

Fiscal Accountability and the Parliament: The Case of Budget Making Process in Bangladesh

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1. INTRODUCTION

The lack of fiscal accountability in Bangladesh due to limited role of the parliament in budget making process together with constitutional and systematic rigidities results in inefficiency, poor implementation of budget and misuse of public resources. Constitutional provisions relating to budgetary process seem to fail in addressing a number of problems such as, insufficient flow of information relating to formulation of budget, limited scope for participation by the legislators, lack of incentive for participation, and over-centralization. The current structure of budget formulation that follows simple arithmetic in balancing income and expenditure and that maintains a rigid time-bound schedule for approval does not allow participation by numerous stakeholders in the final outcome of the budgetary process.

As a consequence, lack of participation in budget making process leads to over-centralization which, in turn, results in corruption, patronization and poor implementation of budget. In addition, such centralized budgetary process gives rise to imprudent distribution of resources and makes the budget implementation process cost-ineffective. While the parliament is provided with exclusive power to control public finance, it regularly suffers from such weaknesses as inadequacy of time for budget approval, reluctance of members to participate in budget discussion, absence of opposition, ineffective discussion, and lack of specialized knowledge and expertise among most of the parliamentarians. For instance, in recent times the parliament was given, on average, 20-23 days to deliberate and vote on the budget in Bangladesh, while the usual time allocated for budget discussion in other parliamentary democracies such as Australia is 1 to 2 months; in Britain 3 months, and in India more than one month's time.

Along this line of budget making process, FY 2017-18's budget speech seems to lack providing prudent and farsighted solutions to the current challenges except it earmarks an ambitious target of expenditure amidst inefficient distribution of resources. The political expediency has not only caused cost-overruns, scams, and capital flight, but the reign of uncertainty has also kept the ratio of private investment to gross domestic product (GDP) stagnated over the years, slipped rate of growth to an all-time low amidst high concentration of single product in the export basket and slowed down growth in manufacturing and agriculture. The manufacturing is also choked by deficits in infrastructure. The service sector is facing a critical shortage in supply of skills. The huge outflow and declined levels of inflow of remittances

are serious causes of concern. The country's job growth is the slowest in two decades. The youth unemployment rate in Bangladesh is higher than the regional South Asian average, with a huge sizeable youth population languishing in as NEET (not in employment, education or training).

A budget of Tk. 400266 crore has been proposed for the FY 2016-17 setting the target of growth in GDP at 7.4 percent. The target of revenue collection has been set at Tk. 287990 crore of which NBR tax revenue is Tk. 248190 crore, non-NBR tax revenue is Tk. 8622 crore, and non-tax revenue is Tk. 31179 crore. The amount of non-development expenditure has been proposed at Tk. 234013 crore, whereas the development expenditure has been set at Tk. 159013 crore of which Tk. 153331 crore has been allocated for Annual Development Programme. The overall budget deficit has been estimated at Tk. 112276 crore (excluding grants), which is five percent of GDP. In financing the deficit, Tk. 46420 crore will be collected from foreign sources, whereas Tk. 60352 crore will be collected from domestic sources. As far as the domestic sources of financing deficit are concerned, Tk. 28203 crore will be collected from the banking system and Tk. 32149 crore will be collected from Non-Banking source (of which Tk. 30150 will come from savings certificates and Tk. 1999 from other sources). Dependence of government on the banking system in financing the deficit may, however, cause private investment to fall further and inflationary pressure to rise in the current fiscal year.

Given the current system of fiscal management and budgetary process, the country has been missing opportunities to capitalise on its resources and potentials. It is needless to say that the causes of elapsing prospects are more institutional, political and managerial. The gradual corrosion of institutions has constrained allocation of resources to channel efficiently into the productive sectors in order for the economy to get higher returns in terms of expanded productive capacity. The political expediency has caused institutional fragility and lack of farsightedness in policymaking. As a result, in 2016-17, the economy has remained plagued with a number of economic bottlenecks.

