



Role of chartered accountants in mobilization of national resources- keynote address by BB Governor in the Conference of Chartered Accountants on 9th August 2010

1. Assalamu Alaikum, good afternoon, and my best regards and greetings to the chief guest the Honorable President, People's Republic of Bangladesh, ICAB President, distinguished guests and delegates from home and abroad.

It certainly is a privilege and honor to be asked to present the keynote paper in this conference of apex level accounting professionals, with exalted personages including the Honorable President of Bangladesh in audience. Myself not being an accounting professional, my presentation on the conference theme, the role of chartered accountants in mobilization of national resources, will necessarily be an outsider's view. I would ask the professional accountants in the audience to bear with any lack of insider perspectives that they may notice in the presentation.

2. To begin with, why are we concerned about mobilization of national resources? We are concerned because we need to invest these resources towards faster economic and social growth. These investible national resources include income of households and businesses tapped by the government as the tax base; and the financial savings of households, farms and businesses tapped by investors as their financing sources. The government needs true, reliable accounts and financial statements of households and businesses for correctly estimating the base of taxation income. The savers feel safe in placing their savings only with those financial and non-financial businesses that have reliable accounts and financial statements with adequate and transparent disclosures. Small investors flocking in the capital market in huge numbers would benefit greatly with credible, properly disclosed financial statements of listed companies drawn up and certified by esteemed members of your professional community. These are where the value of well developed professionalism in your trade comes in, as accountants and auditors maintaining and certifying accounts and financial statements according to accepted standards. Adherence with local standards were once sufficient, but with globalization of trade and investments in intricate webs of cross border relationships, adherence to uniform international standards is now becoming unavoidably necessary.

Where do we Bangladeshis stand in efficiency of national resource mobilization? Unhappily, down close to bottom of global league table, with tax-GDP ratio at meager 9.2 percent in FY 10 after some improvement from 8.6 percent of FY09. These levels look dismal against 19.5 percent tax-GDP ratio of neighboring India. The domestic saving rate in Bangladesh

stagnates at around 20 percent of GDP, well below levels in our neighbors and other comparator economies. Only partly are these low levels attributable to low income, the main reason is poor and dubious accounting and auditing practices. Affluent households get off paying pittance as income taxes with dodgy financial disclosures; thriving businesses evade taxes understating income, even reporting fictitious losses. The widespread public perception now is that taxpayers, accountants, auditors and tax collectors are acting in collective collusion depriving the government of due revenues; banks and financial institutions collude by lending to tax evading businesses based not on their declared weak balance sheets but on private knowledge about their actual financial health.

Are these practices of collective collusion in misreporting accounts and income actually rewarding us? Certainly not. Tax evading households and businesses get paid back in deficient, poor quality services from under-funded public establishments, and end up paying additional sums in privately arranged services for security, garbage disposal and so forth. Businesses understating income to evade taxes cannot access capital markets with their disclosed supposedly weak financial statements, and crowd into banks and financial institutions for borrowing, pushing up interest costs to the perennially complained about high levels. FDI inflows languish as foreign investors hesitate about investments in the non transparent graft-ridden environment, shy of joint ventures with local businesses having dodgy non-transparent financial disclosures. The tax evading well-off are thus paid back in the same coin, while the less well-off population segments suffer with the most under high burdens of regressive indirect taxes like VAT and tariffs imposed due to low collection of direct taxes from the better off. Investment and economic growth continue to lag below potential, just while the neighboring economies are powering ahead with better financial disclosures, higher resource mobilization and higher rates of economic growth.

3. For the reasons outlined above, I am looking forward to this conference today initiating a campaign in breaking out of the vicious circle of accounting and financial misreporting that is holding down resource mobilization, investment, economic growth and poverty eradication in Bangladesh. This would clearly be a very major undertaking in reeducating and motivating all of us as individuals, households, businesses and public authorities in transforming our individual as well as collective social behavior and practices. Urgency of the need for this campaign is just as great, with the country's Sixth Five Year Plan (SFYP) 2011-2015 targeting tax-GDP ratio of 12.9 percent by year 2015, to raise domestic investment to 32.5 percent of GDP and annual real GDP growth rate to 8.0 percent. Successfully

brought about, the desired reforms in accounting and financial disclosure practices will lead to major acceleration in development of financial and capital markets channeling higher domestic and external investments into the real sectors, leading to faster economic growth and poverty reduction.

I would look forward to audit reports of chartered accountants on individual businesses, and to the Journal of the ICAB being informative, effective learning and motivational tools to this end for all of us. On behalf of Bangladesh Bank I promise you all cooperation, with open communication and consultation channel for the ICAB in all aspects of this endeavor. The government is seriously considering enactment of a new law creating an oversight authority for the accounting profession. I am looking forward to ICAB to play role as an integral auxiliary in the new regulatory structure, for implementing in letter and spirit the evolving international best practices of accounting and auditing in Bangladesh; towards higher resource mobilization, higher investment, poverty eradication and eventual prosperity for Bangladesh.

4. Let me conclude here, with my thanks and gratitude to you all for your patient attention, and with thanks to ICAB for the invitation to address this congregation of accounting professionals and invited dignitaries.