PUBLIC FINANCE AND DEVELOPMENT

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PUBLIC FINANCE AND DEVELOPMENT

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FORMULATION OF NATIONAL BUDGET

Dr.Masihur Rahman*

"The important point [is] to bring public expenditure under firm control, so that the Government (can) develop a strategy for public spending, rather than merely yielding to the pressure of events. Public expenditure would inevitably consist of a mixture of the unavoidable and the worthwhile,......The trick is to increase the latter and reduce the former." -- John Major[1]

The budget is an account of the revenues or receipts and expenditures of the government for a financial year. The Constitution (Art, 80--92), and the Parliamentary Procedure (chapter XVI) lay down the basic constitutional and legislative aspects of the budget. The administrative practices with regard to the structure, format and contents of the budget have evolved over time in the context of the objectives and constraints -- i.e. policy contents and contexts -- which define the parameters for public financial management, while conforming with the constitutional and legal requirements.

Constitutional & Legislative Elements:

All receipts of the government on account of taxes, income from assets, borrowing, repayment of loan, etc.are credited to the Consolidated Fund. No money can be withdrawn from the Consolidated Fund except on the basis of the expenditure approved by the parliament and the appropriation act. In certain cases the government may withdraw money from the Consolidated Fund with approval of the President -- such as excess expenditure on a service for which the parliament made inadequate provision -- subject to subsequent approval of the parliament.

All other money received by any government official and not credited to the Consolidated Fund has to be credited to the Public Accounts of the Republic. The government holds these receipts in a trusteeship or Fiduciary capacity -- e.g. Provident Fund, Benevolent Fund, Postal Saving Deposits, various saving instruments issued by Government, etc. The government pays interest on these funds. There are a few exceptional deposits in the Public Accounts on which interest is not paid -- e.g. sale proceeds from food aid, depreciation and renewal reserve funds of certain departmental enterprises, etc. The government does not have any automatic claim on the money in the Public

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[1] Bruce Anderson, John Major: The Making of the Prime Minister, London, Fourth Estate, 1991, p. 270.

Account of the Republic; it can borrow from the Public Account to meet expenditure.

The Constitution divides all government expenditure into two types -- namely "charged expenditure" and "other expenditure". Charged expenditures are shown in the budget and debated but are not subject to vote in the parliament. This type of expenditure is admissible for certain constitutionally defined positions -- e.g. President; Speaker; Public Service Commission; Election Commission; repayment of public debt, etc. 'Other expenditure' is not only discussed in the parliament but is subject to vote by the House. The bulk of government is of the 'other type'.

The government submits estimated requirements of expenditure in the form of Demand for Grants. Demand for each service is shown under one major head of account, broken into minor heads and detailed heads. The heads of account are contained in the List of Major and Minor Heads which is issued by the Comptroller and Auditor General. No change in the heads of account can be effected without approval of the Comptroller and Auditor General. No demand for grant can be introduced in the parliament without prior approval of the President.

After the parliament approves the demand for grants, the government places before the House an Appropriation Bill seeking its approval to withdraw money from the Consolidated Fund to meet the expenditure already approved. The Appropriation Act becomes effective after authentication by the President. Money can be withdrawn from the Consolidated Fund only on the basis of appropriation act passed by the parliament and in some cases under authority of the President as specified in the Constitution.

The government cannot impose any tax or levy and raise their rates without approval of the parliament. In order to finance the expenditure contained in the approved budget, the government may need to impose new taxes or raise the rates of the existing taxes. This is done through the Finance Act. No proposal for imposition of tax or raising rates can be introduced in the parliament without prior approval of the President; similarly, the Finance Act passed by the parliament does not become effective without authentication by the President. The taxation proposals become effective on their introduction in the Parliament in accordance with the Provisional Collection of Taxes Act, 1931.

The annual financial statement -- the name given to budget in the Constitution -- which sets out government's estimated expenditure for the year is approved as a whole. However, a part of the proposed demand can be granted as 'vote on account'. This procedure allows the parliament to debate the budget proposals and the policies of the government without interrupting normal operations. Traditionally in Bangladesh the government seeks votes on account for one-fourth of the proposed budget -- i.e. for three months' expenditure. A separate appropriation act is passed for the amount of vote on account. The parliamentary practice in U.K. allows vote on account for upto 45% of the estimated amount for the year.[2] The government often rushes the budget through the house to get approval within June under the wrong impression that it must be done before the financial year is over, thus cutting short the time for debate.

The constitutional provisions for supplementary grant and excess grant allow the government to incur expenditure in excess of the provision in the approved budget as well as for services for which no budget provision exists. There is a difference between supplementary and excess expenditure. When no grant exists in the approved budget, the government has to seek supplementary grant; when the approved budget contains authorisation of expenditure but the amount is inadequate, the government has to seek excess grant. According to practices in all parliamentary governments, prior approval is obtained for supplementary grant while *post facto* approval is in order for excess expenditure. Excess expenditure, however, can be sanctioned by the President but has to be placed before the parliament early. The budgetary practice in Bangladesh does not make any distinction between supplementary grant and excess grant; both are treated as excess expenditure which is contrary to financial accountability of the government.

Budget Documents Placed Before Parliament :

The government submits to the parliament a number of documents. They fall into two categories: those which are required under provisions of the Constitution and are approved by the parliament and those which provide background information but are not required for approval by the parliament-- such as review of economy, annual development programme, etc. Important documents belonging to both catagories are mentioned here.

Detailed Estimates of Revenue and Receipts present estimated total receipts of the government from all sources including taxes, non-tax revenues, capital receipts, income from assets and enterprises, external assistance; etc. The bulk of the tax revenue is raised from taxes administered by the National Board of Revenue. A variety of other taxes -- each accounting for relatively small amount -- are collected by several other agencies. The parliament takes into

[2] Erskine May's Parliamentary Practices, 1976 edn.p. 723.

account the receipts in judging balance between expenditure and receipt; only new taxes and enhancement of rates are subject to approval of the parliament.

Demands for Grants and Appropriations (Non-Development) present estimated revenue or recurrent expenditure of the government. These estimates are organized by major heads, minor heads, and detailed heads. The parliament can discuss the estimates under each of these heads and introduce cut motions separately. These demands are subject to approval by the parliament except charged expenditure. The heads of account are determined by the Comptroller and Auditor General which link the format of budget with accounts maintained by the government.

Demands for Grants and Appropriations (Development) represent the outlay for the Annual Development Programme (ADP). The expenditure proposals are shown for different sectors, organisational units as well as projects, including projects financed by external assistance. The infromational contents of development budget are the same as ADP. Organization of development budget by major, minor and detailed heads do not conform with the list of heads approved by the Comptroller and Auditor General. However, the national budget -- which contains estimated expenditure for each major head -- provides the basis for grant for development expenditure.

The Annual Financial Statement also described as Budget Estimates -- incorporates in summary form the receipts of the government from all sources including external assistance, amounts available from the Public Account of the Republic as well as expenditure for each major service account category, expenditure on account of the development projects, etc.-- all expenditures which are paid out of the Consolidated Fund. It is to be noted that this particular document is described as Annual Financial Statement -- a term which is used in the Constitution. The term budget occurs in the rules of the parliament, not in the Constitution.

Budget Summary Statements include twelve separate summaries representing overall budgetary position, result of fiscal operations, translation of expenditure into economic categories, etc. There are overlaps and duplication in the various summary statements. Economic character of expenditure is not obvious from the budgetary terminology; the quality of economic classification depends on the ability of the officials to interpret economic and accounting data. These format and statements have been adopted at different times to meet particular needs (e.g. Budget at a Glance; Summary of Budgetary Operations; Summary of Food Budget; Foreign Loan and Grants (Receipts); Financing Annual Development Programme).

Formulation Of National Budget

Economic Survey provides an assessment of the performance of the economy, implementation of development programme, fiscal and monetary data, some critical real sector data such as production of rice, jute, export, fertilizer, etc. The government replaced it by Economic Review when presenting the budget for 1995-96. The Economic Review is shorter and has some policy analysis, however thin, which was absent in the former Economic Survey. The Economic Review and the former Economic Survey provide critical background information.

Annual Report of the Financial Institutions provides information on the current and historical performance of the public sector financial instituions (eg. NCBs, DFIs,). Sometimes the report on the financial institutions are circulated separately but during the budget session. These reports have not proved very useful in presenting critical assessment of the conditions of the financial institutions.

Budgets of the Autonomous Bodies show the operational programmes and the related revenue implications of the non-financial public sector enterprises. Currently budgets of selected autonomous bodies are prepared on the basis of a programme approach; this particular format is confined to the public sector corporations which provide market goods and services. In reality the outcome of the operations of the corporations diverge widely from the budget forecasts.

Annual Development Programme shows the total development outlay, allocation for each sector, a complete list of projects and allocation for each project from local resources as well as external aid. The ADP is the main document showing development outlay. The development budget is put to vote of the parliament, not ADP; for execution of projects, however, ADP is used more extensively.

Some Accounting Conventions & Budgetary Implications:

The government accounting and budgeting are done on a cash basis -- i.e both receipts and expenditures are shown in cash terms. This differs from accounting on accrual basis followed in commercial operations. The accounting rules make exceptions for departmental enterprises such as railway, telecommunications, trade in food, etc. The internal accounts of these operations are kept on accrual basis; their cash implications -- i.e loss and profit -- are incorporated in the government budget as subsidy or grants to cover the loss or as revenue being the share of profit transferred to the government.

Formulation Of National Budget

Though the financial year runs from July to June of the next calendar year, the government usually fixes a date in the second or third week of June for submission of bills. Quite often, the time has to be extended so that the spending agencies can submit bills. Many of these cheques are issued almost at the end of the year and cannot be encashed during the same financial year. All these cheques remain valid for three months and payment is made next year. There is a gap btween expenditure in one year and actual payment in the year following. The budget has to make cash provision for this; and if the provision is not made all payments become irregular and a divergence occurs between budget provision and actual expenditure. In the last couple of years, this seems to have occured. There are similar 'float' on receipt side also but that does not fully offset the expenditure side.

Confusion exists also about book adjustment. Quite often at budget meetings the spending agencies argue that certain payments would be made through book adjustment; therefore, inadequate provision in the budget does not matter. Book adjustment is the procedure for payment for intra-agency transaction: when one government department makes supplies or renders a service to another agency; the receiving agency does not make any payment; the agency rendering service makes an adjustment entry in its book showing receipt. The government makes provision in the budget of the supplying agency. The agency which supplies goods or service has to procure goods from the market and so incurs actual cost. There is a real cost involved which should be recognized.

All revenues or receipts are shown net of refunds. Government agencies responsible for collection of taxes -- such as Customs, Income Tax -- make provisional assessment. There are also provisions for review or appeal. The agencies may make mistakes also. Citizens paying an excess amount are entitled to timely refund. Tax revenue is taken into government account net of all such refunds. Quite often refund is given in subsequent years; deduction is made from gross receipts. Taxation authority often is tempted not to make refund on time in order to show better collection, to the disadvantage of the citizens of course.

Receipts of Post Office Department, T & T Department and Bangladesh Railway are shown net of their working expenses. The difference between receipts and expenses shows up as net revenue or loss. These are instances of departmental enterprises -- i.e. their operations and accounting are treated as commercial in character, though government controls all their activities and budget. They also maintain accounts for their internal operations following commercial accounting standards. The economic value of revenue from departmental enterprises is often exaggerated because only the absolute amount is considered; to get a more valid view, the rate of return on total investment should be considered -- preferably at current value of the investment.

Foreign loans are reflected on a gross receipt basis showing total disbursement. In recent times, some of the aid agreements provided for advance disbursements so that in a given year disbursement and absorption may differ (SAFE, CONTASA, RF). For instance, the entire amount disbursed may not be used in the same year and disbursement may slow down in the following year because of failure to comply with aid conditionalities. In the first year, absorption will be smaller than disbursement; in the second year, absorption will exceed disbursement. It is worth notice that programme loans provide balance of payments support as well as budgetary support; revenue does not accrue to the government until traders have used the foreign exchange for import. However, the government may sell the foreign exchange to the central bank and obtain local currency for financing expenditure; this process actually involves exchanging foreign asset for domestic asset and intervention of the government in both money market and foreign excahnge market. Depending on the amount involved and the time lag between sale to the central bank and actual use of the foreign currency, this may have an expansionary effect.

The sale proceeds or imputed value of food assistance (loans and grants) are included in the estimates of foreign loans and grants with equivalent expenditure reflected in the food budget. The value of food assistance is transferred within a specified period to the development budget for financing agreed development expenditure and projects. If the sale proceeds are smaller than the value of food aid computed on an agreed basis or the fund is not generated within the stipulated period, the difference or the entire amount is to be transferred from government's own resources. Some of the food aid agreements stipulate that the proceeds be kept with commercial banks from which funds may be transferred to government account on the basis of an agreed utilisation programme and actual utilisation. In case utilisation is short, the excess fund remains with the commercial bank. The initial receipt is kept in the Public Accounts of the Republic; the amount which is budgeted for expenditure is transferred from commercial bank account to the Consolidated Fund of the government. How to treat the entire amount of food aid received in a year and expenditure of the sale proceeds spread over several years presents an interesting exercise to those government officials who keep accounts and make budget.

Reimbursable project aid appears as part of project aid in budget. There is a difference between project aid in foreign exchange and reimbursable project aid which provides taka financing. The government provides the money for expenditure in advance and then claims reimbursement in foreign exchange. If part of reimbursable project aid is disbursed in advance, the amount is replenished on the basis of expenditure and claims accepted. There is obviously a gap between the provision made by the government and the amount actually received in reimbursement. The advance provision has the same effect as domestic debt financing and creation of money, the latter being stronger the longer the gap between initial provision made by the government and reimbursement by donors. However, the debt is backed by foreign asset in the ultimate analysis and the domestic debt/asset-foreign asset swap involves government intervention in foreign exchange market.

Receipts on account of short-term treasury bills are shown on a gross turn-over basis, the difference between receipt and expenditure representing increase in borrowing or reduction of the stock of debt. The changes in the stock of debt which result from issuance of short term treasury bills are of importance for policy purposes indicating whether the government is increasing or decreasing debt in deviation from an optimal debt management strategy. The distinction between sale of treasury bills for financing government expenditure and for mopping up liquidity in the money market is of crucial importance in managing monetary and fiscal policies. Sale of loan instruments for liquidity management is within the domain of monetary policy interventions; the proceeds are not for financing government expenditure. The government may undertake such monetary operations if the central bank does not issue its own bills; in such event it should be clearly recognized that the government is acting as a 'monetary agent' and not as a fiscal agent. After introduction of Bangladesh Bank bills, government intervention for liquidity management has become unnecessary. The distinction is not always recognized or honoured, though.

Accounting for government borrowing or public debt is rather weak. The practice is to consider only the difference between government revenue and expenditure in revenue budget as deficit. The portion of development expenditure financed by aid is not included in measurement of deficit. This is inadequate even if we use cash deficit as the basic measure of deficit. A true measure of deficit would be the excess of total public expenditure including development expenditure over revenue of the government. Foreign aid including both grant and concessional loan and domestic borrowing are the various methods of financing expenditure in excess of revenue. The various methods of financing have different economic implications. For instance, aid finance does not represent an expansionary fiscal stance in that there is no domestic credit expansion; the increase in demand is offset by import for which aid is used. (Reimbursable project aid without advance disursement is a minor exception to this statement.) Loan creates a future obligation for servicing and repayment of the principal. Grants do not create such a future obligation; though tied grant denies the benefit of international competitive price, the disadvantage ought to be weighed against the net shortage of foreign exchange that would result if grant were not available. Domestic borrwoing from the central bank has expansionary -- and in most cases-inflationary impact through creation of high powered money. Borrowing from commercial banks would have the same implication if they could access refiancing or generous rediscounting by the central bank. Borrowing from commercial banks in the absence of such access and from the households competes with the private sector for the same resource. More accurate accounting of debt would be necessary if the government were to avoid monetary expansion as well as crowding out the private sector. At some future date, the government should also consider including the quasi-fiscal deficit caused by fiscal policy induced operations of the central bank.

Structure of Individual Demand for Grants :

The amount allocated to a service account for expenditure is divided into a number of items grouped into different units. The important primary units of appropriation include: pay of officers; pay of establishment (i.e. class (iii) and (iv) employees); allowances, honoraria, etc. contingency; works; grants to various organisations including local voluntary organizations, statutory organizations as well as international or multi-lateral organizations; operation and maintenance only in a few cases. Works -- which includes both new construction and repairs, maintenance, etc. -- is a unit of appropiration for a number of functions such as roads and highways, railway, public buildings, etc. Operations and maintenance have not yet been defined clearly nor included in the List of Major and Minor Heads of Account issued by the Comptroller and Auditor General.

The expenditures allocated are shown against various service accounts designated as Major Head of Account corresponding with a major organizational or functional unit of the government (eg. education; secretariat;). A major head may be divided into a number of minor heads, each representing smaller units or sub-units of the major organization; the units or the sub-units are identifiable as distinct entities for accounts and operational purposes. For instance, education is divided into secondary education, university education, technical education, etc. Sometimes confusion is created by splitting one category of function into administrative responsibilities of several ministries -- e.g. jute, textile and industry are all part of the economic and budgetry category 'industry' but are controlled by different ministries. The converse problem arises when economically and functionally diverse functions are placed under one administrative agency -- e.g. Board of Investment, Export Processing Zone, National Security Intelligence, etc. under the Prime Minister's Office. They represent respectively industry and commerce on the one hand and security on the other; and should be assigned different heads of account though administered by the same group of officers.

Division of major heads of accounts into minor heads or sub-heads represent the degree of centralization or decentralization both organizationally and financially. Different degrees of decentralization can be seen in the budget representing administrative judgements or preferences as to the level of organizational differentiation that should be reflected in the budget. For instance, health budget identifies allocation by institutions and hospitals; education ministry, having much larger number of colleges, does not go to the same length of organizational differentiation.

In recent years there have been generous allocations under three heads or 'labels' -- namely unexpected expenditure, extra-ordinary charges and block allocation. All of them need careful examination. The C & AG clarified that 'unexpected head' is not a service head of account -- which simply means that no expenditure can be shown in government account under this description. The government allocates specific sums to various service accounts from the allocation for unexpected expenditure. The parliament makes grants for specific service accounts. The discretion used by the government to spend in excess of grant by the parliament or for services for which no grant exists in the approved budget weakens parliamentary control on how the government spends public money.

Extra-ordinary charges are incurred when the government has to spend money on purposes which could not be forseen, which are not recurrent in nature and are exceptional in character. Any expenditure which do not conform with these criteria can hardly be called extra-ordinary. The Constitution authorises the parliament to make "an exceptional grant which forms no part of the current service of any particular year" [Article 92(1)(c)]. There is no service head of account explicitly corresponding with this particular constitutional provision; presumably, extra-ordinary charges should be used for this type of grant.

The ADP and development budget make generous provision labelled as 'block allocation'. Simply, this indicates that a sum of money is available but the purpose of expenditure is not made explicit. A part of the amount is made available for taxes (i.e CD & VAT) and new aided projects which would be taken up when aid agreements are finalized; the first represent genuine estimation weaknesses and the latter weaknesses in programming and complexity in aid negotiation. Some amount is allocated for land acquisition which represent uncertainty as to the time taken for acquisition as well as in anticipating land price. A substantial amount is allocated for new projects financed entirely by government's budgetary resource and deficit. Allegedly much of this expenditure is chosen on political consideration. 'Block allocation' is not a head of account approved by C & A.G and thus such budgetary provision infringes on the principle of financial accountability of the government. This also violates the principle of 'destination' which underlies parliamentary control over expenditure of public money; when the parliament makes a grant, it specifies the purpose for which the money will be spent -- i.e. the destination of the proposed expenditure.

