently, track tax compliance, and identify inconsistencies in taxpayer declarations, ultimately leading to better enforcement and revenue collection.

A key priority should be the automation of audit procedures, which would ensure faster and more transparent assessments, minimising the risk of manipulation. Additionally, fully automated VAT administration should be implemented, as VAT collection remains largely manual despite efforts to introduce digital systems. Expanding online VAT return submissions and automating VAT payments would improve compliance and reduce administrative bottlenecks, making it easier for businesses and individuals to fulfil their tax obligations.

Another important reform is to reduce direct interactions between taxpayers and tax officials, as such interactions create opportunities for corruption and harassment. Strengthening online communication channels and centralising tax return processing would improve transparency and efficiency, ensuring that taxpayers can submit returns, request clarifications, and complete tax-related transactions with minimal direct engagement with tax officials.

Tap into people’s intrinsic motivation to pay taxes by utilising government funds properly. If people believe that the taxes paid are not being used efficiently, they are unlikely to pay taxes willingly.

Perceived corruption is a large factor in people’s willingness to pay taxes, and it is very rare for countries with high levels of corruption to raise adequate levels of revenue through taxes (Chowdhury, 2023). If taxes levied are seen as unfair by taxpayers, then that may result in mass evasion even in high-income countries with strong tax authorities (Besley et al., 2019). This was seen during the UK's imposition of poll tax in the 1990s. This shows that perceived unfairness can result in reduced taxes even in a country with strong enforcement and pro-tax social norms.

Compared to the above scenario, we must understand that Bangladesh never really had a strong pro-tax social culture where a person's reputation is affected by his taxpayer status. In such a context, the state must demonstrate reciprocity to taxpayers, i.e. – the taxpayer must feel her tax money is used to provide facilities to her. A related point is the issue of informal firms. Informal firms dominate Bangladesh's economy, and these firms will not formalise and come within the tax net if they do not get strong benefits in return. Apart from increasing the cost of tax evasion, the state must be able to provide efficient services and tie those services to these firms' tax-paying status.

To successfully implement the reforms mentioned above, it is crucial to enhance the institutional capacity of the NBR in terms of manpower, technical expertise, and structural efficiency.

The NBR currently faces staff shortages and operational inefficiencies, which limit its ability to enforce tax laws effectively. Increasing the number of trained tax officers, particularly in audit, enforcement, and digital operations, would significantly improve compliance monitoring. Additionally, specialised training programmes should be introduced to equip tax officials with modern data analysis skills, fraud detection techniques, and best practices in international tax administration.

Furthermore, the NBR's structural organisation should be reformed to improve its operational efficiency. This includes establishing dedicated units for digital tax enforcement, taxpayer education, and automated auditing. Decentralising certain administrative functions by strengthening regional tax offices would also help ensure more effective service delivery and reduce bureaucratic inefficiencies. By increasing its workforce, investing in capacity-building, and modernising its internal structure, the NBR can significantly enhance its ability to administer taxes efficiently, curb evasion, and improve revenue mobilisation.

Conclusion

Bangladesh has significant potential to improve its domestic resource mobilisation efforts. By implementing a comprehensive tax reform strategy, the country can enhance the effectiveness and fairness of its revenue system. Focusing on strengthening administrative efficiency, improving compliance, and increasing transparency will help create a more sustainable and inclusive taxation framework.

A strategic, phased approach – beginning with administrative enhancements, progressing to structural reforms, and culminating in long-term institutional changes – will be vital in achieving a robust and equitable revenue system. By fostering institutional capacity, integrating digital technologies, and ensuring that the tax system is inclusive, Bangladesh can reduce its dependence on external financing, boost public sector investments, and build a more competitive and fair economic landscape.

With careful and progressive fiscal reforms, Bangladesh has the opportunity to establish a resilient tax system that supports stable revenue generation, promotes inclusive growth, and positions the economy for long-term success.

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