2. BUDGETARY PROCESS: CONSTITUTIONAL AND SYSTEMATIC RIGIDITIES

The constitution of Bangladesh entitles the parliament to control public finance. The executive of the government can neither collect tax nor spend money by itself without the authorization of the parliament. According to article 83 of the constitution, "no taxation shall be levied or collected except

by or under the authority of the parliament". However, it is important to note that in practice, no explicit authorization of parliament is needed for determining the government receipts.

The constitution, however, does not delineate the format and content of the budget. As Khan (2008) notes, "It only stipulates that separate estimates on charged expenditure and non-charged expenditure and on revenue and other expenditures shall be furnished separately." The effectiveness of legislature in analyzing and scrutinizing a budget depends on the adequacy of information supplied by the executive, which in turn is dependent on the format of the budget. Finance Minister enjoys this executive privilege in Bangladesh.

It is argued that the legislators have very limited scope for participation in budgetary process in Bangladesh. As Khan (2008) further notes, "No legislation involving any government expenditure shall be considered by the parliament without the express consent by the executive as represented by the president." Article 82 of the constitution stipulates, "no Money bill or any Bill which involves expenditure from public money shall be introduced into parliament except on the recommendation of the president."

In addition, the budgetary process in Bangladesh is highly centralized. In principle, the members of the parliament representing the people should approve a budget in an indirect democracy. In practice, the cabinet usurps the power of the members of parliament. More specifically, the power of the cabinet in respect of budgetary process is concentrated in the persons of Prime Minister and Finance Minister. Consequently, there is limited or no scope for participation for the legislators and stakeholders.

Gaps in the constitutional and regulatory provisions relating to budget in Bangladesh can be summarized as follows:

Gaps/Effects	Causes	Relevant Articles/Rules
Lack of sufficient information	The Finance Minister controls the flow of information and is not required by law to furnish all relevant information for consideration of budget	Rule 111(2) of Rules of Procedure of Parliament

Limited scope for participation	The parliament may accept or reject the budget as a whole, but cannot alter it. The legislators cannot vote against party line. The approval of the budget is automatically guaranteed.	Article 81 and 82 of the constitution
Lack of incentive for participation	The members of parliament cannot include the project from their constituencies.	Article 89 and 90 of the constitution
Over-centralized	The Finance Minister dominates the whole budgetary process as long as he enjoys the blessings of the Prime Minister.	Rule 111(2) of Rules of Procedure of Parliament

In addition to the legal restrictions in the budget making process, the parliament in Bangladesh suffers from the following weaknesses (Khan, 2008):

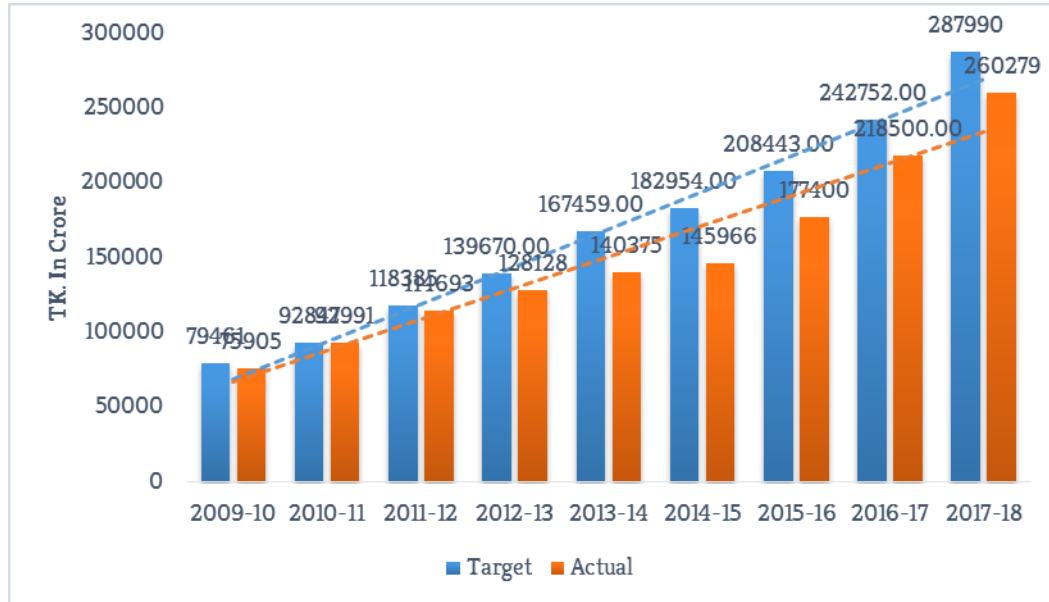
1. Inadequacy of time for budget approval. Usually, the budget is placed 20-23 days ahead of the end of the fiscal year. The legislators do not get adequate time to study and discuss the budget.
2. Reluctance of the members to participate in the budget discussion. Less than half of the total members of the parliament are found to participate in the budget discussion.
3. Budget discussions are ineffective, are too short and perfunctory.
4. The opposition often boycotted the budget session, which rendered budget session a lifeless ritual.
5. Parliamentary standing committee remain excluded. Rules of Procedures of the Parliament prohibit the discussion of Annual Financial statement by the standing committee.
6. Most parliamentarians do not have adequate knowledge of budgetary matters. They also do not have adequate staff support for scrutinizing the budget properly.