Budget Preparation and Budget Cycle:

The Finance Division is responsible for preparation of the budget and its submission to the Parliament. The Finance Division receives estimates of expenditure from all the spending agencies of the government and estimates of receipts. These estimates are discussed, finalized and then consolidated into the budget presented to the parliament. The time prescribed for this process -- described also as the budget cycle -- covers about eight months; in practice, with slippage it may extend nine months or slightly longer. Sometimes discussions are left incomplete because no more time is available; the threads are picked up and continued through the financial year, though. A typical budget calendar or budget cycle is shown below.

a)	Printing and distribution of budget estimation forms to estimating/controlling authorities.	end-August
b)	Distribution of forms to the Controller General of Accounts for obtaining reports of actual expenditure for three months and estimates.	end-September
c)	Receipt of forms incorporating information from estimating/controlling authorities by Finance Division	end-October
d)	Receipt of information from C.G.A. by Finance Division	end-January
f)	Distribution of first edition of budget to other Ministries by Finance Division (i.e. Finance Division's estimates of the revised requirement for the year and for next year)	mid-February
g)	Budget discussions with Ministries/Division etc.	March through early/mid April.
h)	Finalization of budget.	Mid/late April

The budget estimation process starts on the basis of the first three months expenditure. At the time of budget discussion data on expenditures for six months are available; in some cases more upto-date data are available, which are not always confirmed by the Chief Accounts Officers. Estimation of expenditures on the basis of actual expenditures incurred during the first three or six months can at best reflect the needs of a routine and predictable nature; they cannot adequately capture seasonality or lumpy expenditures, the latter having a tendency to cluster towards the end of the year.

Estimation of expenditures for the next year follows basically an incremental method - i.e. given the structure and size of a government unit and the activities that it performs, upward adjustment of expenditure is made on the basis of some historical trend, increases in personnel cost, and admission of some new activities or expansion of the existing activities of a minor nature. Major changes in allocation of resources are associated with policy decisions. Ideally, all decisions involving significant expenditure should be taken after considering carefully the financial implications and sustainability; the principle is more honoured by breach. In case of some categories of expenditure, entitlements or the units are defined in commodity-quantity terms; allocations need to be adjusted for price increases in all these cases, though not always so done. Budgeting on the basis of some 'physical volume' becomes difficult in times of fiscal constraint and rising prices: if there is not enough revenue the government may be forced to raise public debt; at the time of price rise higher government demand may stoke further the price spiral; and finally, it has the effect of indexing public expenditure.

Preparation of expenditure budget under resource constraint may produce immediate expenditure 'displacement' and expenditure 'compression' effects and subsequently a problem of 'catching up'. Allocation may not be adequate even for all genuine demands or needs; some of the needs are then displaced in favour of others within the context of the overall compressed expenditure budget. The purposes or services which receive inadequate allocations tend to deteriorate; restoring them to the required level of efficiency and maintenance would require more resources in the subsequent period. The "catching up" problem rises presumably while the resource shortage continues. Assets already built deteriorate fast because of inadequate maintenance; the cost of rehabilitation or rebuilding most often exceeds the capitalized value of maintenance neglected.

The budget prepared by the Finance Division is based on estimates and demands received from the Ministries/Divisions and the estimating authorities. The Finance Division checks the correctness of the estimates, admissibility of new and additional demands, consistency in estimates and demands common to several spending units, and finally "affordability" of the total demand for expenditures received from the various units. The Finance

Division has some notion of the total expenditure which can be financed by the projected revenues, relative priorities of the various sectors and demands, and how balance among them can be achieved within the context of political-administrative decision making process.

Domestic Resource Mobilization:

Domestic resource comprises tax revenues (custom, income tax, VAT, excise, other minor taxes); non-tax revenues (profit/dividend from public enterprises; fees and rates charged; etc.). Trade related taxes still constitute the major portion of the total government revenues. Estimates of revenue receipts are done concurrently with estimates of expenditure. The need for additional resources are established after expenditure estimates are finalized. The balance between the two is maintained on pragmatic consideration. Taxes have a low elasticity which have been showing a downward trend; so the government have had to take discretionary measures to raise more revenues. Such discretionary measures may meet the short term need for additional resources but tend to create greater distortions. Tax administration also is weak allegedly. A broad-based and elastic tax system is likely to address better the long-term needs of the economy by reducing the distortions and loopholes.

The relationship between tax and expenditure needs to be recognized for improving overall performance of the economy as well as improving revenues of the government. Revenues collected by the government have contractionary effect on the economy which can be offset by reallocation of those resources for growth/development supportive expenditures. On the other hand, if tax revenues are reallocated to expenditures whose growth/development impact is insignificant or non-existent, over time a fiscal crisis is likely to occur: the economy stagnates while the government needs more resources; so the government may have to "extort" more money from the economy which would further worsen the situation; or it may have to turn increasingly to external assistance which deepens dependence on aid and future burden of debt repayment.

The performance of public enterprises has been anything but satisfactory. Except for the financial instituions and a few public sector corporations (e.g. BCIC), very little contribution is received from the public corporations. Among the financial instituions, the contribution by the Bangladesh Bank has been by far the largest, which results only incidentally from the central bank's policy driven interventions. The manufacturing public enterprises continue to lose large sums, requiring frequent capital restructuring and equity infusion by the government. The public sector enterprises which make contributions to the government's resources -- such as telecommunications and petroleum trade -- in most cases have monopoly positions and follow administered prices.

External Assistance:

Foreign aid, received as grants or concessional loan from multilateral agencies or bilateral sources, provides the bulk of the resources for financing the development programme. Commodity and food aid provides balance of payments support and the sale proceeds are used to supplement government's own resources for meeting local cost components of development programmes. Aid is a non-inflationary method of meeting the gap between revenue and expenditure on the one hand and between export and import on the other hand. It helps maintain macro-economic balance.

The Government had structural adjustment programmes under SAF and ESAF during 1980's which continued into 1990's. The major aims of the programmes included stabilization, sustainable public expenditure and balance of payments positions, adequate growth and poverty alleviation. The macroeconomic objectives were supplemented by sectoral adjustment measures some of which pre-date SAF/ESAF and have been carried on further during the adjustment programmes. While stabilization goals of adjustment programmes were achieved, growth objectives were not met which stagnated at the historical low trend around five percent annually.

During the 1980's policy reforms have been in the forefront of donors' aid policy , signifying a shift from the earlier predominantly project aid approach to programme and policy based lending which tries to address distortions of the economy and improvement/stability of policy environment. Conditionalities, not always an "unmitigated bad", have been criticized on non-economic grounds (e.g. erosion of sovereignty; imposition of donors' concept of "good society"; etc.) as well as economic grounds (e.g. it applies undifferentiated prescriptions ignoring the structural peculiarities and problems specific to the country). The emphasis on policy reforms and institutional capacity enhancement is predicted to grow stronger in future.

The macro-economic rationale for aid is closing the gap between domestic saving and investment (required investment being larger than saving) on the one hand and export and import (import exceeding export) on the other hand. Closing the gap between government revenue and expenditure was not explicitly recognized as an argument in the case for foreign aid. However, the government turned out to be the major recipient and user of aid for two reasons. First, the developing countries required large public investment which exceeded their taxation capacity as well as domestic saving. The government also engaged in many activities which could be taken up -- and perhaps done better-- by the private sector such as supply of energy, distribution of agricultural inputs, large industries beyond the investment and managerial capacity of nascent local entrpreneurship, etc. Secondly, donors had to deal with national governments and could not lend to anyone else directly. These perceptions are changing fast: the economic role of the government will shrink and progressively be confined to regulation and policy; the private sector will play a larger part including activities which fall in the grey zone of congested public goods, club goods, etc.; private foreign investment will increase. In the changing context, the government may have to act more as a conduit for transfer of money to the private sector and facilitator of private flows. We are not yet prepared to play effectively those new roles; unless these capacities increase, both flow and absorption of foreign resource are likely to suffer.

Development Programme:

The Planning Commission is responsible for preparation of the development prorgramme and scrutiny of the viability of the projects. In the recent years there have been procedural changes shifting the responsibility of examining the projects from the Planning Commission to the administrative Ministries. ECNEC approves project concept papers; the details of the projects developed on the basis of the approved concepts are considered and approved by DPECs--an inter-ministerial committee headed by the secretary and including representatives of several ministries and agencies (e.g. Finance Division, Planning Commission, IMED, ERD, etc.). The planning and programming capability of the administrative ministries have not been enhanced matching their new responsibility. The new procedures may help accelerate approval of projects. However, unless the planning capacity of the ministries is enhanced, they will not be able to ensure good quality of projects.

The Planning Commission has been preparing Three-Year Rolling Investment Programme (TYRIP) since 1990-91. The fifth and the latest TYRIP covering the period 1995-97 was issued in October 1997. The aim of TYRIP is to match development expenditure programmes to 'resource envelope' -- a learned name for the amount of resource available. It tried to combine fiscal discipline in terms of limiting expenditure to available resource with a degree of flexibility in choice of projects. The programme can be reviewed every year and new projects included, provided that the resources are not spread too thin resulting in time over-run and associated cost over-run. Some flexibility for inclusion of new projects is justified in that the government agencies may come up with good project ideas during the course of an on-going TYRIP or new needs may arise. However, it seems that TYRIP has not been effective enough in establishing fiscal discipline.

The government announced the "Participatory Perspective Plan for Bangladesh 1995-2010" (PPPB) in July 1995. It emphasizes participation by broad groups of people in preparation as well as implementation of development programmes. The long term perspective plan sets out a 'vision' for Bangladesh and the potential for growth. It differs from the conventional programmes or plans that we are familiar with in that it does not identify specific projects. Realization of the long term goal and vision would require specification of policies, strategies and programmes in the years to come. Pursuit of long term goals, however, requires broad societal consensus on both objectives and strategies in addition to appropriate institutions. On all these counts, the government has yet to do a lot.

As in the past, the government still prepares Five Year Plan (FYP) and some programmes for realization of the goals set in the Plan. TYRIP and PPPB have shifted attention away from the Five Year Plans; and in any case -- with other plans and investment programmes in place -- FYP no longer enjoys its earlier importance.

Co-ordination of Budget:

The budget seeks balance among the following elements: between programme of expenditure including development outlay and total resources available for financing the same; between domestic resources and external assistance; between allocation of resources for current expenditure and development outlay; within the revenue budget among allocations to different service accounts and items of expenditure; and within the development programme the allocation of resources among the various sectors and projects. Within the revenue budget the priorities are based on some implicit assumptions, not necessarily wide off the mark because they are not based on explicit formal and technical criteria. The priorities of the development programmes are based on more formal and explicit technical criteria (e.g. social accounting matrix tracking inter sectoral linkages and flows; technical co-efficient; input-output tables which may be badly dated; benefit-cost analysis).

A Budget Monitoring and Resources Committee (BMRC), headed by the Minister for Finance, provides a formal institutional structure for coordination of the overall resources and expenditure programmes of the government. The committee includes representation from the major ministries and government agencies having critical roles in the overall performance and management of the economy (i.e. Finance Division; Internal Resources Division; Ministry of Commerce; Ministry of Industry; Ministry of Food, Bangladesh Bank; Programming Division and General Economics Division of the Planning Commission; Ministry of Planning; Tariff Commission). The BMRC is assisted by a Technical Committee (TC/BMRC) headed by an Additional Secretary of the Finance Division (responsible for budget and expenditure control) and includes representatives of Planning Commission (GED & Programming), IMED, NBR, Ministry of Food, ERD, and Bangladesh Bank.

The Government set up a Council Committee on Finance and Economic Affairs chaired by the Minister of Finance which includes, among others, the Ministers for Planning, Commerce, Industry, Agriculture, Food, etc. The Committee met more often than most other Council Committees (except ECNEC & Purchase Committee) during the last few years. The Committee reviews broad areas of economic policies including fiscal operations and monetary policies.

Skills and Behavioral Aspects of Budget Preparation:

The budget has two dimensions: technical-accounting aspect and a policy-judgment aspect. The technical aspects need skills which is acquired over time by training and application. The policy judgmental aspects are the more critical elements of the budget which reflect government policies as well as their impact on the performance of the economy and behaviour of economic agents. Technical analysis contributes to but is not a perfect substitute of judgement.

The preparation of the budget requires decisions on details -- sometimes every minor detail -- which together constitute the fiscal instruments for implementing government policies and realizing the declared objectives. Formal technical analysis are not always available; while such analysis may be done on the major issues, the minor details are not amenable to such analysis; and even if that were possible it would be too expensive and time consuming. (USA abandoned PPBS because of the enormous demands for data and analysis). Whoever prepares the budget needs to have a "feel" of the relationship between policies and the macroeconomic objectives on the one hand and the host of the small decisions on the other hand. Denis Healy described it as 'budget judgement'. Such a "feel" develops through experience and is enriched by familiarity with the formal/technical literature and interaction with the economic agents.

An excessive pre-occupation with expenditure control forgetful of the qualitative aspects of resource allocation and resource redirection may result in certain budgetary malfunctions. For instance: if aggregate expenditure is not maintained at an adequate level and appropriately distributed, the economy may get into a recessaionary situation and may cumulatively deplete the economy's capacity for growth or development.

Preparation of budget, particularly choice of taxation measures and expenditure control, makes tremendous demand on the time, energy, patience and skills of the persons involved in budgeting which creates a kind of inter-personal relationship or "comraderie" over-riding hierarchical relationship. On the other hand, those from the spending agencies who are aggrieved because all their demands were not met eventually reconcile to the "budget decision" as something unavoidable. Arbitrary decisions by the budget makers help little to resolve the differences with the spending agencies. The latter have a better understanding of the technicalities of their operation and the social benefit they generate. The makers of budget gain by sharing their perception and knowledge. In the final analysis, a budget enriched by the departmental knowledge of the technical details and economic judgement of the Finance Ministry does the nation better than an arbitrary cap on expenditure imposed by Finance Ministry.

Preparation of budget involves technical skills, administrative capacity as well as political judgments. Even a minor official who participates in budget preparation has to have these skills and be sensitive to administrative and political judgements. They can not perform their task unless they enjoy the confidence of the government, have the political support, and have perception of the genuine policy obligations of the Government. It is important to make the distinction between 'partisan obligation' and 'policy obligation'.

Conclusion:

Public finance stands at the juncture of economics and politics. In a stable world where the government performs a narrow range of functions of the 'classical liberal state', the task is relatively easy. In a world which is exposed to shocks and instability and the government undertakes a much wider range of functions aimed at accelerated growth of the economy and well being of the citizens, the task gets much more complicated. The government has to meet those economic goals -- which transform into 'values', so to say -- as well as certain political norms of democracy and civil society. The art of budgeting thus requires a wide range of both technical competences and judgements. Accounting balances are only the bricks and mortar of bugeting; the architecture which places budget in the context of poitical macroeconomic framework is much more complex and challenging.

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Classification of the Functions of the Government of Bangladesh

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Introduction

Government of Bangladesh is a large and complex institution discharging a wide range of functions through its ministries and their component organisations. The Government is basically a spending institution and for ensuring accountability and transparency of the expenditures and judging their efficiency, an analysis of the expenditures by functions is required. An analytically meaningful tool is available in the Classification of the Functions of the Government (COFOG) developed by the UN Statistical Office and incorporated in the IMF Manual on Government Financial Statistics. This paper presents a preliminary compilation of COFOG of the GOB (Government of Bangladesh) as a part of a broader analysis of its performance. Method of compiling the COFOG, data sources and the significance of the findings are also briefly discussed.

Compilation of the COFOG - Boundary of the Government

In compiling COFOG two steps are necessary- defining the boundary of the Government and COFOG format. Following SNA (System of National Accounting) or the IMF Manual we can define the boundary of the Government of Bangladesh in two ways - as General Government or the Central Government. General Government consists of :

- The Central Government Units
- Local Government Units and
- NPIs (Non- Profit Institutions) largely financed and controlled by the Central Government or Local Government Units.

Similarly , Central Government consists of :

- The Central Government Units and the
- NPIs financed and controlled by the Central Government Units

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The Public Corporations set up and owned by the Government are excluded from the boundaries of the Central or the General Government as defined by the SNA or the IMF Manual. So also are the so called Departmental enterprises such as Railway, Posts and T&T Departments. The Financial or the Non-Financial Public Corporations as well as the departmental enterprises like the Railway, Posts and T&T belong to either the financial or the non-financial corporate sectors of the total national economy. The Government NPIs include the Public Universities, Bangla Academy, Islamic Foundation, BARD and such other bodies.

For our purpose we shall present COFOG for the Central Government of Bangladesh as defined above so that the Public Corporations and departmental enterprises like Railway, Postal Department and T&T Board are excluded from our analysis. Currently, the Central Government of Bangladesh consists of a large number of ministries, divisions, departments or groups of smaller units appropriately termed as cost centres. According to the Functional Classification recently developed by the RIBEC 2A (Reforms in Budgeting and Expenditure Control Phase 2A) the Central Government of Bangladesh consists of 38 Ministries, 53 Divisions or division-like organs and nearly 425 Departments or cost centre groups. Central Government NPIs number around 60.

Structure of the COFOG - COFOG categories

Operationally, COFOG is a matrix or a two-way classification of the total Central Government outlays by the following nine basic economic transaction categories :

- Central Government final consumption expenditures of which compensation of employees component shown separately
- Gross capital formation
- Subsidies
- Property income
- Other current transfers
- Capital transfers
- Expenditures on securities other than shares
- Loan expenditures
- Expenditures on shares and other equity

It should be noted that Government consumption expenditure is a national accounts concept related to output of Government activities. In SNA, Government is regarded as a non-market producer with no operating surplus in its output. SNA values the output of Government units by the sum of the costs incurred in their production i.e. by the sum of :

- Total intermediate consumption
- Compensation of employees
- Consumption of Fixed Capital (CFC)
- Taxes less subsidies on the production of the Government units, if any

Intermediate consumption can be obtained from the economic transaction flows covering supplies and services and repairs and maintenance. Compensation of employees is obtained by aggregating transactions under pay and allowances. Currently there are no taxes or subsidies on the production activities of the Central Government units defined earlier. The CD and VAT paid by the Government units on the imported vehicles or equipment are not taxes on production.

Consumption of Fixed Capital is a vexatious item. It is an internal accounting item. Since the basis of Government accounting is the conventional cash accounting, CFC is usually omitted in Government accounting. However, for national accounting, which is based on accrual accounting, the item is relevant . For the purpose of COFOG, consumption of fixed capital will be equivalent to replacement cost in current prices of the amount of the gross fixed capital used up in the process of production of the government output and the item is imputed on the basis of systematic identification and valuation through PIM (Perpetual Inventory Method) of the capital assets owned by the Government units.

Final consumption expenditures of the Central Government units are obtained by deducting the value of the market output from the value of the total output that includes imputed value of CFC. This also ignores the value of Central Government output for its own final consumption which is a new item in national accounting and consists primarily of the imputed rental of office buildings owned and occupied by the Central Government units.

The value of the market output is given by the receipts from the market products identified from the following groups of Government transactions:

- Receipts for the services rendered

- Administrative fees and charges
- Non-commercial sales
- Irrigation receipts
- Defence and other similar departmental receipts

Total final consumption expenditure is thus given by the sum of pay and allowances, supplies and services, repairs and maintenance and imputed value of CFC used up in the generation of Government output. In absence of CFC estimate, the final consumption expenditures are considered to be in net term.

Of the other COFOG categories, property income payable by the Central Government consists of payment of interest on public debt and includes payment of interests on domestic term (permanent) debt, floating debt , national savings and provident fund, interest on foreign debt and interest on other obligations.

In SNA practice , subsidies are current unrequited transfers towards production, sale or import and can only be made by the Central Government (through of course its component units or ministries) and to enterprises only and consist of subsidies and state enterprises deficits (if the latter are not already categorised as subsidies).

Other current transfers of COFOG consist of subscriptions or contributions to international organisations, grant in aid to financial institutions, grant in aid to non-financial public enterprises, grant in aid to local bodies, pension and gratuities and other transfer payments.

COFOG category loan expenditures consist of payment of cash development loans, cash non-development loans, on-lent foreign loans, advances to Government employees and repayments of public debts- both domestic and foreign.

Capital transfers are basically capital or investment grants made to the Public financial and non- financial corporations, local bodies and are an important part of investment discipline, since capital grants can be used by the recipients only for investment and no other purposes.

The COFOG category of gross capital formation is an extended concept and consists of net acquisition (net of disposal) of three categories of assets:

- Gross fixed capital formation (GFCF) by the Central Government units
- Change in the Central Government Inventories
- Acquisition less disposal of non- produced non - financial assets (both tangible and non-tangible)

Although GFCF is largely captured by capital expenditures aggregated from transactions under acquisition (net of disposal) of assets and construction and works, some adjustments are required in order to conform to SNA practice. For example , SNA regards construction of buildings for use by military personnel including hospitals, schools ,roads, bridges ,airfields, docks etc. for use by military establishments as GFCF, while military weapon system including delivery system is regarded as intermediate consumptions. Expenditures on weapons, armoured vehicles etc. acquired by the Police, BDR and Ansars are however, regarded as GFCF, while such expenditures by the military establishments are treated as intermediate consumption.

Changes in inventories held by the Central Government units are part of Central Government Capital Formation and include changes in inventories not only of strategic commodities (such as food grains, salt etc.) but also office supplies and other materials. Changes in inventories are usually an internal accounting item in the Government units.

Acquisition less disposal of valuables is a new item that SNA includes in gross capital formation and consists of acquisition less disposal of paintings, sculptures, other valuables such as gems, jewelleries, artefacts etc. acquired by the Central Government Museums and Art Academies in particular.

Acquisition less disposal of non- produced non- financial assets includes acquisition less disposal of land and other non- produced assets such as sub- soil assets and intangible non- produced assets such as patent rights, leases, transferable contract etc. Land in SNA is rather widely defined as the ground itself including soil covering and associated water, but excluding buildings on the land or subsoil assets. Improvement of land and cost of ownership transfer are ,however, regarded as components of GFCF.

COFOG matrix

The COFOG matrix or the two- way COFOG classification can now be obtained by distributing the nine categories of the Central Government expenditures described above among fourteen major functional groups into which the various functions of the Central Government can be broadly apportioned. Of the fourteen groups, thirteen are related to the various functions of the Government discharged through the ministries. The fourteenth allows for recording expenditures not related to any of the functional groups such as payment of interests, repayment of loans etc. The major functional groups can be identified as follows:

1. General Public Services
2. Defence affairs and services
3. Public order and safety affairs
4. Education affairs and services
5. Health affairs and services
6. Social security and welfare affairs and services
7. Housing and community amenity affairs and services
8. Recreational, cultural and religious affairs and services
9. Fuel and energy affairs and services
10. Agriculture, forestry, fishing and hunting affairs and services and rural development
11. Mining and mineral resources affairs and services other than fuels, manufacturing affairs and services and construction affairs and services
12. Transportation and communication and services
13. Other economic affairs and services
14. Expenditures not classified by major groups above

Because of the varying pattern of the prevailing distribution of functional responsibilities among the ministries, some adjustment is necessary to conform the existing ministries to the COFOG major functional groups as above. Such adjustments are usually carried out through what is known as bridge table that bridges or conforms the existing distributions of ministerial units to the COFOG functional groups. Adjustments are necessary for both mono or multi - functional ministries. For example, to conform the defence ministry to the defence affairs and services of the COFOG, organisations like Survey of Bangladesh, Meteorological Department, Cadet Colleges need relocation - the first two to the General public services group and the third to Educational affairs and services and similarly for other ministries and divisions of the Central Government. Similarly, to obtain total expenditures on education affairs and services, primary education division, which is under the administrative control of Prime Minister's office, needs to be assigned to the ministry of education so that its expenditures are captured under education.

Compilation of the COFOG - data sources

The basic sources of data for compiling COFOG of the Government of Bangladesh are the annual budget documents of the Government and include both the revenue and development budgets. Since COFOG uses actual expenditures rather than budgetary allocations, availability of actual expenditure figures by ministries or divisions poses a major problem , particularly with respect to development expenditures. Revenue budget provides actuals or near actual figures with respect to expenditure flows covered by the revenue budget with an in- built lag of two years. As the development budget provides no such indicators with respect to the development expenditures, a major exercise in compiling COFOG of the GOB relates to assembling of actual development expenditures ministry by ministry for the relevant years for which compilation of the COFOG is undertaken. Extraction of the GFCF components as well as the transfer flows from the aggregate development expenditures is another problem. The reform process that is being carried out through the RIBEC 2A is likely to reduce the problems through putting the budgets on a new classification system and introducing reformed budget formats.

Discussion of the results

COFOG compiled for selected years i.e. 1989-90, 1991-92 and 1993-94 are presented in the annex. We now discuss some of the key findings of the compilations. The compiled COFOGs show trend and composition of GOB expenditures according to broad functions. On the whole, excluding expenditures not classified by major groups, defence and public order expenditures are the largest components of GOB expenditures accounting for nearly 18% of the total annual expenditures. Education and General Public service expenditures rank second and third respectively.

As regards broad trends in the aggregate expenditures, COFOGs record that the total GOB (Central Government) expenditures covering both current and capital accounts amounted to around Taka 9500 crores in the base year of 1989-90 and to around Tk 14500 crores in 1993-94 . This showed an increase of more than 55% in nominal terms in four years or an annual increase of around 12%. In real terms i.e. allowing for the general price rise , the rate of annual increase was around 8 %.

The two components- compensation of employees or pay roll and interest payments account for bulk of the increase. Compensation of employees increased by almost 60% and interest payments by 80% during the period under review.

As proportion of total expenditures, both CE and interest payments , however , increased slightly ; CE to around 23% in 1993-94 from around 22% in 1989-90 ,while interest payments increased to around 9% in 1993-94 from 8.5% in the bench mark year.

Apart from goods and services or the contingency items consumed, Current Transfer and subsidies, mostly to corporations constitute the other two main components of the GOB current expenditures accounting for around 20% of the current expenditures. Goods and services or the contingencies account for around 25% of the total current expenditures.

Of the capital expenditures, gross capital formation expenditures seem to have stagnated around 20% of the total expenditures in the years for which COFOG was compiled. Amortisation or repayment of loan principal, the other major component of capital expenditures showed an increasing trend in the period covered accounting for around 20% of the total expenditures in the terminal year.

Conclusions

If compiled regularly , COFOG can be a powerful tool in analysing the trend and composition of the total GOB expenditures. Compilation of the COFOG however, highlights the basic data problems . Non availability of actual expenditure figures and absence of meaningful economic classification of the development expenditure flows are two of the basic problems that stand in the way of speedy compilation of COFOG of the GOB expenditures. The reform process in budgeting and expenditure control currently carried through RIBEC 2A is likely to improve the GOB budgetary data generation environment in due course so that compilation of COFOG can in the future become a routine process.

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Annexes - Compiled tables of COFOG for selected years

Classification of the Functions of the Government of Bangladesh

CLASSIFICATION OF TOTAL OUTLAYS OF THE CENTRAL GOVT. BY FUNCTION (Revenue & Non-Auto) for the year 1989-90

File name ; FOG 90. # New

(In million Taka)

Categories of COFOG	Final consumption expenditure		Gross Capital Format	Subsidy	Property income (interest payment)		Current transfers		Capital transfers	Security other than shares	Loans		Shares & other equity	Total
	Total	Of which CE		Corp. & others	Domestic	Foreign	Other	Food			Domestic	Foreign		
	P3	D1	P5	D3	D4		D7		D9	F3	F4		F5	
1. General public services	8450	3757	202	0	3357	3903	3112	0	0	0	0	0	0	19024
2. Defence affairs & services	8311	2775	2766	0	0	0	3	0	0	0	0	0	0	11080
3. Public order & safety affairs	4856	3152	698	0	0	0	4	278	0	0	0	0	0	5836
4. Education affairs & services	6375	6061	2571	0	4	0	4496	0	4	0	0	0	0	13450
5. Health affairs & services	2989	2451	2043	0	0	0	1206	0	1	0	0	0	0	6239
6. Social security & welfare affairs & services	491	308	322	0	0	0	66	0	11	0	0	0	0	890
7. Housing & community amenity affairs & services	1970	543	2453	0	63	0	17	0	156	0	0	0	0	4659
8. Recreational culture & religious affairs & services	169	39	203	0	0	0	117	0	2	0	0	0	0	491
9. Fuel & energy affairs & services	10	7	18	0	0	0	0	0	0	0	0	0	0	28
10.Agri., For, Fish & Hunt affairs & services	1724	1372	1394	105	10	0	213	0	1	0	0	0	0	3447
11.Mining & Mineral resources, other than fuels, manufacturing affairs & services & construction affairs & services	134	80	1375	0	0	0	145	0	60	0	0	0	0	1714
Mining & Mineral	134	80	104	0	0	0	143	0	3	0	0	0	0	384
Industry	0	0	169	0	0	0	0	0	50	0	0	0	0	219
Rural development	0	0	1102	0	0	0	2	0	7	0	0	0	0	1111
Flood control & com. services	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12.Transportation & communication & services	2086	363	5141	0	0	0	87	0	157	0	0	0	0	7471
13. Other economic affairs & services	310	241	10	0	0	0	592	0	0	0	0	0	0	912
14. Exp. not classified by major group	5711	0	0	2006	0	0	0	5910	0	0	370	6671	0	20668
TOTAL	43586	21149	19196	2111	3434	3903	10058	6188	392	0	370	6671	0	95909

CLASSIFICATION OF TOTAL OUTLAYS OF THE CENTRAL GOVT. BY FUNCTION (Revenue & Non-Auto) for the year 1991-92

File name ; FOG 92. # New

(In million Taka)

Categories of COFOG	Final consumption expenditure		Gross Capital Format	Subsidy	Property income (interest payment)		Current transfers		Capital transfers	Security other than shares	Loans		Share & their equity	Total
	Total	Of which CE		Corp. & others	Domestic	Foreign	Other	Food			Domestic	Foreign		
	P3	D1	P5	D3	D4		D7		D9	F3	F4		F5	
1. General public services	6192	4204	396	0	10385	0	8468	0	0	0	0	0	0	25441
2. Defence affairs & services	9703	3240	3231	0	0	0	3	0	0	0	0	0	0	12937
3. Public order & safety affairs	6500	4205	417	0	0	0	0	0	0	0	0	0	0	6917
4. Education affairs & services	8185	7888	1020	0	0	0	5395	0	37	0	0	0	0	14637
5. Health affairs & services	3534	2918	3908	0	2	0	79	0	0	0	0	0	0	7523
6. Social security & welfare affairs & services	575	380	288	0	0	0	80	0	41	0	0	0	0	957
7. Housing & community amenity affairs & services	2100	732	1640	0	0	0	0	0	54	0	0	0	0	3794
8. Recreational culture & religious affairs & services	72	44	195	0	0	0	280	0	2	0	0	0	0	547
9. Fuel & energy affairs & services	10	9	39	0	0	0	0	0	0	0	0	0	0	49
10. Agri., For, Fish & Hunt affairs & services	1904	1520	1570	447	147	0	171	0	8	0	0	0	0	4247
11.Mining & Mineral resources, other than fuels, manufacturing affairs & services & construction affairs & services	138	108	3074	0	11	0	161	0	18	0	0	0	0	3402
Mining & Mineral	138	108	72	0	2	0	157	0	3	0	0	0	0	369
Industry	0	0	51	0	5	0	0	0	0	0	0	0	0	56
Rural development	0	0	2951	0	4	0	4	0	18	0	0	0	0	2977
Flood control & com. services	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12.Transportation & communication & services	2371	506	6686	0	0	0	130	0	0	0	0	0	0	9269
13.Other economic affairs & services	409	330	40	0	0	0	617	0	0	0	0	0	0	1066
14.Exp. not classified by major group	6287	0	0	2300	0	0	0	3416	0	0	615	7481	0	20099
TOTAL	47980	26084	22504	2747	10627	0	15384	3416	131	0	615	7481	0	110885

CLASSIFICATION OF TOTAL OUTLAYS OF THE CENTRAL GOVT. BY FUNCTION (Revenue & Non-Auto) for the year 1993-94 (B.E)

File name ; FOG94. #New

(In million Taka)

+	Final consumption expenditure		Gross Capital Format	Subsidy	Property income (interest payment)		Current transfers		Capital transfers	Security other than shares	Loans		Share & their equity	Total
	Total	Of which CE		Corp. & others	Domestic	Foreign	Other	Food			Domestic	Foreign		
	P3	D1	P5	D3	D4		D7		D9	F3	F4		F5	
1. General public services	10866	5755	476	0	0	0	4943	0	0	0	0	0	0	16285
2. Defence affairs & services	12193	4071	4060	0	0	0	4	0	0	0	0	0	0	16257
3. Public order & safety affairs	7893	5628	388	0	0	0	19	0	0	0	0	0	0	8300
4. Education affairs & services	10174	9763	507	0	12	0	8061	0	2	0	0	0	0	18756
5. Health affairs & services	4482	3787	6921	0	16	0	267	0	31	0	0	0	0	11717
6. Social security & welfare affairs & services	709	477	186	0	0	0	83	0	2	0	0	0	0	980
7. Housing & community amenity affairs & services	2132	968	1222	0	26	0	0	0	11	0	0	0	0	3391
8. Recreational culture & religious affairs & services	122	74	124	0	0	0	337	0	2	0	0	0	0	583
9. Fuel & energy affairs & services	13	11	0	0	0	0	0	0	0	0	0	0	0	13
10. Agri., For, Fish & Hunt affairs & services	2228	1874	2893	411	5	0	350	0	5	0	0	0	0	5892
11. Mining & Mineral resources, other than fuels, manufacturing affairs & services & construction affairs & services	156	126	6016	0	232	0	179	0	82	0	0	0	0	6665
Mining & Mineral	156	126	2	0	0	0	179	0	0	0	0	0	0	337
Industry	0	0	31	0	5	0	0	0	0	0	0	0	0	36
Rural development	0	0	5983	0	227	0	0	0	82	0	0	0	0	6292
flood control & com. services	0	0	0	0	0	0	0	0	0	0	0	0	0	0
12. Transportation & communication & services	3236	707	5564	0	56	0	123	0	46	0	0	0	0	9225
13. Other economic affairs & services	3268	399	170	0	3	0	1090	0	0	0	0	0	0	4531
14. Exp. not classified by major group	8329	0	0	926	6949	5200	0	1104	0	0	2440	17710	0	42658
TOTAL	65801	33640	28527	1337	7299	5200	15456	1104	179	0	2440	17710	0	145053

COMMERCIAL ACCOUNTING - AN OVERVIEW AND THE RELEVANCE FOR THE BANGLADESH PUBLIC SECTOR

Mike Frazer *

Introduction

This short paper firstly outlines the actions undertaken by some countries in introducing commercial style accounts in their Public Sectors, and the variations in the approach being adopted. It then attempts to relate this process to the current position with regard to public sector financial control within Bangladesh.

Traditionally, government accounting internationally, has been a cash based accounting exercise, with all the revenue raised by taxes, aid or borrowing in a particular financial year being recorded as cash spent or transferred to reserves in that financial year. While there may be a division of the cash spent between recurring expenditure, revenue expenditure, capital expenditure or development expenditure, the end result in the government books is the same, all the cash allocated is spent or transferred.

In contrast, the commercial accounting sector does not treat any financial year as a finite cash spend entity, but introduces such concepts as money owed (debtors), bills due (creditors) and paying for the cost of capital employed (depreciation). These ideas aimed at establishing profit or loss figures for an accounting period, have only recently been addressed by governments as a possible alternative approach to government accounting.

The reasons that governments are now turning to this different way of accounting, are twofold-

- the changing management methods in the public sector with more services being 'contracted out' to the private sector and managers being given decision responsibility lower down the Civil Service hierarchy

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- a desire to actually see the 'worth' of the government, in terms of assets it owns, considering its value, not just what it spends.

In terms of benefits, the view is that the accounts of the government become more easily understandable and comparable with the private sector, and also the government is more accountable for what it does with tax payers money. Although it is important to understand that commercial accounting is not the driving force in these countries but it is more the significant tool used to monitor a more business like approach to government.

While from the commercial accountants' perspective this commercial treatment of government accounts seems an obvious method, the reality of application has proven difficult in some instances. It leads for example to questions about the value of assets and depreciation of them. The volume of assets, proper control of them and the adequate accounting procedures for writing down their value each year can prove a major logistical exercise for which public sector accounting systems are not equipped. Also the significant difference between the culture in public sector bodies and private sector enterprises leads to problems, for example a private sector company can buy a fleet of lorries and depreciate their value over a number of years, but in the public sector the same lorries may be bought by an Army Battalion, they may not last as long and also they can be destroyed in military actions, not something the commercial accountant normally has to deal with. One story circulating in a country that has introduced commercial style accounts to its public sector, is that, the airforce needs to crash a plane at least once a year, so that all the missing and problem assets can mysteriously be on the plane, thus allowing the books to balance!

How has the transition from cash to commercial accounting been undertaken?

The leading country in this whole area is New Zealand which started the initiative to move to commercial style accounts in government nearly 10 years ago. However, the New Zealand experience is in some ways less about accounting and more about giving control to public sector managers. These two elements go hand in hand and it was the managerial changes in

New Zealand that drove the accounting needs and not the other way round. Managers of government services were given a budget which did not just cover their cash spent on direct services but also all of the other 'support' services which they needed. So for example, if he or she used the Civil Service selection process to recruit staff, then payment was required for that service. Managers were given the freedom to buy those services from wherever they wanted which in some instances meant not using the traditional central Civil Service source for human resources, finance, etc.. This is a tremendous culture change in the way the public sector is managed, and one of the results of this increased managerial and accounting control at the user level in New Zealand has in fact been a quite significant reduction in the size of the Civil Service.

The risks in moving in one jump to the commercial accounting type model are significant. Managers who have been used to 'spending their cash allocation' now have to behave in a commercial way, handling cash flow, investing in the future etc.. There is a critical need for training of these new managers to handle their new responsibilities. One of the stories emanating from Australia, which followed the commercial approach for government accounting in a more staged way after New Zealand, was of an engineer in the outback who was given his new 'commercial budget' and encouraged to behave as a company would in the coming year. He spent all of his money on the roads, ignoring requests from the state for payment for equipment supplied, payroll services etc., and while that year the roads got better, his unit ended up effectively bankrupt. If education on the commercial management of funds does not take place in tandem with the changes, there is a risk that everyone could behave in such a way.

Other countries such as the UK have developed a more staged approach to commercial accounting in Government, or as it is known in the UK, Resource Accounting. Although the white paper on Resource Accounting in the UK is only just one year old and implementation is now commencing throughout the Civil Service, many parts of the UK Civil Service had already moved to 'commercial style accounts' by becoming what is known as "Next Step Agencies". These Agencies are still part of the Civil Service and in many cases still funded by parliamentary vote, but they also have to behave in a more accountable way. This includes having business plans, performance targets and commercial style accounts. Thus again the accounting changes are part of an overall managerial and resource control change.

The difference in the case of Agencies as compared to the full blown commercialisation of accounts that took place in New Zealand, is that in the main, the change to paying for support services is a gradual one. When the Agency is first set up, the charges that could be levied for central Civil Service support are treated by the Agency as 'notional charges'. This means that the cash allocation stays with the "centre", which works out the notional amount for each service they are providing, this is added to the Agency cash spent along with notional charges for depreciation, insurance etc.. The Cash Vote expenditure of the Agency is thus converted into the equivalent of commercial accounts, although there is not a Balance Sheet as there is no 'investment' or share capital.

As the life of the Agency progresses, more freedom on the purchase of 'notional charges' is negotiated. Initially this takes the form of Service Level Agreements between the centre and the Agency, setting out the service and the notional cost. Eventually the Agency is given the 'cash vote' that was formerly part of the centre's allocation and is thus in a position to actually buy the service as a 'hard charge'.

From the management perspective this approach allows the central support services a period of time to develop in a more commercial manner, thus helping them to retain the Agency business when the Agency actually has the cash. This perhaps is one of the reasons why the impact on the size of the Civil Service in the UK has not been as dramatic as the New Zealand experience.

Resource Accounting - progress in regional countries

Only about seven of the Western developed countries have progressed to any significant level with commercialising their government accounts. Other countries such as Sri Lanka, Nepal, Pakistan and India have not as yet taken any great initiative.

In the context of technically moving to Resource accounting there are really three groups -

1. Those who have advanced government accounting systems which can be amended and tailored to cope with Resource accounting.

2. Those who have technology which can undertake cash accounting but because of its age or lack of flexibility in design will not be upgradable to cope with Resource Accounting.

3. Those who have not a high technology base for their cash accounting system but are at a stage where they can 'buy' both for the near future cash accounting and also build in capacity for possibly future resource accounting.

The first group contains countries like India and Thailand, who have the technical capacity to change their systems. However, as already illustrated this is not just an accounting computerisation task but a change in culture. Bangladesh along with countries such as Nepal fall into the last category and in some ways are in a better position than those countries in the second group such as Sri Lanka which will have to replace existing computer systems because of their age and programming base. Nepal, like Bangladesh is really just starting on the computerisation of its cash accounting process and this position can be viewed technically as an opportunity, with 'no baggage' from existing older hardware and software platforms, to accommodate.