3. REVENUE MOBILIZATION

Government's revenue earning largely depends on the collection of taxes. Although the trend in collection of tax revenue continues to increase, the country still falls behind other developing countries in this regard. Of the

total revenue collection targeted at Tk. 2,87,990 crore in FY 2017-18, Tk. 2,56,812 crore is supposed to be collected from taxes and Tk. 31,179 crore is supposed to come from non-tax revenue. However, taking account of the business as usual scenario it is projected that the collection of revenue vis-à-vis the target may reach Tk. 260279 crore in FY 2017-18.

Figure 1: Revenue Collection



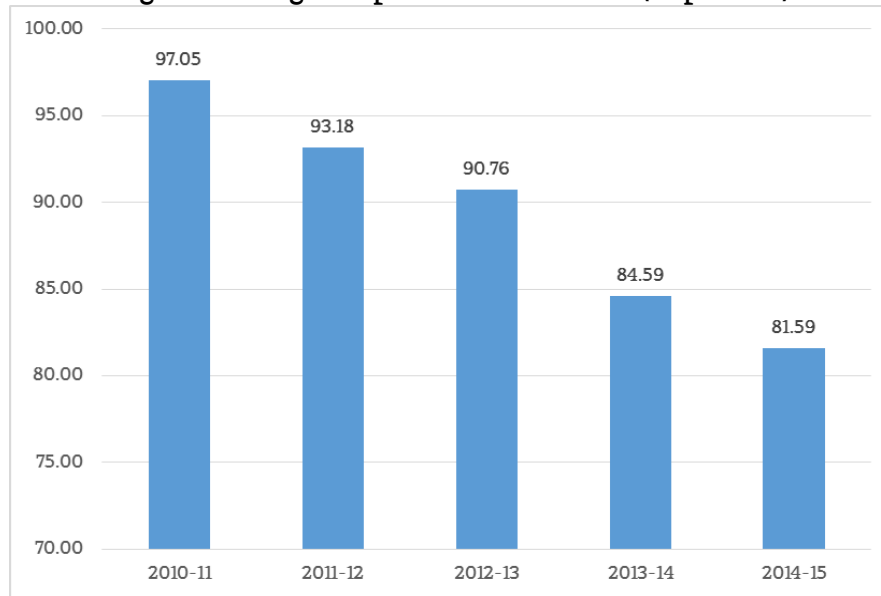
Source: Ministry of Finance, 2017

Moreover, actual collection of tax revenue has fallen short of target in recent years. Actual NBR tax revenue surpassed the targeted amount from FY 2007-08 to FY 2011-12, but in FY 2013-14, actual collection stood at Tk. 111423 crore against the target of Tk. 136090 crore. Similarly in FY 2014-15 and FY 2016-17 the revised collection of NBR tax revenue was Tk. 135028 crore and 1,85,000 crore against the target of Tk. 149720 crore and 2,03,152 respectively.

4. BUDGET IMPLEMENTATION STATUS

It is found that the status of budget implementation is on the decline since FY 2010-11. Of the total budget outlay, 97.05 percent was implemented in FY 2010-11, whereas the rate subsequently decreased to 93.18 percent, 90.76 percent, 84.59 percent, and 81.59 percent in FY 2011-12, FY 2012-13, FY 2013-14, and FY 2014-15 respectively.

Figure 2: Budget Implementation Status (in percent)



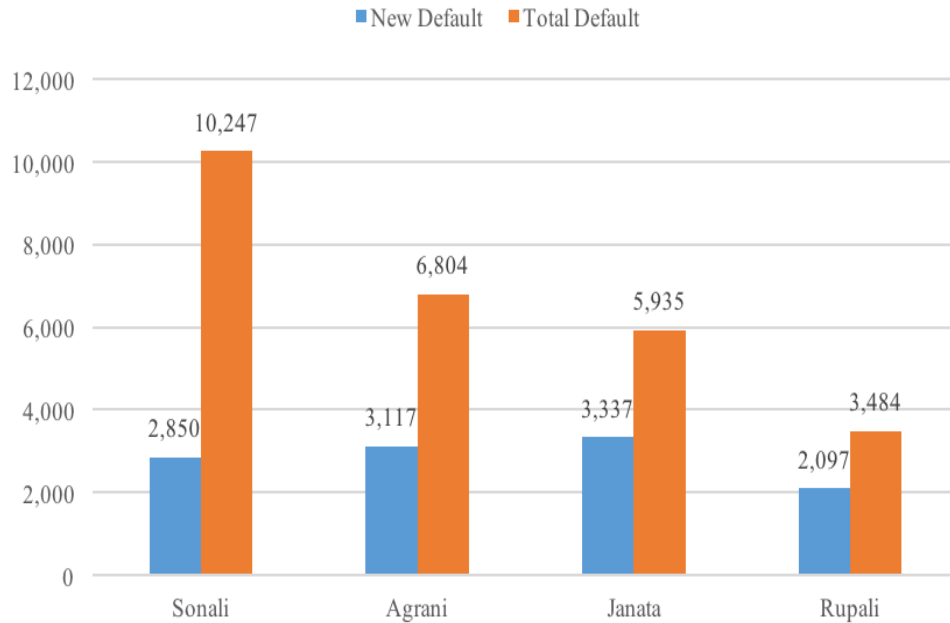
Source: Ministry of Finance, 2016a

5. BANKING SECTOR MANAGEMENT

Of late crisis in the banking sector has made the financial sector in Bangladesh worst among the emerging Asian countries reflecting the poor risk management ability of the central bank. A strong financial system is needed for successful implementation of monetary policy. The running crisis in the banking sector mainly due to increase in default loan reflects the institutional weakness of the financial system in the country. Recent consecutive heists in banking sector again shake the financial system as well as the economy. Continuous default loans, scams, and heist cause increased cost of fund and shortfall in capital in the banks. This situation is more upsetting in the State Owned Commercial banks (SCBs) and Development Financial Institutions (DFIs) for which they face huge capital shortfall every fiscal year. Government recapitalizes the shortfall with taxpayer's money instead of correcting the faults of the institutions, which not only increases the burden on taxpayers but also causes a loss to the economy. The banking sector indicators showed some concerns during the last quarter of FY 2015-16 compared to that of the preceding quarter. The ratio of gross Non Performing Loan (NPL) to total outstanding loans of the banking sector increased from 9.92 percent at the end of third quarter of FY16 to 10.06 percent at the end of the fourth quarter of FY16. However, the ratio of net NPL decreased from 2.88 percent at the end of March 2016 to 2.81 percent at the end of June 2016. The provision shortfall position of the banking sector deteriorated during

fourth quarter of FY16 and stood at BDT (-) 44.5 billion from BDT (-) 41.2 billion at the end of March 2016.