Even in developed countries the advent of powerful PC orientated tools has enhanced the introduction of Resource Accounting, and in the case of Bangladesh and Nepal, investment in this level of technology at this point in time, gives a solid platform to progress onwards if desired, from cash accounting to Resource Accounting in parallel with a cultural change in philosophy in the management of the Public Sector.

Where does the current government accounting process in Bangladesh fit into this scenario ?

At present the Government of Bangladesh operates a traditional cash accounting method. However, even within the present system there are difficulties in accounting fully for the cash spent. The difficulties associated with the manual accounting processes are further compounded by a lack of clarity and standardised approach in the classification of expenditure. This classification or probably more correctly termed Chart of Accounts, is the fundamental building block upon which any improved financial information must be based.

Commercial Accounting - An Overview And The Relevance For The Bangladesh Public Sector

One of the outputs of the Reforms in Budgeting & Expenditure Control Phase 2A (RIBEC 2A) project is a new classification structure for the National Budget. By definition this will also set in place the basis for a classification or Chart of Accounts for expenditure. Once this standard is in place and accounts are coded in a consistent manner between Departments and Ministries, then increased computerisation of the cash accounting system can take place.

Aspects of commercial accounting already take place within the public sector budget in Bangladesh, for example in the Railways, but the application of commercial accounting practices to the 'core' public sector

has not taken place. If the desire is there for this to happen then the two aspects of changing managerial culture and increased financial awareness must move together at the same pace. Take as an example the Dhaka Medical College (DMC). In terms of Resource Accounting this is the 'user', and under the new classification system the cash spent both from Revenue and Development Budgets in DMC in any one year can be identified. But this may not be the full cost of running the college. If some medical supplies are purchased separately by the Ministry of Health, they may be charged to DMC in a cash system, but the overheads associated with the Civil Servants in the Ministry of Health also represent part of the cost of these supplies. Similarly the cost of recruitment and training of medical and nursing staff, financial services such as payroll etc. may not be fully reflected in the accounts of DMC. In addition, if for example, a project in DMC includes equipment donation then this should be capitalised and depreciated to give the complete economic cost of operating the DMC.

The above illustrates a significant set of problems in accounting terms, but the proponents of Resource Accounting argue that the impact can also be significant for the end user of Government resources such as DMC. While medical staff may not be delighted with the thought of 'accountants taking over', their attitude may change when the allocation of resources comes under their control and savings made in one area can be used to fund say new equipment.

Conclusion

This paper has in some ways simplified aspects of Commercial Accounting in Government, for example how do you place a 'commercial value' on the land in front of the National Parliament, which is in commercial accounting terms an asset. However, it has hopefully illustrated what is happening in other countries and tied it into the current position in Bangladesh. In terms of where Bangladesh is on the 'ladder' of Resource Accounting, the new budget classification structure will place one foot on the first rung, and the computerisation of aspects of accounts will place both feet on the cash accounting rung.

How much further and how fast if at all, Bangladesh wishes to climb the ladder will then be an option. But as this paper has illustrated, the methods and approaches in other countries vary, and indicates that the New Zealand experience of moving several rungs up the ladder at once does not necessarily have to be adopted. The use of Agencies, notional

charges, service level agreements, etc. allow a more gradual and controlled movement towards Commercial Accounting in Government, if that is the way you wish to go.

Improving Budgeting and Expenditure Control System in Bangladesh : The ongoing Reform Agenda.

Golam Mustafa *

Reforms in Budgeting and Expenditure Control (RIBEC), the ongoing project of the Finance Division aims at establishing enhanced financial management in the public sector in Bangladesh. On completion of the reform agenda, it is expected that enhanced financial management will yield significant benefits in terms of better resource allocation and more effective monitoring and control of public expenditure. The ultimate purpose is to deliver the best possible value for money (economy, efficiency and effectiveness) in the raising and spending of public funds.

Background

Controlling expenditure against budget is a legitimate and fundamental role of public sector managers. The budgeting as well as the accounting system of the Government have remained traditional and archaic. Immediate reforms are needed in these areas for better management and utilisation of scarce resources. At the initiative of the Government of Bangladesh a Committee on Reforms in Budgeting and Expenditure Control (CORBEC) was formed to study the areas of weaknesses in budgeting and accounting systems. The committee in 1991 identified among others, the following areas of weaknesses.

Budgeting

- failure to identify a resource envelop within which expenditure decisions are taken in advance of the start of the budget process;
- failure to use budget as a major resource allocation tool by Ministries/Divisions;
- difficulty in identifying expenditure between revenue and development in a meaningful manner;
- cumbersome and complex presentation of budget information.

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Classification system

- difficulty in identifying and analysing data by either programme or responsibility,
- difficulty in identifying and analysing gross and net flow of funds to autonomous bodies and public enterprises
- not designed for computerisation.

Financial administration

- decentralisation and segregation of the auditing and accounting responsibilities of the government being in the halfway,
- financial rules and regulations not having been updated for long
- acute shortage of adequately trained personnel.

Accounting

- failure to produce up to date government accounts;
- failure to provide effective financial information;
- growth of other systems outside accounting for financial monitoring;
- inability to reconcile the government accounts with balances on government bank accounts.
- inadequate cash management resulting in sub-optimal resource allocation decision making.

Government's eagerness to remove these weaknesses led to the birth of the project 'Reforms in Budgeting and Expenditure Control (RIBEC)'. The British Overseas Development Agency (ODA) offered to finance it.

CORBEC was followed by RIBEC Phase 1 in 1993. It was a short term project. A diagnostic study to design implementation programme was made. On the basis of the recommendations made on that phase, Phase 2 of the Project started functioning from November 1994 (actual operation started from January 1995). It was a large and ambitious project of three years duration. The general objective of the Project at this phase was to upgrade budgeting, accounting, and expenditure control so as to:

- optimise resource allocation
- improve management of financial resources
- improve accountability and greater transparency

The following outputs in respective fields were accepted as means to achieve the objective:

Budget system

- Budget committees established in all ministries
- Resources available at the beginning of budget process
- Revenue and development budgets/ plans considered jointly
- Budget identifies gross and net flow of funds by sectors by 1997/8
- A measure of transparency in the flow of funds to and from parastatals

Accounting System

- Computer based system designed and implemented for financial year 1997/98
- Manual system changes introduced by FY 1997/98
- Food accounts system designed and implemented by End of Project (EOP)
- System for donor fund accounting designed and implemented by EOP
- Bank reconciliation brought up to date by EOP

Programme of training and human resource development

- Members of Audit and Accounts cadre trained in new procedures by EOP
- Officers of Ministry of Finance (MoF) and other Ministries involved in new budget process trained by EOP
- Strategy developed, communicated and supported for ensuring utilisation of new procedures and information

Institutional development strategy

- Segregation of accounts and audit achieved by EOP
- Recommendations for bank reconciliation procedures submitted to GoB by 1/1/1996
- MIS Directorate established and functioning by EOP
- Establishment of Rules and Regulation updating unit

Project Management unit

- Project manual setting out procedures
- Project working standards
- Appropriate reporting procedures

The Project pursued its objective by dividing itself into four components; namely, Budgeting, Accounting, Computing and Training, each under a Manager.

By December 1995, the project made the following achievements :

- A new classification structure for budget prepared and agreed in principle and testing against current years budget having done;
- Pilot budget system established in MoF;
- Accounting information flows and computerisation structure agreed with Controller General of Accounts (CGA);
- Bank reconciliation strategies identified;
- Consolidation of Rules and Regulations in progress;
- Training provided to 341 GoB officers, and seminars and presentations on relevant subjects were held
- High level seminar attended by Finance Minister, British High Commissioner and senior GoB officers;
- Revised Log Frame and work plan for implementation stage established;
- Furniture and computers plus other equipment along with management structure and procedures in place;
- GoB support for personnel and logistics provided;

In spite of this, it was considered that success of the Project during this time did not match the high expectations and ambitions outlined at the beginning of it. Some of the achievements did not seem to have been directly linked with the immediate purpose.

There were failures like :

- Lack of proper integration among four components of the Projects
- delay in achieving some key outputs, and
- non-involvement of GoB personnel/stake holders in full in reform activities.

Review

The ODA carried out a review in January 1996. The Review Mission identified a number of problems and concluded that the Project in it's existing form could not be relied upon to deliver the required outputs within the Project time-table.

The ODA therefore proposed following actions :

- Firstly, a full joint review by GoB and ODA could be conducted in mid-1996 to determine the future direction of the reform process, and

- Secondly, in order to keep the reform process moving forward, there should be the continuation of a "downsized" project. This would focus on certain key outputs.

The downsized RIBEC2A

It was decided that the duration of the downsized project would be 10 months, and it would end by December 1996. The phase could be renamed as 2A.

Agreed Outputs for restructured Phase 2A and other important deliverables:

Budget publication

- Publish 1996/97 budget under existing classification

- Develop a five year Budget Database.

Revised Budget Classification and Accounting System

- New budget structure and detailed classification agreed with stake holders
- Translate 1996/97 budget into new format
- Consolidation of Accounting Data in CGA and selected Chief Accounts Offices (CAO)
- Mini feasibility study to be carried out
- Rationalise and streamline CGA accounts consolidation
- Rationalise and streamline accounts consolidation in selected CAOs

Publishing Rules and Regulations (Account Code, Treasury Rules, and General Financial Rules)

- Collate and update existing rules in English
- Consolidate rules
- Publish rules
- Award sub contract for translation into Bangla
- Establish rules and regulations unit
- Audit and Accounts Training Academy (AATA) provides training in rules and regulations

Establishing training facilities in AATA

- Transfer computer laboratory to AATA
- Provision of computer awareness training by AATA
- Courses provided by AATA on computer skills including new consolidation system to CGA and CAO officials
- Establishing training facilities in Public Sector Financial Management
- Trained AATA trainers to provide training

Other deliverables include:

- Support for the MIS Directorate to sustain the systems introduced;

- Support to improved budgetary process in two ministries under GoB supervision;
- Preparation for transfer to phase 3 of the Project;

GoB involvement and Task forces

This time the Project management tried to ensure GoB involvement, or more specifically, GoB leadership in reform activities, from the very beginning. It was decided that four Task Forces each headed by senior GoB officials would be responsible for four integrated activities of the project. These are :

1. Finance Division Task Force covering budget and classification, headed by Additional Finance Secretary, Budget
2. Accounts Consolidation Task Force, headed by Controller General of Accounts
3. Training Task Force, headed by Director General, Audit & Accounts Training Academy, and
4. Rules and Regulations Task Force, headed by Joint Secretary (Regulation), Finance Division.

All Task Forces have representations from M/o Finance, Comptroller and Auditor General (C&AG), CGA, Project Implementation Unit (PIU), consultants and other concerned agencies. The relevant lead consultant works as Secretary to the Task Force.

The progress of the new phase has been quite satisfactory. All Task Forces with full GoB representation and assisted by PIU and project consultants have been meeting on regular basis to guide the implementation of the project and set up priorities. The Task Forces and the project management have successfully involved all stake holders including those at the grass roots level in the project implementation process. Moreover, a number of initiatives were taken to effectively tackle management of the change. By now, a number of informal meetings and workshops have been held in which detailed discussions took place about the implementation process, as well as, about the sustainability of reforms and the need for future reforms.

Present status of implementation of the project is summarised below :

Budget :

The budget of 1996-97 has been produced in a computer based spreadsheet in Ministry of Finance. The entry of data and production of budget in this way was a significant achievement by the Budget wing of Ministry of Finance.

A historical database with 5 years budget data with capabilities to produce needed management reports and future projections has been developed successfully and already demonstrated to key decision makers. The future budget estimates are expected to be produced from this data base. Simultaneously a draft new budget classification has already been developed and is now ready for consultation with concerned GoB authorities.

Accounts Consolidation :

The specification for consolidation of core accounting in CGA office was completed by the project team on schedule. Software for core accounts consolidation in CGA has already been developed and is now being tested. The system will be operational soon. The users are being actively involved through formal as well as informal participation and interactions to ensure smooth implementation and future sustainability of the new system. During this phase, accounts consolidation will be done in 10 CAOs. Work on the remaining 10 CAOs will be taken up subsequently. Draft specification of the CAO consolidation system is now being reviewed with the users and once it is finalised, software development will be outsourced and completed on schedule.

Rules and Regulations :

By now four volumes of Account Code have already been updated. Final approval from the Comptroller and Auditor General has been received. Arrangements are being made to print them in Bengali and in English soon. The updated draft General Financial Rules and Treasury Rules are now being reviewed. GoB has agreed to set up two Rules and Regulations Units; one in Finance Division and the other in the office of Comptroller and Auditor General to take care of future changes in rules and regulations.

Training :

RIBEC Training facilities with all modern equipment have been shifted from project office to Audit and Accounts Training Academy. To ensure sustainability and to develop needed training capability in GoB RIBEC 2A training courses are in the process of integration with AATA. Meanwhile, training is now being imparted to the future trainers as well as to those who are involved in implementing the computerisation programme and other areas of reforms.

General Remarks

It is now evident that the work of RIBEC 2A is being well received within the Government. The ownership and management of the project has been taken over by the government through the Task Forces. All stake holders and users have been fully involved in planning and implementing the reforms. Such a well organised reform programme with participation and commitment from stake holders can never fail to achieve its objective. The government is now determined to push forward the programme further in the next phase to bring the reform initiatives to its logical end. It cannot stop halfway.

A way forward

Recently the four Task Forces have organised workshops involving all stake holders to do real brainstorming to review the problems of implementation as well as to have ideas about the future course of action to sustain the reforms. The findings of the workshops were very encouraging in the sense that the participants generally expressed satisfaction about the way the reform was progressing and underlined few priority areas of future reforms in order to sustain the results so far achieved through the RIBEC 2A.

So the future reform agenda might consist of the following :

- Implementation of a fully computerised accounts Consolidation system
- Computerised Accounts consolidation for remaining 10 CAOs.
- Roll out of the system to Regional Accounts Offices (RAOs) at the outstations.

- Enhanced cash management.
- Interfacing accounts consolidation and budgetary system
- Enhancement of database to produce annual budget
- Roll out of budget data base to line ministries
- New classification: Introduction and implementation
- Continuation of the training programmes with emphasis on high level training courses
- Computerisation of payroll
- Modernise and redefine the accounting system
- Continued work on all financial rules and regulations

Conclusion

Reforms in Budgeting and Expenditure Control system in Bangladesh has become long overdue. The project has been able to mobilise the much needed support, commitment and involvement of all stake holders to implement the future reform programme in Financial Management. Donors are agreeable to assist GoB with necessary fund and expertise. We cannot perhaps afford to miss this opportunity. The reform process should therefore continue in stages until we reach our final goal.

Labour Market Reforms and its Implication for External Competitiveness of Bangladesh Economy

Momtaz Uddin Ahmed *

I. Background

It is now commonly believed that there exist serious structural inefficiencies in the labour market which act as deterrents to private investment and employment generation in the industrial sector of Bangladesh. The last two World Bank Reports (Country Economic Memorandum 1992 and 1993) have identified three aspects of the labour market as having crucial bearing on industrial growth and external competitiveness of Bangladesh. The first concerns the rapid expansion of labour force and the decline in the modern sector employment by 17% during the second half of the 1980s, with the number of regular jobs falling from 5.8 to 4.8 million (World Bank 19993). The second is the centralised process of wage determination (especially in the public sector) which is argued to have led to increases (by about 22% in real wages) in labour costs unmatched by productivity improvements. The third issue relates to antagonistic relationship that exists among management, trade unions and government which are directly and indirectly impeding industrial growth, discouraging private investment, and hampering public enterprise reforms. The World Bank (as well as the Bangladesh Employers Association), therefore, suggest the need for introducing labour market reforms in Bangladesh for providing support to other economic reforms to have their full potential impact on the economic growth and external competitiveness of the economy.

Indeed, achievement of a high rate of economic growth cannot be ensured through fiscal and financial reforms alone; institutional reforms, particularly upgradation of labour skills and maintenance of a disciplined and a stable labour market must accompany structural reform measures in order to achieve higher efficiency in resource use and employment growth. This has become especially imperative in Bangladesh's case in view of the fact that deteriorating labour management relations, politicisation of labour unions, and falling labour productivity are operating together to undermine the efficiency and competitiveness of industrial enterprises and inhibit industrial growth. An analysis of the structure and characteristics

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of the labour market, focusing particularly on the wage determination process and labour management relations in the modern industrial sector, and their impact on productivity and growth, is thus needed to examine the concerns expressed about the labour market scenario and its influence on Bangladesh's external competitiveness.

The broad objective of the present paper is to examine the nature and characteristics of the labour market in Bangladesh focusing particularly on wage determination process and productivity, industrial relations and labour-management co-operation in Bangladesh, and assess their impact on growth and expansion of industrial output and employment. The size, composition and important features of Bangladesh's labour market are discussed in section II. The wage determination process and wage trends are analysed in Section III. Section IV critically examines the wages and labour productivity issues and presents an up-date on the Bangladesh scenario in this regard. Industrial relations and labour-management co-operation are analysed in Section V with special emphasis on their impact on industrial growth in Bangladesh. The final section presents some concluding remarks and outlines the potential labour market reforms.

II. Size and Characteristics of the Labour Force

Before turning to the major issues of analysis it may be useful to provide a snapshot view of the labour market in Bangladesh. Bangladesh has a vast population (110 million) with considerable higher rate of growth (2.2%) per annum. However, the growth of labour force consisting of nearly 51 million workers is even faster than the already high growth rate of population. It will be observed from the data in Table -1 that the growth of the labour force in Bangladesh far exceeded that of total population and the demand for labour. The total labour force of the country registered an average growth rate of 8.2% compared to the population growth rate of 2.7% per annum during 1981-1989. The enormity of the issue increased manifold if one takes into account the fact that each year nearly 2 million workers join the country's vast work force.

The higher growth of labour force compared to the growth of population is seen to be contributed primarily by increasing female participation rate in the labour force. Whereas the male participation rate has tended to remain almost constant over time, the crude female participation rate increased from only 2.6% in 1974 to 6.4% in 1985/86 and to 40% in 1989. The female participation rate is seen to have almost doubled during 1980s and increased nearly seven fold between 1985/86 and 1989. While the increasing high growth of female participation rate has been contributed by a complex of factors the big jump in the late 1980s is attributed primarily to the change in the definition of "economic activities" carried by the female household. In addition to the change in coverage, changes in social norms, favourable government policy (i.e. fixation of quota for women in government services and public enterprises) on female employment in the public sector, improved work opportunities in specific sub-sectors (i.e. ready-made garments industries), introduction of special food for works programme for women, and the pressing necessity to have the ends met for the family must also have contributed significantly to the enhanced female participation rate overtime. Of the 57% of population who are not in the labour force more than 37% are children and 19% are inactive. Thus, Bangladesh's current bottom-heavy age-structure and other socio-economic trends indicate that the growth of the labour force will continue to exceed the population growth.

Wage employment in the formal sector is observed to account for a small proportion of the total labour force, declining from 17.8 percent in 1981 and 19 percent in 1985/86, to only 9.5 percent in 1989. This indicates a very small modern wage-paying sector which has constrained the process of economic development.

Another important feature of the labour market observed from the data in Table-1 [1] is that the sectional composition of employment has undergone significant changes in the last decade. In contrast to the declining trend in agriculture's share (from 79% to 59%) and increasing trend in industries share (from 8.8% to 13%) in employment between 1974 and 1983/84, the contribution of both agriculture and manufacturing increased respectively from 59% and 9% in 1983/84 to 65% and 14% in 1989, while that of other sectors declined from 32.5% to 21.2% during the same period. By contrast, while the respective contributions of both agriculture and manufacturing

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[1] In the 1989 labour force survey (LFS) more detailed responses were sought compared to the previous LFSs. As a result, the 1989 survey identified a much higher proportion of the female population involved in economic activities who were regarded as doing household works in the earlier surveys. For example, the rural females (housewives)doing threshing, parboiling and raising of poultry and livestock etc. were considered as being involved in, economic activities in the 1989 survey.

in GDP declined from 48% and 10% in 1983/84 to 37% and 9% in 1989/90, that of other sectors increased from 42% in 1983/84 to 54% in 1989/90. The implication is that while the relative labour productivity in the productive sectors has considerably declined that in the auxiliary sectors has registered sharp increase during the same period. Thus the structural shift in the employment composition does not necessarily reflect a strong pull into the services sectors because of their healthy growth, rather it demonstrates the inability of agriculture and the formal manufacturing sectors to absorb the new entrants into the work force.

Turning to the structure of the employed population a pervasive importance of the self-employed can be noted. While the recent self-employment promotion policies of the government as well as the non-government agencies must have played a positive role,[2] a good percentage of the self-employed individuals must have been forced into this category due to lack of productive employment and the under-employed (estimated to vary between 30-40% on the basis of time utilisation criterion) and the large number of new entrants into the labour market continues to be a formidable challenge facing the government. Available estimates [3] suggest further that even a 5% per annum rate of growth of the economy during 1990s may not be enough to clear the backlog of the huge unemployed and under employed work force (estimated to be around 8-10 millions) by the year 2000.

Yet another peculiar feature of the Bangladesh labour market is that while there exists an over supply situation of the unskilled workers in the labour market, the supply of labour possessing strategic skills is severely limited. Existing programmes of skill formation and development are not properly geared to the present and emerging patterns of demand for labour. Several studies (Mondal 1991 and Planning Commission 1990) show that there is considerable mismatch between the supply of and the demand for labour of different skill levels in the formal labour market. The rural and urban informal sector thus remains the main outlet for employment.

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[2] An elaborate review of the recent self-employment promotion policies in Bangladesh in Ahmed, M.U. (1993).

[3] C.C. BBS (1982) and Ahmad, Q.K. (1993).

III. Wage Determination Processes and Trends

Wage determination process in Bangladesh is influenced not merely by the market forces of supply and demand but also by the non-market forces like state intervention, trade union pressure and other socio-economic factors. Various sources of imperfections, therefore, affect the wage setting process in addition to the forces of supply and demand. First, there is government intervention in the form of minimum wage legislation for providing fair wage and job-security to the workers. Second, there are trade unions giving rise to monopoly market power in some sub-sectors. Third, there are the employers themselves who enjoy monopsony power in some respects. On top of all these job rationing resulting from requirements and preference for specific skills and existence of dual labour markets resulting from restricted geographic and occupational mobility combine to create some degree of segmentation in the labour market.

Wages of workers and salaries of other employees in the public sector are determined separately by the Government on the basis of recommendations made by the National Wage Commissions (NWCs) and National Pay Commissions (NPCs) respectively. Since independence four NPCs were set up in 1973, 1977, 1985 and 1991 and four NWCs were constituted in 1973, 1977, 1984 and 1989. The 1989 NWC did not function for unknown reasons and hence a new NWC was set up in January 1992 which submitted its final report in December 1992. In all cases, nominal pay and wage increases were awarded to protect their real levels, irrespective of changes in productivity. As will be shown later, in most of the public sector industries growth of labour productivity is found to be negative or negligibly positive over the last two decades. Consequently, increases in the wage bill are being met primarily at the expense of development expenditures of the Government, further weakening the competitive base of public sector industries.

Wages in the private sector continue to be fixed through a process of collective bargaining . In cases where collective bargaining fails or proves inadequate, wages are fixed on the basis of the recommendations of the Minimum Wages Board (MWB), a permanent body set-up by the Government in 1957 and reconstituted in 1961. MWB recommends different minimum wage rates for different categories of workers in private sector industries in consultation with the representatives of workers and employers. In sectors where there is both public and private participation, wage increases in public enterprises lead automatically to wage increase in private enterprises. Productivity can hardly bear these wage increases.

Since independence in 1971, the pay scales of non-labour employees in the nationalised sector have been revised upwards four times in 1973, 1977, 1985 and 1991 on the basis of recommendations made by the Pay Commission. The wage award for workers has always been a little higher than the pay award for employees, as a premium for more physical work involved (Mondal 1992). It may be noted that these upward revisions of pay and wages in the public sector brought about perceptible corresponding increases in the private sector.

These changes in the pay and wage scales and their structures were made to compensate for the rapid erosion of real wages that was taking place and to appropriately realign wages to productivity. Unfortunately, the net effect has been further inflation in the face of an inelastic supply response of goods and services to increased monetary demand (Mondal 1992).

Although nominal wages of both skilled and unskilled industrial workers in general have increased ten to eleven times in 1990/91 compared to their 1969-70 levels (Table 2), Table 3 shows that their real wages have in fact declined by 20 to 25 percent. The unfavourable movements of real wages are attributable partly to a more rapid increase in the cost of living, and partly to frequent falls in annual average wages, due primarily to frequent layoffs and unsuccessful strikes during which period workers are reportedly not paid. In recent years, real wages have improved slightly, particularly in the match and engineering industries, where trade unionism is a rather recent phenomenon. Despite robust trade unionism and collective bargaining, movements of real wages in the jute and cotton textile industries have tended to become more unfavourable in recent years, while those in the mustard oil industry have tended either to remain unchanged or to decline. Jute and cotton textile taken together have accounted for more than 50 percent of the total number of unionised workers in the manufacturing sector.

In Bangladesh, there is no automatic wage adjustments to inflation through an 'escalator clause'. Given the institutions for wage fixation, upward revision of wages has been made a number of times since 1973. At 1972-73 prices these revisions taken together have adjusted wages for 60 to 65 percent of the inflation that has occurred between 1972-73 and 1990 - 91 depending on the grade of worker. These wage increases have benefited higher grade workers more than their lower grade counterparts. Despite several revisions, absolute wage levels of industrial workers have remained very low, obviously due to limited demand in the face of abundant supply of labour. Apparently, wages are deliberately kept low in order to employ more people. Although real wages have tended to increase perceptively since 19985-86, their present real levels are still about 30 percent below the 1969-70 levels.

In recent years, the process of wage determination has become much more complex due to inflation. The objective of protecting wages from erosion through escalation of prices of essential consumer items is more important now than ever before. Application of pressure by the unions to link wages to cost of living alone or the pressure exerted by the employers to keep wages as low as possible, demonstrate a lack of appreciation on their part of the complexities involved in wage determination and of the widespread impact of the wage levels on the social, economic and political situation in the country. It is no longer possible to consider wages and incomes policy in isolation from other economic and social policies, or even in the context of domestic factors alone. Besides considering changes in the consumer price index, there is also a need for continuous study of all the relevant aspects of the economic situation of the country, and this cannot be undertaken by ad hoc wage commissions. The MWB, even though a permanent body, is not equipped to undertake such studies either. Hence, appropriate research institutions may be commissioned to undertake such studies.

Mondal (1192) reports the existence of varying degrees of wage differentials between industries, regions and sexes. In general, these wage differentials reflect differences in the mean human capital endowments of the different groups of labour. The existence of 'piece rate' and 'time rate' in wage payments accounts for much of the observed wage differentials. Inter-industry wage differentials almost entirely reflect long run differences in the inter-industry composition of occupations. Similarly, long-run inter-regional wage differentials may be largely explained by differences in the industrial structure and occupational mix of the working population of different regions. Rajshahi region for example, which is thinly industrialised and lacks a diversified industrial structure, has a labour force much larger than the Khulna region. The limited demand for skilled industrial labour in the face of a large supply seems to have contributed to the establishment of the country's lowest average wage rate for skilled industrial labour in the Rajshahi region in 1989-90. Furthermore, differences in the cost of living, bonus and overtime earnings may also partly explain the observed inter regional wage differentials. Finally, the regions are highly aggregated entities, and earning levels will therefore naturally vary both between communities, according to their industrial and occupational structure, and within a given occupation according to the tightness of different local labour markets.

The changing pattern of wage differentials across skilled and unskilled categories of labour is possibly partly attributable to different intensities of demand for them. It appears that cyclical, as well as longer-run structural influences, are at work. Wage rates for women are lower than those for men due to excess supply of the former, possible non-consistency of work, low skill and poor productivity, or similar reasons (HIID 1990). It is not unlikely that wage discrimination between the sexes has also contributed to the differential.

Inter-industry wage differentials have little economic significance unless they are related to occupational classification and pay structure. From the available information we can at best say that the industrial labour market is imperfectly competitive. The dispersion in wages may be attributed to imperfect knowledge, collusion among private sector employers to avoid competition in the form of 'poaching' one another's workers, inertia among employees, and under-employment in the market leading to unequal earnings opportunities.

IV. Labour Productivity and Wages.

Wage-productivity relationship in the manufacturing industries sector of Bangladesh has aroused serious controversies in the recent years. While productivity gain is a critical variable in determining the existence and growth of an enterprise and also for raising labours' wages and employment prospects, this fact is complained to having been ignored by the government in the wage revisions carried centrally by the NWCs. The oft-repeated observation in this regard is that government intervention in fixing wages ignoring labour productivity and enterprise affordability is detrimental to long-term industrial growth and contrary to the basic principles of the free enterprise system. This has important implications for major policy shifts, especially concerning government's wage setting behaviour and the existing labour-management relations in the industrial sector.

In a developing economy such as Bangladesh, wage policy is faced with a conflict between the needs of workers for larger consumption and the demands of the economy for a higher rate of capital formation, and for that matter for a higher growth in labour productivity. This conflict is largely reflected in the whole issue of capital-labour relations. A sustained rise in productivity alone can yield resources for the expansion of the industry, in keeping with the legitimate aspirations of workers for rising levels of living.

Wage-productivity linkage is ordinarily taken as a rational basis for wage revisions. An increase in output per unit of labour is always a ground for workers to press for higher wages. It is however, evident that not the entire increase in output is due to the effort of labour alone. A part of it may be due to larger input of other resources or their improved efficiency or both. Suppliers of other inputs have, therefore has a claim to higher earnings as workers to higher wages. Some of these factors such as prices and flow of raw materials, are independent of workers' efficiency.

An important dimension of wage-productivity issue in Bangladesh is that at the prevailing wage levels, workers are unable to procure the basic supply of goods and services needed to maintain a reasonable state of health and efficiency . An effort to bridge the gap between the existing and the minimum efficiency wage may, therefore, have the effect of a direct increase in productivity. This implies that growth in productivity and equity may become mutually reinforcing, rather than being in conflict. The point being made here is that the workers should be paid a fair wage which should in no way be less than the minimum wage. A fair wage must provide not merely for the bare subsistence of workers but also for the preservation of their efficiency. While the lower limit of the fair wage must obviously be the minimum efficiency wage, the upper limit is set by the capacity of the industry to pay, to be determined on the basis of (1) a fair return on capital and remuneration to management, and (ii) a fair allocation to reserve and depreciation so as to keep the industry in a healthy condition. Obviously then, the need for enforcing a need-based minimum wage has to be compromised with industry's capacity to pay.

An industry's capacity to pay is usually identified with its profitability which depends on the price of its product relative to material input prices and productivity trends. Normally it is productivity increments rather than fortuitous gains that provide the main source of rise in real earnings of inputs in industry.

In discussing industry's capacity to pay, it is useful to look at the product wage which measures real wage burdens on the industry. Table 4 shows that in the cotton textile industry in Bangladesh, the product wage rose four times as fast as labour productivity. In comparison, the real wage rate increased at a rate more than twice that of labour productivity. The observed difference in the movements of real wages and product wages is attributable to differences in movements of the cost of living index and the index of industry's output prices. Clearly, workers' well-being was being promoted at the expense of the industry, rather than on grounds of rising productive efficiency. The case of the jute textile industry presents a picture which is much worse; considerable increase in real wages and an even faster increase in product wages were associated with a significantly negative growth in labour productivity. Thus, industrial labour enjoyed positive gains, reflected in rising labour prices relative to product prices for both productivity increases and productivity losses. This suggests the existence of a hidden subsidy on industrial employment in some from or other, the extent of subsidy being higher in the case of jute textile.

A more recent study conducted by the National Wages and Productivity Commission, 1992, shows even a more disappointing productivity performance of the jute and cotton textile manufacturing industries along with newsprint and TSP Fertiliser (NWPC, 1992).[4] As seen from Table 5, growth in labour productivity in all these four industries has been significantly negative during 1980s. The best productivity performance is observed in the case of the sugar industry followed, in order, by cement, urea, and paper industry. Among the industries showing negative trend rate of growth of labour productivity, TSP and newsprint have experienced more erratic fluctuations. Similar is the case with sugar, urea and paper even though these industries have experienced positive growth of labour productivity during the period under consideration. It appears that in the case of these industries casual factors like availability of raw materials, machinery breakdown, etc. have been responsible for changes in

[4] Evidence of low and declining labour productivity in both public and private sector manufacturing industries in general and dismal productivity performance of the jute textile in particular is also provided by World Bank (1992[a] and 1992[b]). Overmanning, excess capacity, labour militancy, disruption of work due to power shortage, poor maintenance, and lack of modernisation of plant and machinery etc. have been identified as important factors explaining low labour productivity in the major large-scale industries of Bangladesh.

labour productivity; while in the case of cement, jute, and cotton textiles structural factors seem to have been at work.

The results of Table 5 suggest that there is no scope for increasing wages in any industry other than cement and sugar on the basis of the industry's capacity to pay. But there is virtually no room for increasing wages across the board. Despite unmatching labour productivity the NWPC 1992 recommended increases in nominal wages to the extent needed for protecting real wages of the workers. It is argued that labour alone cannot be held responsible for low labour productivity; since there are a host of other factors (i.e. technology in use, management etc.) working in concert which have held down levels of labour productivity.

Profitability

An industry's capacity to pay a higher wage critically depends upon its profitability which, in turn, depends upon the market prices of its products relative to input prices. Available evidence (Ahmed, M.U. et. al. 1993 and National Productivity Centre 1992) suggest that the profitability of most of the large-scale industries of Bangladesh has been disappointing during 1980s. As shown in Table 6, all the selected industries, except cement and urea fertiliser, either suffered steady losses and/or earned uncertain net profit during 1985/86 - 1990/91. Only in case of cement manufacturing has there occurred almost a steady increase in profitability. In the case of sugar, however, virtually negative profitability has reversed or slowed down in recent years. This is attributable primarily to a significant improvement in labour productivity accompanied by increased availability of low-cost sugarcane.

Negative profitability of most of the large-scale industries suggests that their economic and financial viability is threatened. This is alarming in so far as the future growth of manufacturing in the country is concerned, and reinforces our earlier conclusion that there is virtually no scope for wage increases in the large-scale manufacturing sector.

Low levels of productivity and profitability in the industrial sector have far-reaching implications for future industrial growth and employment generation in the country. Low productivity is a reflection of inefficiency and undermines the competitive strength of an industry. No industry can survive and grow unless it can achieve and sustain a minimum level of productive efficiency. In turn, low productivity leads to low or negative profitability, resulting in little or no reinvestible surplus. In a situation where no new investment is taking place, employment in the existing enterprises is at best feeding itself with no justification for further continuation. Low productivity and profitability have rendered the manufacturing sector incapable of generating a reinvestible surplus and of absorbing new entrants into the labour force. [5] However, increasing productivity at the expense of employment may become meaningless since employment generation forms one of the fundamental objectives of productivity gain cycles. In fact, both should go together for a higher net gain.

Declining labour productivity, low and negative enterprise profitability, and slow growth in industrial output and employment in Bangladesh have been the outcomes of a variety of factors in which industrial relation system is argued to play an important role. A brief analysis of the industrial relations system is thus in order.

V. Industrial Relations and Labour-Management co-operation in Bangladesh

While sound labour relations is a *sine qua non* for economic development and social progress of a country, the present state of industrial relations in Bangladesh is considered to be inconducive to industrial development and investment expansion (World Bank, 1996; ILO, 1995). Despite adequate legal support provided through the numerous laws and regulations and wider coverage of the issues and problems involved, [6] the labour relations system in Bangladesh proved insufficient to develop a spirit of co-operation among the management, the workers and the conciliation authorities. A number of studies (Ahmed, M.U. et. al. 1993, Mondal 1992,

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[5] A sluggish to declining trend of public as well as private sector manufacturing investments in both absolute and relative terms (as % of GDP) in 1980s has been demonstrated by a number of studies, depicting thereby a disappointing scenario for future industrial growth. Evidence presented by various studies in this regard are summarised in Bakht, et. al (1191).

[6] In Bangladesh, the legal and policy bases of labour-management relations is quite pronounced. The Government has enacted an impressive array of laws for protection of the workers as well as for providing the employers with the right of hiring and firing their employees. The labour and industrial law of Bangladesh is contained in some 46 Acts., Ordinances, Rules and Regulations covering as many as 23 areas which together regulate the conditions of life and work of the employees in the formal industrial sector. A succinct summary is available in Ahmed M.U. (1993).

ARPLA 1980) have shown that Bangladesh's industrial relations are confrontational and highly politicised. At present, there are 4, 796 trade unions in Bangladesh with a membership of over 17 lakh. Historically, the trade union movement in Bangladesh has over the past 100 years revolved around mass movements and workers agitation mostly having strong links with the political parties.[7] While political struggle for independence before 1947 set the pattern of trade union structure and gave it an aggressive character, political instability and military rules in post 1947 period prevented the development of a constructive trade union structure. There was a strong mistrust between the employers and the workers in the Pakistani period as the employers were mostly the non-locals. Surprisingly, after independence in 1971, a constructive structure of trade unionism did not emerge primarily because of division among the workers themselves along political lines.

An inextricable linkage between party politics and trade union movement in Bangladesh is easily discernible. The demand for higher economic benefits in terms of higher wages and increased non-wage benefits by the workers in post-independent Bangladesh got strong support from their trade union organisations which started multiplying in number under the banner of political support from the then political party in power. Between 1972-75, for example, Awami League organised "Sramik League" (worker's party) for providing political forum of the workers which with political support from the government dominated the CBA elections in the trade union federations. During this period, the labour movement turned into movement of the political parties with each political party organising its own labour federation. This resulted in the rise of politically supported motivated workers leaders instead of the workers' leaders *per se* and the trade union movement got highly politicised and turned into political movement guided by politics as opposed to workers movement guided by the welfare of the workers. During the four year period between 1972-75, as many as 638 trade unions got registered with an increased membership strength of 2,50,000 in a short space of time.

Again with the Bangladesh Nationalist Party (BNP) coming to power in 1979, there emerged a new trade union force in the name of " Jatiyotabadi Sramik Dal " (Nationalist Trade Union Party) supported by the BNP.

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[7] A chronological analysis of the politically motivated trade union movement beginning in Bangladesh since the British rule in India is available in Ahmed, M.U. (1193).

During this period 372 new trade unions got registered with the trade union membership rising to a strong contingent of 11,27,508 member in 1981 (Talukder, 1992). While the trade union movement simmered somewhat during 1982-84, after the declaration of the martial law on March 24, 1982, the movement gathered momentum again since May 1984 with the withdrawal of the Industrial Relations Regulations Order 1982 under the pressure of the strong trade union movement organised and exerted by the SKOP and the CONCOP. The result was multiplicity of the trade unions (Table 7),inter and intra-union rivalries, rise of industrial disputes, and frequent work stoppages at an increasing rate, all of which combined to lead to greater labour militancy and created a volatile labour market situation.

It is generally recognised that the growth and development of trade unions and their bargaining powers with management are motivated more by political interests than by consideration of workers welfare. As seen from Table 8 the frequency of industrial disputes does not exhibit any clear trend over time. A break-up of the occurrence of disputes into three time periods, viz. 1972-76, 1977-82, and 1983 to 1990 reveals that the incidence of disputes was highest during the period 1977-82 (74.33%). According to

Labour Directorate Statistics, average mandays lost were 166106 during 1972-76, 664872 during 1977-82 and 442572 during 1983-1990.

The causes of industrial disputes can be multifaceted, particularly in an industrial setting like that of Bangladesh where strong alliances of workers with political parties exist. The Labour Directorate categorises causes of disputes broadly into two types: economic and political. Table 9 shows that for the period 1977-83 economic factors (i.e. demand for higher wages, better working conditions etc.) clearly dominated the causes that led to disputes and a complete reversal of this is observed for the period 1984-90. The upsurge in industrial disputes caused by political factors reflect increased involvement or influence of political parties in the internal affairs of the industrial enterprises, either openly or tacitly. Though many of the industrial disputes end up with political overtones, most rational observers would tend to believe that such disputes originate primarily from economic factors. This is because when the workers fail to press home their demands they resort to the political parties in order to strengthen their bargaining position.

Information lacuna renders it difficult to quantify the economy-wide economic and financial losses caused by industrial disputes. As observed from Table 8, loss of nominal wages due to industrial disputes was quite substantial. The average annual production loss amounted to US $6.5 million on a total of US $77.4 million during the twelve years between 1980-91.