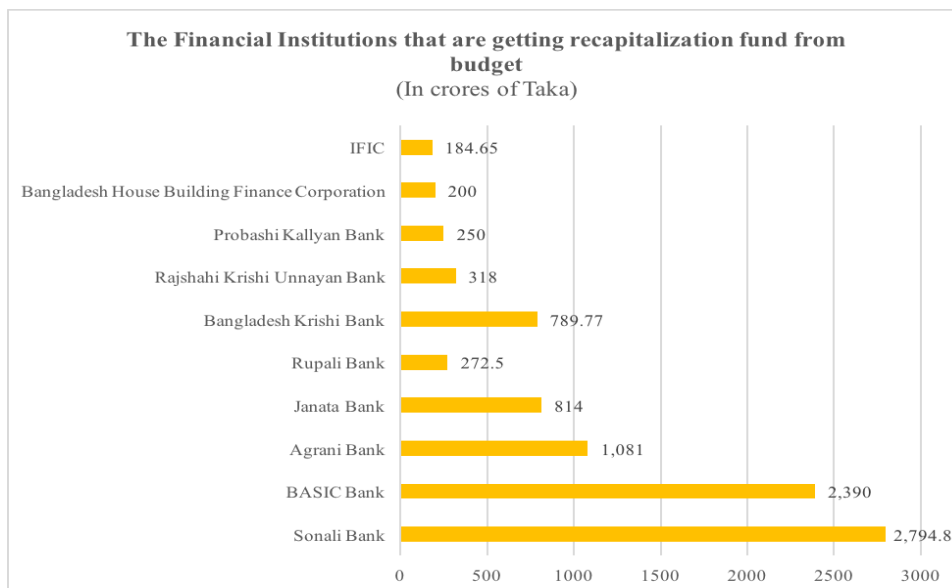
Figure 3: Default Loans in State-Owned Banks



Source: Ministry of Finance, 2016a

In addition, disbursing loans aggressively and thus violating the Bangladesh Bank rules and regulations, defaulted loans in nine newly-established banks increased by 782.74 per cent to Tk 392.29 crore in the first half of this calendar year. Data from the central bank suggest that as of June 30, 2016, classified loans at Meghna Bank increased to Tk 17.43 crore from zero non-performing loan as on December 31, 2015, at Midland Bank from Tk 13.97 crore to Tk 13.99 crore, at Modumoti Bank from zero NPL to Tk 14.77 crore, at NRB Bank from Tk 2.21 crore to Tk 18.36 crore, at NRB Commercial Bank from Tk 5.87 crore to Tk 82.40 crore, at NRB Global Bank from Tk 13.24 crore to Tk 17.05 crore, at South Bangla Agriculture and Commerce Bank from zero NPL to Tk 2.30 crore, at The Farmers Bank from Tk 9.06 crore to Tk 223.28 crore and at Union Bank from Tk 0.09 crore to Tk 2.71 crore.

Figure 4: Recapitalization Funds for Financial Institutions



Source: Ministry of Finance, 2016a

6. PUBLIC INVESTMENT IN INFRASTRUCTURE AND ECONOMIC RENT

Although government has proposed a deficit budget in FY 2015-16, the key issue remains that such deficit has not been meant to augment multiplier effects in the economy rather has financed consumption as opposed to paying for infrastructure to remove supply side constraints. This continuation of present deficit has its roots in maverick decision to install rental and quick rental power plants at the cost of long run solutions. In addition, government's reliance on expensive oil-based quick rental power plants in purchasing electricity is due to its inability in production and efficient use of gas and coal. Consequently, frequent hikes in the power tariff haunt the consumers in the economy. In the wake of less availability of resources due to service debts and subsidy payments, the capacity of government to invest in physical and social infrastructure has also decreased.

A large portion of development expenditure - 27.4 percent of total development expenditure - has been allocated for transport and communication sector in FY 2017-18 compared to 26.7 percent in FY 2016-17 and 23.8 percent in FY 2015-16 in order to finance the ongoing mega infrastructure development projects. Increase in allocation implies rising cost induced economic rent which has made the public investments inefficient. For instance, Bangladesh spends Tk. 59 crore (proposed) to build one kilometre of

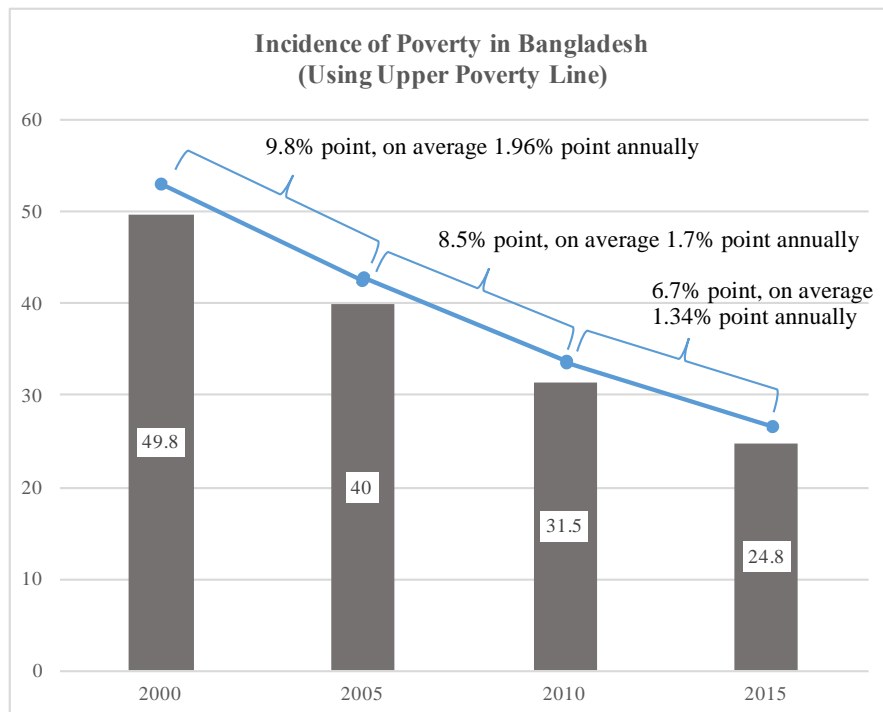
4-lane highways whereas China and India spend Tk. 13 crore and Tk. 10 crore respectively.

In terms of budgetary allocation, although the infrastructure sector has seen one of the highest increases in recent times, the effectiveness of this amount, however, would depend on how the money is capitalised. If the money is used to build new roads, railways, etc, the possibility of a greater fiscal multiplier would be created. Moreover, one flaw in the government’s infrastructure development plan is its reliance the Public Private Partnership (PPP) initiative, which has already failed to produce real results.

7. DEALING WITH POVERTY AND UNEMPLOYMENT

A significant number of people are still living below the poverty line, despite considerable thrust on poverty alleviation in all plan documents since the independence of Bangladesh. The proportion of poor in the population declined considerably between 2000 and 2010. The incidence of poverty decreased from 49.8 percent in 2000 to 40 percent in 2005 then to 31.5 percent in 2010 and 25.6 percent in 2015.

Figure 5: Rate of Reduction in Poverty Incidence



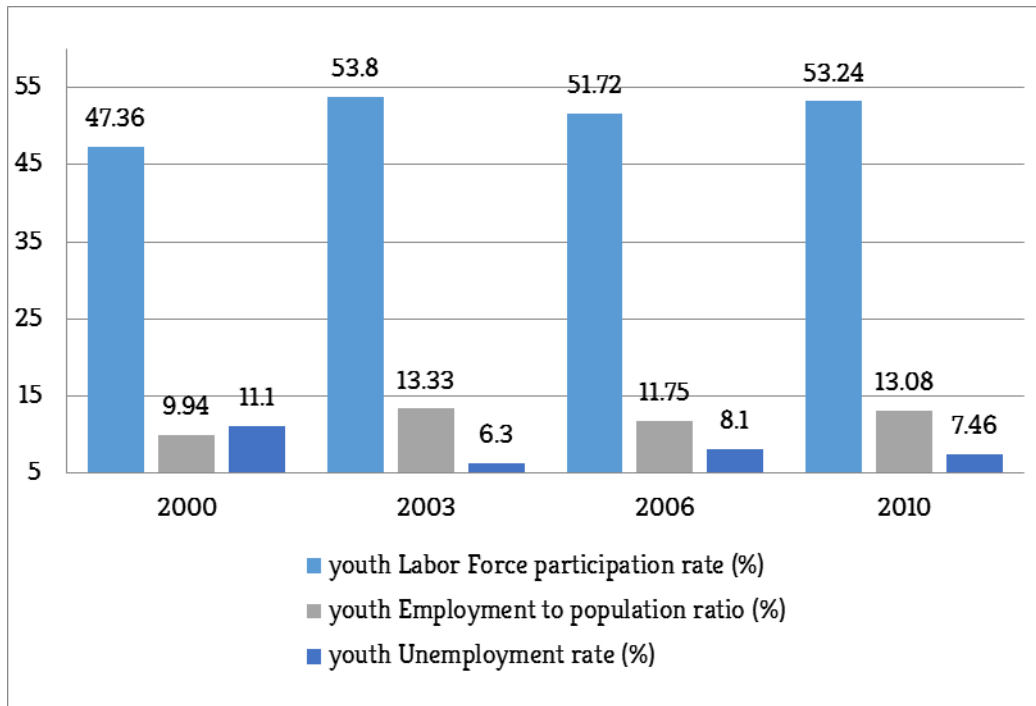
Source: Bangladesh Bureau of Statistics, 2015