Labour-Management Relations

The practice of collective bargaining as an instrument of setting industrial disputes is yet to be firmly established in Bangladesh. As a result tripartite relationship between management and the workers did not take roots in the country through close co-operation and consultation at the plant level. Similarly effective tripartite co-operation between the Government, management and the workers also did not grow at the national tripartite machinery for consultations and negotiations. Contrary to existing rules and regulations, most negotiations take place at the national level between the Government and SKOP which is neither registered nor is recognised by the employers as a legal trade union federation.

A National Tripartite Consultative Committee (NTCC), first formed in 1972-73 was reconstituted by the Government in 1978 to discuss and advise it on all matters relating to the promotion of harmonious labour relations at the enterprise and national levels. The Labour Policy of 1980 was deliberated in this forum, and unanimity was reached in respect of the need for good labour-management relations for overall growth of the economy and the immediate goal of increased production. Issues covered included trade union structure, the mode of settlement of disputes, the right to organise including the right of strike and lockout, and workers participation in management. The aim of the MTCC forum was mainly to secure the commitment of the workers and the management to the policy. The Labour Policy 1980 is a declaration of intents in six basic areas, namely : (i) tripartism; (ii) productivity and incentives; (iii) wages; (iv) employment and training; (v) industrial relations; and (vi) labour welfare. In the domain of labour relations the new elements are (a) to allow workers the right to strike, and (b) to allow nominees of Collective Bargaining Agent (CBA) to participate in the decision-making process in matters relating to the application of labour laws, improvement of working environment and safety, welfare programmes, fulfilment of production targets, reduction of production cost and storage and education and training of workers.

For the purpose of policy implementation the Government has drawn up schemes in workers education through existing 4 Industrial Relations Institutes and 22 Labour Welfare Centres, in Management education through Management Development of Inspection of Factories and Establishments and in skill development through the Bureau of Manpower, Employment and Training (BMET). These institutes, however have remained mostly ineffective primarily due to their inadequate resource base, narrow focus and lack of pragmatic outlook.

In the 1980 Labour Policy it has been stated that the Government believes in the process of collective bargaining for resolving industrial disputes and maintaining good labour relations. The policy, as the Government claims, has been designed to protect the interest of the workers, the owners/management, the consumers and the state. This policy recognises the right to strike by the workers, and of lockout by the employers, as instruments of collective bargaining. It, however, suggests that in the interest of continuity of production of goods and services and for avoiding unnecessary hardships on the part of labour, management and consumer, these extreme measures may be resorted to after exhausting all available legal processes.

It further provides that the right to strike may be exercised only after securing through secured ballot the support of the majority of workers of the CBAs and stipulates that strikes and lockouts will continue to be regulated in certain essential public utility services notified by the Government.

For successful application of collective bargaining practices as an important instrument and for development of healthy industrial relations practices at the plant level, certain conditions relating to organisational matters, legislative provisions and practices, attitude of the contending parties and background support need to be fulfilled. Unfortunately, none of these preconditions seems to exist in Bangladesh. Organisationally, the employers at plant level do not enjoy adequate decision-making authority in the public sector enterprises which are still the major employers. Workers unions are suffering from inter-union and intra-union rivalry due to political influence on the trade unions. As regards legislative arrangements, the deficiency appears to lie not so much in the laws as in their application. The 'adversary attitude' is very much pronounced and the background support services, i.e. access to information, communication between union leaders and members etc. are extremely weak. None of the partners of the NTCC machinery has shown adequate interest to gather information and form an opinion on the basis of analysis of relevant information. Decisions are based on impressions, relative strength of the contending parties, or opinions of persons in a higher echelon of social hierarchy rather than on facts. Informed observers and analysts also find too much intervention by the Government in industrial relations affairs as a deterrent to the smooth functioning of the CBA. Some would even tend to argue that the existing labour laws are too good in a very poor industrial relations environment. CBA at the plant level is also held to be too much politicised and lacking in the objectivity in their attitude and hence devoid of the necessary neutrality in settling disputes. Thus, despite relatively well-defined legal and policy bases of labour-management relations and adequate coverage of the issues involved, labour-management relations in Bangladesh has been at variance with the development of a healthy co-operation among management, workers, and conciliation authorities. As seen from Table 10, since 1983, 63 to 89 percent of industrial disputes were settled/terminated through unconditional return to work. This suggests that complains that led to the dispute were being quelled through Government intervention, reflecting the absence of a well-developed industrial relations system in which collective bargaining plays the key role in the settlement of disputes.

In Bangladesh, wage levels are among the lowest in the world. In 1989, for example the wage level in the manufacturing sector of Bangladesh was about 10-15 times lower than that in the NICs and also much lower than the wage rates prevailing in neighbouring South Asian Countries (Ahmed, M.U. 1993). Under utilisation of labour accompanied by poor effort and intensity of work, and, above all, inconducive work culture have largely contributed to destabilising the labour market. Productivity increases are not likely to take place, without, among other things, fuller utilisation of the work force and upgradation of the worker skills. While both the workers and the management are responsible for low productivity, there are also several invisible hands behind the labour scene who are capitalising on their disabilities and weak bargaining position for some unscrupulous gains. Workers take to politics to strengthen their bargaining power in the absence of fruitful bilateral co-operation and consideration at the workplace between labour and management. But, they always fail to impose their rightful claims on the politicians. Instead the politicians' objectives have always prevailed, resulting in persistent labour unrest. A real solution to this problem would be to inspire the concerned parties to show honesty of purpose and at the same time make out sincere efforts to undo the designs of the antagonistic and repulsive forces that are in action.

VI. Conclusions and Recommendations

The present labour market situation in Bangladesh presents the reader with at least four alarming features. First, there exists a huge reservoir of unemployed and under employed labour, the size of which is increasing at a rate faster than the rate of growth of population. Second, formal sector employment seems to have been stagnating or even declining. Third, real wages have been rising faster than labour productivity and hence the cost of Bangladeshi labour is increasing relative to competing countries. Fourth, the poor state of industrial relations and frequent strikes and other forms of labour unrest discourage investment and employment creation.

Since attainment of economic efficiency and external competitiveness in a labour-abundant and capital-scarce economy such as Bangladesh critically depends upon an efficient labour market, a comprehensive labour market reform programme needs to be initiated along the following lines.

Improving Labour Market Information (LMI)

Development of reliable labour market information system should constitute the most important component of the proposed reform programme. The purpose of the LMI system will be to generate short and medium-term information on labour market developments and disseminate it to the key actors in the market-employers, labour unions, and Government for adoption of appropriate measures in response to the changing market conditions. While an institutional network already exists in Bangladesh to handle the LMI system further strengthening and inter-agency co-ordination is required for better utilisation of the system to ensure effective monitoring of the labour market developments.

Regulatory Reform and Institutional Strengthening

There is an urgent need to streamline some of the existing labour laws in order to make them pragmatic and implementable. While in theory the existing labour regulations allow the employers enough flexibility in hiring and firing the workers and also protect the workers from arbitrary actions of the employers, in practice the administrative rigidities and weak institutional capacities render the enforcement of the labour laws and regulations quite difficult. It is thus important to undertake a review of the labour laws and strengthen the existing institutions responsible for their implementation. In this regard, the Labour Law Commission instituted for the purpose of reviewing the labour laws is a timely initiative. However, a speedy completion of reviews and adoption of the revision suggested by the Commission is most urgently required.

Wage-Setting Arrangement

The critically important as well as the most difficult area of reform concerns the existing system of wage fixation through minimum wage regulations. The present system of fixing public sector wages centrally through a National Wage Commission and without attention to labour productivity and affordability of the enterprises is argued to have serious negative impacts on enterprise efficiency, productivity growth, and employment creation. While appreciating the inherent problems involved in unwarranted increase in wages and non-wage benefits, a consensus seems to be emerging in favour of linking wage adjustments to productivity trends, enterprise ability to pay and labour market conditions. The recent formation of the National Tripartite Productivity Committee to work out the modalities linking wages to productivity in the public sector industries is a right and timely step in this direction. Quick implementation of the recommendations made by the TPC is thus urgently needed. The reform of the present system of wage fixation should also go hand in hand with concerted efforts made towards improving labour productivity by raising overall efficiency of the enterprises concerned. Increased enterprises efficiency should automatically lead to higher productivity, enhance enterprise ability to pay higher wages and increase employment creation.

De-Politicising Labour Unions

Another important area deserving immediate attention concerns de-linking of the labour movement from political influence. An all-out effort needs to be made to depoliticise labour and labour issues, and to improve labour management relations with full national commitment to productivity improvement. Development of effective bipartite consultation between workers and management at the plant level and institutionalisation of a tripartite negotiations machinery between Government, management and trade unions at international level are urgently required. In particular, the extra-legal interventions by the Government in matters of industrial and labour relations should be .discontinued.

In order to develop a conducive trade union structure supportive of industrial peace, the character and structure of political parties also need to be reformed besides elimination of multiplicity of trade unions. In this connection, steps are also needed to strengthen conciliation services, process of collective bargaining and improvement of institutional mechanism to ensure industrial peace and harmonious labour-management relations.

TABLE - 1
Characteristics of Labour force in Bangladesh

(in million)

Characteristics	Census 1961	Census 1974	Census 1981	Census 1983-84	Census 1984-85	Census 1985-86	Census 1989
Population	50.8	71.5	87.1	95.2	97.7	101.7	108.1
Male	26.3	37.1	44.9	46.6	49.8	51.7	55.9
Female	24.5	34.4	42.2	46.6	47.9	50.0	52.2
Civilian Labour Force	17.4	20.5	25.9	28.5	29.5	30.9	50.7
Male	14.8	19.7	24.4	26.0	26.8	27.7	29.8
Female	2.6	0.9	1.5	2.5	2.7	3.2	20.9
Employed Population	17.3	20.0	25.3	28.0	29.0	30.5	50.1
Male	14.7	19.2	23.9	25.5	26.5	27.4	29.4
Female	2.6	0.8	1.4	2.4	2.5	3.1	20.7
Unemployed Population	0.1	0.5	0.6	0.5	0.5	0.4	0.6
Male	0.1	0.5	0.5	0.4	0.4	0.3	0.4
Female	=	=	0.1	0.1	0.1	0.1	0.2
Not in civil labour force	14.6	25.8	64.0	66.7	68.1	69.8	57.4
House hold work	11.1	16.7	22.4	23.8	24.8	25.0	18.2
Other inactive	3.5	9.1	11.8	12.6	12.9	13.4	1.9
Children (0-9 years)	18.8	25.2	29.9	30.3	30.4	31.4	37.3
Labour force participation (%)							
Crude activity rate	34.3	28.7	28.8	29.9	30.2	30.3	46.9
Male	56.3	53.1	52.7	53.5	53.8	53.6	53.3
Female	10.6	2.6	3.4	5.4	5.6	6.4	40.0
Refined activity rate	54.4	44.3	43.1	43.9	43.9	45.6	74.5
Male	75.7	80.4	78.2	78.5	78.2	81.4	85.3

Female	17.2	4.1	5.1	8.0	8.2	9.9	62.5
Employment in major industry (000's)							
TOTAL	n.a	20018	n.a	27976	28977	30562	50148
Agri. Forestry, Fisheries	n.a	15832	n.a	16448	16712	17464	32571
Mining & Quarrying	n.a	2	n.a	46	3	3	9
Manufacturing	n.a	948	n.a	2483	2688	3019	6976
Electricity, Gas, Water	n.a	8	n.a	68	19	38	18
Construction	n.a	33	n.a	487	553	646	662
Trade & Restaurant	n.a	771	n.a	3255	3610	3832	4130
Transport, Storage, Communication	n.a	320	n.a	1088	1170	1321	1278
Finance, Business, service	n.a	56	n.a	136	2199	367	1238
Community & Personal service	n.a	2060	n.a	2294	2552	2563	1824
Household sector & NAD	n.a	=	n.a	1671	1404	1308	2442
Status in employment (%)							
Total	=	=	n.a	100.0	100.0	100.0	100.0
Self employed	=	=	n.a	38.8	39.4	38.0	29.2
Employed	=	=	n.a	17.8	**39.5	19.0	9.5
Day labourers	=	=	n.a	27.0	=	24.3	15.1
Unpaid family workers	=	=	n.a	15.9	17.9	18.1	**45.7
Not reported	=	=	n.a	0.4	3.2	0.9	=
Child labour force (million)	=	=	n.a	3.8	3.8	2.8	18.7
% of total labour force	=	=	n.a	13.3	12.1	9.0	50.1
Female labour force (million)	=	=	n.a	2.5	2.7	3.2	20.9
% of total labour force	=	=	n.a	8.9	9.0	10.4	40.0
Unpaid family worker (million)	=	=	n.a	4.5	5.2	5.6	22.9
% of total labour force	=	=	n.a	15.9	17.6	18.6	45.1

TABLE - 2

Indices of National Wage Rates of industrial Workers by Type of Industry (1969-70 = 100)

Year	Cotton Textile		Jute Textile		Match		Engineering (Fitter)		Engineering (Turner)		Mustard Oil		All Groups	
	Skilled	Un-skilled	Skilled	Un-skilled	Skilled	Un-skilled	Skilled	Un-skilled	Skilled	Un-skilled	Skilled	Un-skilled	Skilled	Un-skilled
1969-70	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1970-71	1087	112	109	115	109	109	116	110	103	103	108	116	109	111
1971-72	108	113	106	117	113	110	135	113	121	110	104	113	115	112
1972-73	117	126	113	129	110	118	152	126	138	128	123	132	128	126
1973-74	123	143	120	145	136	146	174	167	152	188	143	160	143	158
1974-75	132	156	126	151	146	163	215	203	183	210	165	208	163	181
1975-76	149	166	138	157	157	166	238	210	201	225	187	221	180	190
1976-77	185	193	163	175	176	180	247	213	196	222	185	225	193	201
1977-78	217	206	188	196	168	184	282	224	201	239	199	239	210	214
1978-79	261	287	247	257	241	247	334	279	206	258	244	290	255	269
1979-80	329	361	305	339	268	281	365	269	211	277	356	374	302	314
1980-81	379	414	354	410	288	308	419	372	338	378	371	363	358	373
1981-82	424	446	388	451	372	377	479	438	369	412	371	426	401	424
1982-83	439	481	450	494	470	422	513	485	410	467	413	499	449	473
1983-84	518	534	499	513	474	451	595	542	431	473	460	472	496	497
1984-85	550	593	491	533	482	461	637	591	491	548	478	519	523	540
1985-86	801	713	694	727	532	509	764	660	666	684	594	621	677	650
1986-87	825	763	862	830	602	546	982	776	846	802	759	732	818	738
1987-88	883	879	906	840	738	685	865	730	718	779	805	754	815	775
1988-89	927	962	938	993	819	798	953	731	824	762	852	879	884	850
1989-90	1000	1080	1016	1114	941	914	1030	1146	=	=	967	1035	992	1055
1990-91	1036	1152	1049	1162	1006	1006	1186	1275	=	=	1004	1127	1060	1142

Source : Based on the data recorded in BBS, Statistical Yearbook of Bangladesh. various issue, and monthly Statistical Bulletin, August 1991.

TABLE - 3

Indices of Real Wage Rates of Industrial Workers by Types of Industry (1969-70 = 100)

Year	Cotton Textile		Jute Textile		Match		Engineering (Fitter)		Engineering (Turner)		Mustard Oil		All Groups	
	Skilled	Un-skilled	Skilled	Un-skilled	Skilled	Un-skilled	Skilled	Un-skilled	Skilled	Un-skilled	Skilled	Un-skilled	Skilled	Un-skilled
1969-70	100	100	100	100	100	100	100	100	100	100	100	100	100	100
1970-71	104	108	105	111	105	105	112	106	99	99	104	112	105	107
1971-72	100	105	98	108	105	102	125	105	112	102	96	105	106	104
1972-73	59	64	57	65	60	60	77	64	70	65	62	67	65	64
1973-74	46	53	45	54	51	54	65	62	57	70	53	60	53	59
1974-75	29	35	28	34	33	36	48	45	41	47	37	46	36	40
1975-76	41	45	38	43	43	45	65	58	55	62	51	61	49	52
1976-77	52	55	46	49	50	51	70	60	55	63	52	64	55	57
1977-78	52	49	45	47	40	44	67	53	48	57	47	57	50	51
1978-79	57	63	54	56	53	54	73	61	45	56	53	63	56	59
1979-80	63	69	58	64	51	53	68	51	40	53	68	71	57	60
1980-81	67	73	62	72	51	54	74	65	60	67	65	64	63	66
1981-82	65	63	59	69	57	57	73	67	56	63	57	65	61	65

1982-83	64	70	66	72	69	62	75	71	60	68	60	73	66	69
1983-84	68	70	66	67	62	59	78	71	57	62	60	62	65	65
1984-85	64	69	57	62	56	54	74	69	57	64	56	61	61	63
1985-86	85	76	74	77	57	54	81	70	71	73	63	66	72	69
1986-87	78	72	81	78	57	51	93	73	80	76	72	69	77	70
1987-88	78	78	80	74	65	61	77	65	64	69	71	67	73	69
1988-89	77	80	78	82	68	66	79	61	68	63	71	73	76	70
1989-90	77	83	78	86	72	70	79	88	=	=	74	80	76	81
1990-91	75	83	76	84	73	73	86	92	=	=	72	81	76	82

Source : Based on the data recorded in BBS. Statistical Yearbook of Bangladesh. Various issue and Monthly Statistical Bulletin. August 1991.

TABLE - 4

Indices of Real Wage, Product Wage and labour Productivity in Cotton and Jute Textile Manufacturing in Bangladesh during 1976/77-1989/90.

(1976/77 = 100)

Year	Cotton Textile			Jute Textile		
	Real Wage	Product Wage	Labour Productivity[1]	Real Wage[2]	Product Wage	Labour Productivity
1976/77	100	100	100	100	100	100
1977/78	100	98	110	98	76	105
1978/79	110	117	110	117	99	93
1979/80	121	153	98	126	82	94
1980/81	129	143	106	135	98	91
1981/82	125	143	111	128	102	88
1982/83	123	129	126	143	112	90
1983/84	131	137	133	143	122	87
1984/85	123	132	125	124	99	84
1985/86	163	186	116	161	139	85
1986/87	150	202	128	176	197	93
1987/88	150	214	130	174	202	90
1988/89	148	201	117	170	163	90
1089/90	148	208	114	170	163	90
Annual Trend Rate[3]	2.98	5.22	1.35	3.94	6.02	- 0.78

Sources : Based on the data recorded in BBS, Statistical yearbook of Bangladesh, various issue. Quoted from (Mondal, 1992)

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1 **Labour Productivity is measured as the ratio of real value of products to the number of workers.**

2 **Product wage is the quotient of the indices of money wages and output prices.**

3 **Annual trend rates of growth are obtained by fitting a semi logarithmic function of the form : Log Y=a+b T**

TABLE 5
Indices of Labour Productivity in Some Selected Manufacturing Industries Of Bangladesh (1985/86 - 1990/91)
(1985/86 =100)

Year	Jute Textile	Cotton Textile	Cement	Sugar	Fertilizer		Pulp & Paper	
					Urea	TSP	Paper	Newsprint
1985/86	100	100	100	100	100	100	100	100
1986/87	192	106	129	222	94	152	64	46
1987/88	125	88	160	356	98	123	47	108
1988/89	100	89	215	267	140	125	43	106
1989/90	17	53	222	478	135	161	128	54
1990/91	75	20	199	467	125	56	78	12
Annual Trend Rate of Growth	- 11.98	- 10.91	7.97	14.89	3.72	- 3.80	1.07	- 13.48

Notes :

1. Labour productivity is measured as the ratio of real added to number of workers.
2. Annual trend rate of growth is obtained by fitting a semi logarithamic function of the from Log Y = a + b T , Where "Y" stands for the respective Productivity index, 'a' is a constant and 'b' is the coefficient of time "T".
3. All values are significant at 1 present level.

Source : Estimated on the basis of data provided by the Monitoring Cell, Ministry of Finance, Government of People's Republic of Bangladesh. Quoted from NWPC (1992).