With a growth rate of 3.88 percent (from 1995-96 to 2010), the number of total civilian labour force in 2010 increased to 57.1 million. In 1995-96, total civilian labour force was 36.1 million out of which 30.7 million was male and only 5.4 million was female. Out of total civilian labour force, 40.2 million was male and rest 16.9 million was female. A total of 34.8 million were employed and 1.4 million were unemployed in 1995-96, which increased to 54.5 million and 2.6 million respectively in 2010 (BBS, 2011).

The number of unemployed population increased at an annual rate of 5.29 percent during the period of 2000-2010 and increased from 1.70 million in 2000 to 2.60 million in 2010 while 10.6 million people were day laborers who did not have job security. Taking this trend into account, it is calculated that the country needs to increase employment opportunities by two percent in order to enter the middle income group by 2021.

The rate of unemployment in the country, particularly youth unemployment is rising at a significant rate. According to latest data, youth unemployment rate in Bangladesh is 9.1 percent. Around 74 percent of countries 2.6 million unemployed population is youth.

Figure 6: Youth Population, Employment and Unemployment



Source: Bangladesh Bureau of Statistics, 2013

When underemployment is taken into account in assessing the status of the labor force in Bangladesh, the perception of the labor market significantly changes. The information on hours worked shows that a total of 10.99 million (which is about 20.31 percent of the employed labor of 54.1 million) were underemployed in 2010. This shows an extremely high level in the number of the people who work less than 35 hours per week. Also the information shows high incidence of underemployment in rural areas and among the female labor force.

8. CONCLUSIONS

To ensure fiscal accountability and strengthen role of the parliament in budget making process in Bangladesh, it is necessary to adopt certain reform measures that may include revision of budget-related constitutional provisions, expansion of scope of parliamentary surveillance over fiscal management, and strengthening of concerned parliamentary standing committee. To establish an efficient fiscal management system in the country and to root out the above-mentioned fiscal challenges, it is important that an effective participation of people's representatives be present in the budget making process. The parliament must be given adequate time to discuss and approve the budget. Constitutional gaps that hinder the adoption of a participatory approach to formulation of budget must be addressed through necessary amendment and parliamentary reform. Additionally, budgetary process should be decentralized in order to take account of the needs of the poor and marginalized groups.

Furthermore, following guidelines can be followed as good practices for fiscal transparency (IMF, 2007):

1. The government sector should be distinguished from the rest of the public sector and from the rest of the economy, and policy and management roles within the public sector should be clear and publicly disclosed.
2. There should be a clear and open legal, regulatory, and administrative framework for fiscal management.
3. Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.
4. There should be clear procedures for budget execution, monitoring, and reporting.

5. The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.
6. Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.
7. A commitment should be made to the timely publication of fiscal information.
8. Fiscal data should meet accepted data quality standards.
9. Fiscal activities should be subject to effective internal oversight and safeguards.
10. Fiscal information should be externally scrutinized.

Finally, in order to get rid of the outlined bottlenecks, the country has been waiting for a medium-term strategy that generates increment in the productive capacity and provides avenues for the poor to obtain an increased share. The adoption of such a growth strategy necessitates a prudent economic management. It warrants harmonisation of fiscal and monetary policy in order to stimulate the expansion of productive capacity and the fall in the rise of inflationary pressure.

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