TABLE 6
Net Profit per Enterprise in Some Selected Manufacturing Industries of Bangladesh during 1985/86 - 1990/91

(Taka in Crore)

Year	Jute Textile	Cotton Textile	Cement	Sugar	Fertilizer		Pulp & paper	
					Urea	TSP	Paper	Newsprint
1985/86	- 17.69	- 23.60	4.26	- 20.72	144.96	- 10.37	- 28.71	- 56.16
1986/87	- 12.70	- 10.37	12.67	- 21.38	49.45	22.51	- 38.16	- 98.94
1987/88	- 43.36	- 14.61	7.45	- 11.41	101.80	24.14	- 46.82	22.02
1988/89	- 57.01	- 0.40	22.46	- 14.84	128.54	11.72	- 38.79	- 23.05
1989/90	- 112.38	- 7.85	31.19	10.59	102.22	5.79	3.77	- 76.17
1990/91	- 74.95	- 24.33	43.84	- 7.93	33.96	- 68.53	- 41.65	- 149.08

TABLE 7
Growth of Trade Unionism in Bangladesh

Year	No. of Registered Trade Union	No. of Members
1972	2523	6,82,923
1975	3161	9,21,152
1979	3533	11,27,508
1990	3866	15,81,987
1992	4065	16,48,783
1993	4238	16,74,945
1994	4484	16.81,694
1995	4796	17,20,679

Source : Department of Labour, Government of Bangladesh

TABLE 8

Frequency of Industrial Disputes, Number of Workers Involved, Number of Mandays Lost and Wages and Production Lost during 1972-90.

Year	Number of Disputes		No. of Workers Involved		Personaly		Wages (million Tk.)		Production (million Tk.)	
	No.	% Change	No.	% Change	No.	% Change	At current prices	At 1988 prices	At current prices	At 1988 prices
1972	39		436115		126000		n.a	n.a	n.a	n.a
1973	58	48.72	35027	- 19.69	285177	126.33	n.a	n.a	n.a	n.a
1974	32	- 44.83	57387	63.84	231736	- 18.74	n.a	n.a	n.a	n.a
1975	2	93.75	28327	- 50.64	162000	- 30.09	n.a	n.a	n.a	n.a
1976	5	150.00	14517	- 48.75	25618	- 84.19	n.a	n.a	n.a	n.a
Mean 1972-76	27	15	35775	- 14	166106	- 2	n.a	n.a	n.a	n.a
1977	22	340.00	76675	428.17	81715	218.97	n.a	n.a	n.a	n.a
1978	89	304.55	113209	47.65	662332	710.54	n.a	n.a	n.a	n.a
1979	96	7.87	114248	.92	647629	- 2.22	9	20	106	236
1980	104	8.33	164032	43.58	1160436	79.18	178	359	143	288
1981	80	- 23.08	117031	- 28.65	1198460	3.28	15	27	51	91
1982	55	- 31.25	21788	- 81.38	238658	- 80.09	4	7	15	26
Mean 1977-92	74	101	101164	68	664872	155	21	31	159	233
1983	16	- 70.91	175787	706.81	392616	64.51	13	17	75	96
1984	142	787.50	481004	173.63	444817	13.51	84	101	544	656
1985	95	- 33.10	198118	- 58.81	284920	- 35.30	11	12	93	100
1986	46	- 51.58	105977	- 46.51	2079671	629.91	11	11	13	13
1987	18	60.87	88795	- 16.21	175278	- 91.57	4	4	29	27
1988	9	- 50.00	28874	- 67.48	49398	- 71.82	2	2	24	21
1989	16	77.78	60513	109.58	85395	72.87	0.4	0.4	15	13
1990	5	- 68.75	14554	- 75.95	28479	- 66.65				
1991	3	- 40.00	15000	3.06	29000	1.82	0.4	0.4	15	13
Mean 1983-90	43	66	144203	94	442572	64				
Overall Mean	47	61	96714	48	424516	72	29.37	49.28	105.58	150

Source : The Bangladesh Labour Journal. Various issues. Also unpublished data of the Directorate of Labour.

TABLE 9
CAUSE OF INDUSTRIAL DISPUTES BY ECONOMIC AND POLITICAL ORIGIN

Year	Economic No.	Causes %	Political No.	Causes %
1973	51	87.93	7	12.07
1977	15	68.18	7	31.82
1978	67	75.28	22	24.72
1979	75	78.13	21	21.88
1980	95	91.35	9	8.65
1981	75	93.75	5	6.25
1982	55	100.00	0	0.00
1983	2	12.50	14	87.50
1984	15	10.56	127	89.44
1985	18	18.95	77	81.05
1986	19	43.18	25	56.82
1987	1	5.56	17	94.44
1988	4	44.44	5	55.56
1989	6	37.50	16	62.50
1990	2	40.00	5	60.00
1991	3	100.00	=	=
Toal	503	58.10	357	41.90
Annual Average	31	51.86	22	48.14

Source : The Bangladesh Labour Journal. Various issues , Also unpublished data of the Directorate of Labour.

TABLE 10
SETTLEMENT OF INDUSTRIAL DISPUTES BY DIFFERENT METHODS

Direct Negotiation		Mediation by Govt Conciliatory Officer	Arbitration by Independent Tribunal	Unconditi onal Return to work	Other Methods	Total
No	30	13	0	15	0	58
%	51.7	22.4	0.0	25.9	0.0	100.00
No	2	4	0	16	0	22
%	9.1	18.2	0.0	72.7	0.0	100.00
No	32	53	0	4	0	89
%	36.0	59.6	0.0	4.5	0.0	100.0
No	20	37	0	33	6	6.3
%	20.8	38.5	0.0	34.4	6.3	100.0
No	19	14	1	0	70	104
%	18.3	13.5	0.96	0.0	67.3	100.0
No	23	18	0	25	5	80
%	40.0	22.5	0.0	31.3	6.3	100.0
No	33	12	0	1	9	55
%	60.0	21.8	0.0	1.8	16.4	100.0
No	4	0	0	10	2	16
%	25.0	0.0	0.0	62.5	12.5	100.0
No	10	15	0	103	14	142
%	7.0	10.6	0.0	72.5	9.9	100.0
No	10	0	0	84	1	95
%	10.5	0.0	0.0	88.4	1.1	100.0
No	3	5	0	30	8	46
%	6.5	10.9	0.0	65.2	17.4	100.0
No	0	1	0	16	1	18
%	0.0	5.6	0.0	88.9	5.6	100.0
No	3	0	0	6	0	9
%	33.3	0.0	0.0	66.7	0.0	100.0
No	1	1	0	13	1	16
%	6.3	6.3	0.0	81.3	6.3	100.0
No	2	0	0	3	0	5
%	40.0	0.0	0.0	60.0	0.0	100.0
No	2	1	0	0	0	3
%	66.7	33.3	0.0	0.0	0.0	100.0

Notice : The Bangladesh Labour Journal. Varrious issues and unpublished data from the Directorate of Labour.

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BANGLADESH : A SYNOPTIC ACCOUNT OF THE RECENT MACROECONOMIC PERFORMANCE [1]

Dr. Quazi Meshahuddin Ahmed *

I. Introduction

Starting in 1990/91, Bangladesh continued to make efforts at stabilising its economy and since then has been able to maintain a reasonable macroeconomic balance along with undertaking a package of reform measures aimed at liberalisation of the foreign trade regime, strengthening fiscal management, making the financial and banking sector more competitive, maintenance of a flexible exchange-rate policy, expediting the implementation of public sector development program, encouraging private investment and initiation of a phased privatisation of the state-owned-enterprises (SOEs). In a gradually liberalised trade and exchange rate regime, while exports performed well led by ready-made garments with workers' remittances also remaining buoyant, imports languished in the earlier years of reform thus giving rise to a continued build-up of foreign exchange reserves. On the domestic front, the initiation of stabilisation and the package of reform programs including that of liberalisation of markets in agricultural input prices and irrigation equipment which had even started earlier, coincided with favourable weather conditions for two years in a row yielding higher food grain output that peaked in 1992/93. Consequently, the rate of inflation, whose index has a preponderantly large weight for food grains, recorded a sharp fall and stayed at a low-level consecutively for two years in 1992/93 and 1993/94.

In 1994/95, with imports bouncing back and there being a disastrous drought condition, the internal price stability came under strain mainly due to a fall in food grain output. The Government undertook a large

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[1] This is an abridged version of a paper written in November, 1995. Statistics stand updated until May, 1996.

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commercial importation of food grain while higher domestic prices of food grain coupled with a very low import tariff on food grain also prompted the private sector to import a substantial amount of food grain in 1994/95. Exports performed remarkably well in 1994/95 but with imports also rising very fast, current account deficits widened by a large margin despite an appreciable increase in the inflow of workers' remittances. Hence, foreign exchange reserves began to be utilised which had earlier been accumulated. Meanwhile, the demand for domestic credit also rose and the banking sector accommodated that rising demand fairly liberally. In so far as the rise in demand for domestic credit was predominant in the private sector, a concomitant rise in economic activities in the private sector should have posed no real threat to the domestic price level. However, since the expansion in domestic credit was accompanied by a sudden pressure on the price level evidently originating from a short food output, there arose a need for checking the expansion of domestic credit. In order to curb the rising trend in the domestic price level, Bangladesh Bank, the central bank of the country, adjusted, albeit marginally, the bank rate as well as the exchange rate for Taka upward a few times in the recent past.

Government's public sector development expenditures, the Annual Development Programmes (ADPs), underwent in recent years proclaimed changes in terms of their focus on the social sector. The pace of implementation of ADP appeared to have accelerated in 1992/93 and 1994/95 before being slowed in 1995/96. Consequently, the ADP expenditure at Tk.103.03 billion in 1994/95 represented an increase of only 12 percent over the preceding year's expenditure of Tk.91.83 billion while the latter amount showed a jump of 40 percent over the ADP realised at Tk.65.50 billion in 1992/93. Despite its occasional acceleration and acclaimed focus on the social sector, the quality of the implemented ADP had always remained doubtful.

Bangladesh has in the recent past made some progress in population control, devised a workable program on primary and female education resulting in substantial rise in primary school enrollment rate and increased awareness among women particularly among the landless and assetless women, and expanded the volume of NGO as well as the government-delivered micro-credit programs for the rural poor which evidently helped in reducing poverty incidence.

The overall economic activity in 1994/95 was affected due to a major slump in country's crop output. Investment levels, although among the lowest in South Asia, recorded a modest rise which were partly aided by an acceleration in public development expenses. While the Government remains committed to encouraging private investment and has expanded the areas of private sectors' participation including infrastructure development, the lack of infrastructure and credit facilities, more so bureaucratic bottlenecks, archaic business laws and delay-prone legal system continue to hinder the private sector growth. A prolonged political stand-off in the country till the conclusion of the general elections in June, 1996 heightened the uncertainty for the private sector's investment decisions. The political impasse in the country during 1994 and 1995 appeared to have encouraged a subtle anti-reform sentiment during that period which was further whipped up in 1995 by a serious mismanagement of the fertilizer distribution system that had been apparently yielding positive results since its deregulation in 1990.

The fiscal stance of the Government to mobilise resources in the public sector through tax reforms and containment of current expenditures was successful in financing an increasing share of its development expenditures. However, while the growth in revenue continues to be appreciable, there developed a strain on the current expenditure side in 1994/95 and more so in 1995/96 allowing an increase in fiscal deficit to re-emerge.

The central issue that concerns the Bangladesh economy revolves around the task of raising investment and accelerating labour-intensive economic growth while maintaining the macro-economic stability. However, growth and stability also hinge on the accomplishment of the reform agenda that has been undertaken. Divesting the losing public enterprises to arrest a drain on public exchequer, an apolitical restructuring of the civil service based on merit and performance, consolidation of fiscal measures to sustain the growth in government revenue, strengthening the financial system, liberalising labour policies and putting into effect regulatory and institutional framework for attracting both domestic and foreign private investment are some of the unfinished reform agenda that will have to be carried out expeditiously and with full political commitment.

II. Growth and Investment

Growth of real GDP in 1994/95 was 4.4 percent compared to 4.2 percent recorded in the previous year. The overall agricultural growth declined by 1 percent because a prolonged drought, shrinkage in irrigation coverage and disruption in the distribution of chemical fertilizer resulted in a large fall in the cereal output which accounted for two-thirds of agriculture sector's contribution to GDP in 1994/95.

Table 1. Major Economic Indicators

		1992/93	1993/94	1994/95	1995/96
Gross Domestic Product	% change	4.5	4.2	4.4	4.7
Agriculture	% change	1.8	0.3	(-) 1.0	1.86
Industry	% change	7.8	7.8	8.4	5.7
Services	% change	5.3	5.8	6.9	6.1
Gross domestic Investment	% of GDP	13.8	15.4	16.6	16.5
Gross National Savings	% of GDP	11.2	13.8	13.1	11.5
Inflation rate [a]	% change in CPI	1.4	1.8	5.2	6.5
Money Supply growth	% change	10.6	15.4	16.0	13.2
Merchandise	$ billion	2.4	2.5	3.5	4.0
Exports	% change	19.5	6.3	37.1	15.2
Merchandise	$ billion	4.1	4.2	5.9	6.5
Imports	% change	15.8	2.9	40.8	10.1
Current	$ billion	(-) 0.6	(-) 0.4	(-) 1.0	(-) 1.6
Account Balance	% of GDP	(-) 2.6	(-) 1.6	(-) 3.5	(-) 5.0
External Debt Outstanding	$ billion	13.6	15.4	15.8	na
Debt service Ratio	% of GDP	12.4	11.5	13.0	na

a. based on CPI for middle -income families in Dhaka.

Sources : Bangladesh Bureau of Statistics, Bangladesh Bank and own estimates.

The industry sector grew by 8.4 percent in 1994/95, up from 7.8 percent recorded in 1993/94. The manufacturing sector, after a fall in 1993/94, picked up in 1994/95 having posted a growth of 11.2 percent. However, on a desegregated basis, the performance of large-scale industries presented a mixed bag with the output of cotton textile, jute textile and tea declining while the output of chemical, basic metals, sugar, food and steel products showing some gains. In terms of fixed assets, the manufacturing sector still continues to be dominated by large public enterprises most of which have been making losses for years together thus seriously hurting the state exchequer on the one hand and contributing to a poor performance record of the industries sector to GDP on the other. Construction sector activities remained buoyant in 1994/95 which was also evident from the fact that despite larger import of construction materials and their higher domestic production, prices of construction materials continued to show an upward trend in the domestic market. Services sector output increased by 6.9 percent in 1994/95 indicating an increased volume of activity in transportation, communication, trade services and in banking and insurance. Merchandise exports and imports expanded substantially in 1994/95 compared to their levels in 1993/94 creating demand for transportation and generating additional trade services on a much higher volume. But for the slump in the agricultural output growth in 1994/95, real GDP growth would have been much higher given buoyant activities recorded in most other sectors. This phenomenon shows that food grain output in Bangladesh continues to remain vulnerable to adverse weather conditions with attendant negative impact on the overall growth prospects of the economy. The setback in the production of food grain output after achieving a higher level in 1992/93 also calls for re-examining the whole issue of agricultural strategy for overcoming the structural rigidities and impediments to the attainment of expanded food grain output.

Economic growth in 1995/96 appeared to have been adversely affected due to a delay in resolving the prolonged political crises. In fact, at the fag end of the year the country saw a successful resolution of the political impasse which may positively impact the growth rate in 1996/97. During 1995/96, the agriculture sector posted a growth of 1.86 percent mainly led by the crop subsector. After two successive poor harvests, crops performed better in 1995/96 due to better weather conditions. Although most manufacturing and part of the services sector suffered considerable setbacks, overall GDP growth in 1995/96 recorded a slight improvement mainly because of improved performance of the crop agriculture.

Gross domestic investment rose to 16.6 percent in 1994/95 from 15.4 percent in 1993/94. Despite political uncertainties and infrastructure bottlenecks, private investment in 1994 / 95 was a shade higher which might be attributed to liberal trade, exchange control, capital market development and foreign investment policies. Due to an increased mobilisation of domestic resources in the public sector, the implementation of the ADP in recent years has not been constrained by lack of local funding. Reinforced by devolution of more authority to the project implementation entities and monitoring of public sector projects at the highest level of the government, public investment also registered an increase in 1994/95.

Gross national savings oscillated in the range of 12 to 13 percent of GDP in the past four years ending in 1995/96. This is an improvement compared to the past trend of national savings in Bangladesh which has resulted from an emergence of positive savings in the public sector, an increase in workers' remittances from abroad and a significant rise in private savings, largely in the form of small savings instruments, propelled by a continuing positive interest rate in the economy. The emergence of inflationary pressure in the economy in 1994/95 which possessed a built-in strength because economic activities rose in the non-agricultural sectors while agricultural sector output declined might have impinged negatively on the private domestic savings behaviour in 1995/96. Workers' remittances reached $1.2 billion in 1994/95 from slightly over $1 billion in the preceding year. Remittances grew much faster in the early 1990s compared to their growth in the previous five-year period apparently resulting to a great extent from flexible management of the exchange rate.

III. Employment

According to the Labour Force Survey(LFS)1991-the latest year for which official labour data are available-the labour force was 51.12 million compared to 50.7 million recorded in the LFS 1989. Beginning 1989, the LFS sought detailed responses and counted female population involved in household work as doing economic activities. Since then, the labour force has been growing by around 3 percent per year giving an estimated labour force of around 59 million for 1994. About 1.8 million people enter Bangladesh's labour force annually. There are three types of labour markets: rural informal, urban informal and formal: the informal sectors dominate the labour market. Only about 25 percent of the labour force have regular jobs while 15 percent are classified as casual workers. The remaining 75 percent are self-employed or unpaid family workers. Moreover, the formal sector employment seems to have declined during the second half of the 1980s.

Bangladesh's labour markets face the most difficult problem of under-employment caused by low demand for labour. Since measuring under-employment is difficult proxy measure of under-employment-the gap between the number of hours the labour force is willing to work and actual hours worked-has found that under-employment rate has increased from 23 percent in 1989 to 26 percent in 1994. This measure would indicate that about a quarter of Bangladesh's labour force is currently out of work. The task of providing employment to this vast pool of unemployed including the new entrants remains a serious problem for the policy planners in Bangladesh. A small share of formal sector employment and a vast size of the unemployed labour-force make the case of labour migration from Bangladesh all too obvious. The gross number of migrants from Bangladesh to the Gulf and other countries increased over the past years and has currently reached nearly 250,000 persons per year. However, this level of manpower export is too inadequate to have any dent into the overall unemployment situation of the country.

IV. Budget, Money and Prices

Despite occasional slackness, the program of fiscal management during the early part of the 1990s resulted in a progressively larger size of the development budget being financed out of domestic resources: from nil in 1989/90 to over 25 percent in 1990/91 and further to an estimated amount of 42 percent in 1995/96. On the revenue side, tax revenue increased at a satisfactory rate in recent years, especially following the introduction in 1992 of a uniform rate value-added tax. Revenue gains accrued despite a significant rationalisation and reduction of import tariff and a considerable slashing of the income and corporate tax rates. However, measures to improve the tax administration also continued. On the revenue expenditure side, till 1994/95, it was more or less contained within the nominal growth of GDP despite increased in pay and allowances of government servants, subvention for private school teachers, subsidies on food and a rise in interest payments on foreign debt. However, revenue expenditures in 1995/96 are estimated to have overshot the budgeted amount nearly by 7 percent.

The overall budget deficit in 1994/95 increased to 6.5 percent of GDP from about 5.9 percent in 1993/94 the resulting increase originating from government's expenditure side. The revenue outturn was better than estimated in the Budget with tax revenues rising from 9.5 percent of GDP in 1993/94 to 10 percent of GDP in 1994/95. This better revenue performance was due to an enhanced coverage of VAT as well as because of a higher collection of custom duties resulting from the imposition of higher custom duty on petroleum products and an increase in the volume of suitable imports. The higher collection of custom duties on petroleum products was to a great extent offsetting in nature as it reduced the Bangladesh Petroleum Corporation's profit income transferred to the exchequer as non-tax revenue. The yields from VAT amounted to 4.4 percent of GDP in 1994/95 compared to 3.6 percent in 1993/94.

Current expenditures in 1994/95 outstripped the budget estimate by about 2 percent mainly due to the increased subvention given to the teachers of the private secondary and primary schools, rise in interest payments on domestic debt including that on small savings instruments and an increase in food subsidies for public food distribution system aimed at stabilising the retail market prices of food grains. However, there was also a higher allocation for social and community services which help poverty alleviation and social sector development. Current expenditure worked out to nearly 9 percent of GDP in 1994/95 compared to 8.9 percent in 1993/94. The food account of the Government, transacted separately within the Revenue Budget, worsened due to a huge quantity of food import required to make up the shortfall in domestic production. The deficit in the food account diverts resources available for supporting development expenditures.

The demand for credit by the private sector recorded an appreciable increase in 1994/95 which to a great extent was reflected in the substantial growth in both export and import trade during the year. Broad money, M2, increased by Tk. 58 billion or nearly 16 percent during the year. While 92 percent of the rise in Broad money was caused mainly by an increase in domestic credit, a large share of the domestic credit nearly 85 percent, went to the private sector. A substantial growth in private sector credit during 1994/95 was symptomatic of a rise in private sector activities, particularly in import and export trade during the year. There was also a modest rise in credit to the public sector due to issuance of bonds enabling commercial banks to write off some bad loans provided to two parastatals and making equity provision to the national airlines, Bangladesh Biman, for buying aircrafts. The growth in total domestic credit overshot the envisaged target set for 1994/95 by nearly 6 percent. This expansion in domestic credit might also be taken as a proxy for a fast growth in economy's aggregate demand. The rise in credit for the private sector was found to be influenced to some extent by a demand for construction activities which could be in the nature of real estate business. The rise in aggregate demand, on the other hand, coincided with about a 6 percent fall in country's cereal output during 1994/95 thus reinforcing the pressure on the price level which was already generated due to shortfall in food output.

Shrinking liquidity in the commercial banks beginning in late 1994, and a steady rise in government borrowings from the banking system starting in early 1995 coupled with a spectre of a continuing shortfall in food output saw the initiation of a pre-emptive move to check further expansion in domestic credit in order to contain the pressure on price level. Bangladesh Bank raised the bank rate by 0.5 percent in two consecutive parcels first from 5.5 percent to 5.75 percent and further to 6 percent within less than a month period around September-October, 1995. The savings and fixed deposit floor rate as well as the lending rates also followed the adjustment in bank rate. Simultaneously with the monetary restraint, the external value of Taka was also adjusted upward twice around the same period. The rate of inflation, as measured by the cost of living index of the Dhaka middle-income families, rose sharply to 5.2 percent in 1994/95 from 1.8 percent in 1993/94.

The Government has been carrying out a new exercise regarding reconstructing the price index with a relatively recent base year, expanded coverage of goods and new weights for different items covered. As preliminary finding of that exercise has indicated that the rate of inflation in 1994/95 was over 9 percent compared to 5.2 percent recorded through the existing method of calculating inflation. However, the new method of estimation of inflation is being refined and it would be quite some time before a revised series of inflation data would be available.

The growth in the aggregate demand in the economy that was pronounced in 1994/95 continued unabated during the early part of 1995/96 as may be surmised from some indicators such as increased currency circulation and a rising trend in domestic credit expansion both in the public and private sectors. The overall fiscal deficit is estimated to be about 6.3 percent of GDP in 1995/96 compared to 6.5 percent in 1994/95. The fall in fiscal deficit, albeit small, was occasioned by a fall in development expenditure although revenue expenditure overshot the budget estimate nearly by 7 percent.

A Synoptic Account Of The Recent Macroeconomic Performance

The growth in total revenue in 1995/96 was in line with the budget estimate. Despite further reductions in import tariff rates affecting custom revenue as well as VAT, some exemptions and simplification in income tax assessment and payment procedures and lowering the corporate tax rate for publicly traded companies from 37.5 percent to 35 percent, the Government hoped to collect, as in the past four years, higher tax revenues in 1995/96 by raising the efficiency of the tax administration.

To attain rapid economic growth based on an intensive use of Bangladesh's most abundant factor, labour, the government has been continuing to redirect its trade policy towards a competitive export-oriented economy by liberalising the trade and exchange rate regimes. During 1995/96, the top operating import duty was brought down to 50 percent from 60 percent in the preceding year. The average unweighted nominal tariffs declined to 26 percent in 1994/95 while because of several user-specific concessions the average weighted tariffs declined to 20-21 percent in the same year. Since 1990, non-tariff barriers have also been substantially removed by eliminating quantitative restrictions (QRs) on a large number of import items and during 1994/95 QRs on five items were done away with while the remaining few QRs on both export and import for trade reasons were under review.

Since making the Bangladesh Taka convertible in current account in April, 1995, the Government has been pursuing a policy of flexible and liberalised exchange rate regime. In accordance with the spirit of Taka convertibility, exporters' retention quota of foreign exchange has been increased from 5 percent to 7.5 percent in respect of garment exports and from 25 percent to 40 percent in respect of exports other than garments. The main objective of the exchange rate policy is to ensure external competitiveness of Taka and thereby foster export growth. In view of the recent volatility of major currencies in the international currency market and the depreciation of the Indian rupee, the indicative Taka-dollar exchange rates have been adjusted twice between September-October, 1995 effecting about one percentage point depreciation of Taka. However, the extent of depreciation was questionable vis-à-vis the Indian currency which depreciated by over 12 percent in relation to the US dollar towards the end of 1995. Bangladesh Taka appeared to be overvalued compared to its major trading partners including its South Asian neighbours.

V. External Trade and Payments

Despite imports picking up by a substantial margin and widening of the current account balance, Bangladesh's balance of payments situation remained comfortable during 1994/95. The overall import payments in nominal terms rose by over 39 percent during the year while the value of non-food imports rose by over 31 percent resulting mainly from higher imports of raw materials and intermediate goods and capital machinery for industries. Import payments for food grain also increased by three folds during 1994/95 resulting from a higher volume of food import caused by a setback in crop output at home. The total value of food grain import as a proportion of total import payments increased from under 4 percent in 1993/94 to over 8 percent in 1994/95.

Exports ,on the other hand, also recorded a robust growth of 37 percent, 30 percent in volume and 7 percent in value, during 1994/95. Buttressed by a strong world demand and a relatively expanded role of the private sector in export activities, all major categories of export items performed better with the export value of ready-made garments increasing by over 42 percent, jute goods by 12 percent, knitwear by 49 percent, leather by 20 percent, frozen food by 45 percent and rawjute by 39 percent.

The current account deficit in the balance of payments increased from 1.6 percent of GDP in 1993/94 to 3.5 percent in 1994/95. However, an increase in project aid disbursement by over 28 percent mainly due to a lumpy disbursement of funds in 1994/95 for a few projects including the Jamuna Bridge project and a continued rise in portfolio investment resulted in a further build-up of foreign exchange reserves, from about $ 2.8 billion in June, 1994 to nearly $ 3.1 billion in June, 1995. Notwithstanding a rise on the level of foreign exchange reserves, the increased volume of imports in 1994-95 had implied that this amount of foreign exchange reserves was equivalent to about six months' in 1993-94. Subsequently, the level of reserves saw a quick erosion falling to $ 2.04 billion, equivalent to about 3.8 months' imports at the end of June, 1996.

VI. Policy and Development issues

Bangladesh faces the daunting challenge of pervasive poverty which in turn bears potentials for generating considerable social unrest thus negatively affecting the growth prospect of the economy. Therefore, the

Government is committed to making available an increasing amount of invisible funds for directly poverty-reducing as well as for broad-based human development programs. While the task of eradicating poverty may often partake of the nature of public goods, one of the declared government strategies to attain this objective is to encourage labour-intensive and export-led growth with the private sector in the forefront being aided by structural reforms and efficient investments in physical infrastructure. The second declared strategy of poverty reduction is of course human resource development to improve the lives of the poor directly and enable them to participate in the economic activities. The alleviation of poverty however requires a much faster growth of the economy. A faster growth requires higher investment both in the public and private sectors which in turn requires a continued macroeconomic stability and the Government's resolve for moving ahead with a transparent and irreversible agenda of structural reforms.

During the course of 1991 through 1995, Bangladesh maintained some macroeconomic balance, recording improvements in social indicators and has also achieved some success with its structural adjustment reform programs. However, towards the end of that period, the macroeconomic stability visibly came under strain. More importantly, many reform programs, were not assiduously pursued while the impact of the many commendable reforms got eroded due to ineffective implementation. A consensus regarding economic reforms even within the Government sometimes appeared to have been lacking as evidenced at one stage from the fact that some members of the then ruling party ascribed their party's bad performance in some city corporation elections to economic liberalisation programs. On the other hand, the unresolved political crisis in the country made the decision regarding moving ahead with harsh choices of economic reforms all the more difficult. Therefore, the implementation of reforms in general has been slow, these reforms often have not been implemented in a transparent manner, and policy reversals and ambivalent follow-up at the working level were obvious. For example, despite its modest coverage, the implementation of the Government's privatisation program has been slow and the policy of voluntary separation of workers in the SOEs appeared to be a sensitive subject having no forthright mention in Government's open policy pronouncements.

A Synoptic Account Of The Recent Macroeconomic Performance

Despite its inability to push ahead in an effective manner with all the structural adjustment reform programs, Bangladesh's success in maintaining a still reasonable macroeconomic balance and the track record of a number of already initiated reform programs hold out opportunities for putting the economy on a higher growth path provided there is an improved political climate and the newly elected Government resolutely moves ahead with implementation of the unfinished reform program. Beyond the peaceful holding of general elections in June, 1996, there is a need for much improved political environment to create and sustain an enabling environment for the market-based private sector growth. The Government will have to build a consensus around the reform agenda and pursuing that agenda in only a stable political environment can remove the perception of uncertainty in business environment and stimulate both domestic and foreign private investment that would support a sustained increase in economic growth.

The economic problems of the Bangladesh economy are notoriously stubborn. Any Government making genuine efforts to effectively tackle them needs support of all citizenry. However, this is true for all countries and the case of Bangladesh may not possibly be cited as *sui generis*.

Taxophobia - how to overcome it

Mohammad Delwar Husain*

Every taxpayer, regardless of nationality detests income tax. Income tax, as the name suggests, is a tax on income. Controversy, however, goes on as to what constitutes income. Here I do not intend to go into that controversy. Scope of income being vast, I would mainly try to address the needs of an individual taxpayer having primarily employment income. He may have also such income as house property income, interest on bank deposit, dividend income and agricultural income. In order to compute net income under each of these heads, a taxpayer needs to know the basic modality governing their taxability. Without being a taxman or a professional tax consultant he can, if he really wants to, acquire some basic knowledge of income taxation. This knowledge will certainly embolden him to face his real life tax scenario and help him change his usual cynical and sometimes hostile attitude towards income tax. The basic reason behind a man's innate abhorrence to income tax lies in his primordial tendency not to part with his possessions. Since the State by virtue of its coercive power has made income tax an obligation on its citizens, its default is, therefore, an offence for those who evade and avoid it. We are aware that income tax is as real as life itself. It recurs every year and prolongs as life goes on. The best weapon to combat income tax is to know about it. If you can gather basic literacy in tax, you would get rid of the gnawing phobia and learn to relive the 'brave new world'.

While dwelling on tax matters here I have kept in view that class of taxpayers who have primarily employment related income plus a few common sources I have come across in their records in my fairly long experience as a taxman. In the discussion that follows, I have sought to solve a practical dilemma as to how to compute one's net income from each individual source, total income by aggregating all sources and then to figure tax. It should be kept in mind that tax is calculated on total income comprising all heads of income - not on each head separately. The example that follows will answer the following :-

(a) what are the components of basic pay?

(b) how much of the allowances received by an employee are exempt and how much of it constitutes income?

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(c) what are the areas of approved investment and how much of it is admissible for investment tax credit?

(d) how to calculate tax payable on salary income?

(e) how to compute total income by aggregating all sources and figure tax thereon?

(f) finally, how to figure average tax rate?

COMPUTATION OF SALARY INCOME (ASSESSMENT YEAR 1995-96):

Situation-I	1.	Basic Pay	Tk. 1,30,000	
	1.2	Bonus	Tk. 16,000	
	1.3	Dearness allowance	Tk. 10,000	
	1.4	Special allowance	Tk. 5,000	
		Basic pay plus its components :		Tk.1,61,000

Certain employment-related allowances and payments enjoy partial or full exemption. Following exercise demonstrates how these are worked out.

			(income components)
2.	Entertainment allowance: (the entire sum is includible in total income)		Tk. 6,000
3.	Conveyance allowance: Less exempt	Tk. 8000 Tk. 4200	Tk. 3,800
4.	House rent allowance: Less exempt (50% of the basic pay or Tk. 60,000 whichever is the less)	Tk. 70,000 Tk. 60,000	Tk.10,000
5.	Medical allowance: Less actual expense (assuming it is actually spent and supported by evidence)	Tk. 2,400 Tk. 2,400	Tk. Nil
6.	Employer's contribution to P.F. (such contribution constitutes component of income and hence includible in total income)		Tk. 2,000
	Total income (net income) from salary :		**Tk.1,82,800**

The employee in the multi-stage income -cum- tax computation has correctly completed the first stage. Tax laws have offered him attractive tax break for personal investment. Now he has to find out his total investment and determine the exact sum he is entitled to. ***He knows that investment claim is restricted to a fixed monetary ceiling i.e. 20% of total income or one lac Taka whichever is less. Let us see how he has worked out his investment claim:***

<u>INVESTMENT CLAIMED :</u>

1.	P.F. contribution (self)	Tk.	2,000
2.	P.F. contribution (employer)	Tk.	2,000
3.	Contribution to DPS.	Tk.	5,000
4.	Purchase of share of Public Ltd. Companies	Tk.	50,000
5.	ICB Unit/ Mutual fund purchase	Tk.	15,000
6.	Life insurance premia (self, spouse and dependent children)	Tk.	2,000
	Total investment claim :	Tk.	76,000
	Admissible investment :	Tk.	36,160

Due to restriction in law as stated above, he can claim admissible investment allowance to the extent of Taka 36,160 only while the actual investment is Taka 76,000. Admissible investment here is derived by deducting employee's contribution to PF from total income : 20% of the resultant sum i.e. Tk. 36,160 is the claim he is legally entitled to for investment tax credit. He has invested in the areas approved by the law. Investment in unapproved areas will not figure in the calculation of admissible investment. Investment in savings certificate including DSC is not approved for tax credit.

Having thus completed the second stage, he now steps into the final and the most crucial stage of figuring his tax. He knows the tax rate. He also knows that he cannot claim the admissible sum of investment as outright deduction from his income. He is just entitled to investment tax credit @ 15

% on the sum so admissible. Here is how he figures his tax, showing treatment of investment tax credit.

FIGURING TAX

Total Income (Salary) :	Tk. 1,82,800	
Tax on the 1st 55,000 nil	Tk.(-)55,000	(Tax nil)
	1,27,800	
Tax on the next 75,000 @ 15 %.	(-)75,000	Tk.11,250
Tax on the balance @ 20 %	52,800	Tk.10,560
(Tax on the next 1,60,000 @20%)		
(Tax on the balance @ 25%)		
Total Tax		Tk. 21,810
Less 15 % tax credit on investment of Tk. 36,160		Tk. 5,424
TOTAL TAX PAYABLE		Tk.16,386

If the employee had only employment income, his tax computation problem would have ended here. But as he has multiple sources of income, he is to further proceed in computing his net income from each source along with income aggregation and finally figuring their tax. Let us now see how he does it.

Situation - II

Rental Income from House Property :

Gross annual rent (Tk.10,000*12) Tk. 1,20,000 ------Tk.1,20,000 (annual value)

Admissible deductions:

1.	One fifth of the annual value for repair, collection etc. (one fourth is allowable if evidence produced)	: Tk.	24,000	
2.	Municipal tax	: Tk.	5000	
3.	Land revenue	: Tk.	1200	
4.	Interest on building loan	: Tk.	30,000	
5.	Property insurance premium	: Tk.	1500	
		Tk.		61,700
Income (net income) from house property :				Tk.58,300

Agricultural Income :

The employee owns 5 acres of agricultural land. His holdings yield double crop a year. He shows the following computation .

yield per acre 30 mds of paddy	:	total yield(double crop) comes to (30*5*2) 300mds.
Price of paddy comes to	:	= (300 mds *Tk.225) Tk. 67,500
Less 60% cost of production (as provided in law)	:	(-) Tk. 40,500
Income (net income) from agriculture		Tk. 27,000

Dividend.

The employee during the relevant income year has received dividend of Taka 50,000.00 from share of public limited companies. He purchased the share with money borrowed from a bank. He computes his income from dividend in the following manner :

dividend	:	Tk. 50,000
Less interest on loan	:	(-)Tk. 10,000
Income from dividend	:	Tk. 40,000
less exempt	:	Tk. 30,000
Net income from dividend:		Tk. 10,000

Interest on fixed deposits :

The employee has received Tk. 60,000 as interest on fixed deposit maintained with a bank. He has shown the entire amount as income i.e. interest income Taka 60,000.

The employee having thus calculated his income correctly from each source, now aggregates these as follows :

Income Aggregation :

1.	Salary income	:	Tk.	1,82,800
2.	House property income	:	Tk.	58,300
3.	Agricultural income	:	Tk.	27,000

4.	Dividend	:	Tk	10,000
5.	Bank Interest	:	Tk	60,000
	Total income	:	Tk	3,38,100

The employee had a relatively easier problem to handle to figure his tax while he had only employment income. Now on aggregation of all sources, his income has not only increased in quantum, he is also facing a new problem of figuring his tax liabilities pertaining to salary income, which his employer has undertaken to bear. Hence he is required to figure his total tax liability as well as the portion of liability his employer is to bear. Finding the exercise little puzzling, he goes to a tax consultant who guides him as follows :-

Figuring Tax :

Total income	:	Tk. 3,38,100	
On Ist	:	Tk.(-) 55,000	Tax Nil
		Tk. 2,83,100	
On the next	:	Tk. (-) 75,000 (@ 15%)	Tax Tk.11,250
		Tk. 2,08,100	
On the next	:	Tk. (-)1,60,000 (@ 20%)	Tax Tk.32,000
		Tk. 48,100	
On the balance	:	@ 25%	Tk. 12,025
		Total Tax :	Tk. 55,275

Investment Tax Credit :

Investment scenario here undergoes a complete change. When total income was computed with employment income as the only source, the admissible investment was figured at Tk. 36,160 against investment claimed at Tk. 76,000. Now that total income due to aggregation of all source has increased, his admissible investment now goes up to Tk. 67,220, the modality being the same as is the situation-I. Tax credit on Tk. 67,220 @15% comes to Tk. 10,083 being the amount deductible from the total tax.

Total Tax as shown above is	--------	Tk. 55,275
Less investment tax credit:		
@ 15% on Tk. 67,220	-------	Tk.(-)10,083
Total tax payable	-------	Tk. 45,192

Tax on salary (ST):

$$ST = \frac{\text{Total tax* Salary income}}{\text{Total Income}}$$

$$\text{or, } ST = \frac{45{,}192 * 1{,}82{,}800}{3{,}38{,}100}$$

or ST= Tk. 24,434

Tax On Other Income :

Total Tax Tk. 45,192 - ST Tk. 24,434

= Tk. 20,758

Hence,

Tax on salary = Tk. 24,434

Tax on other income = Tk. 20,758

Having thus grappled with the complexity of income computation and tax figuring, the employee is now to file his tax return in the correct procedure. He has quite a few options before him. He can file his return under normal law or he can file his return under *self assessment scheme*. In either case he is to file his return within 15 September or within such date extended by the N.B.R. Since *self assessment scheme* is an incentive package for tax payers to help them avoid lengthy legal formalities involved with normal filing, the employee has taken a wise decision to file his tax return under *self assessment scheme*. Although he has heard about the advantages of the scheme he is not fully aware of the conditionalities associated with the said scheme. Taking a brief from a tax consultant he came to know the following conditions he is to fulfill for availing of the scheme :

(1) *Tax return is to be filed within 15 September or such date extended by the N.B.R.*

(2) *Tax payable is paid on or before the date on which the return is filed.*

(3) *The return shall be accompanied by a statement showing particulars of income.*

(4) *The return shall be accompanied by a statement of assets and liabilities.*

(5) *The return does not show any loss or lesser income than the income last assessed.*

(6) *Assessment on the basis of such return does not result in refund.*

(7) *Tax paid shall not be less than Tk. 1200/=*

(8) *Return shall be filed in a green return form.*

The employee now feels fairly educated on the modalities of the *self assessment scheme*. He finds that he can fully comprehend the intricacies of the scheme and file his own tax return. He thus files his return. His return is immediately accepted by his assessing officer, who communicates him by an order in writing.

In the foregoing discussion the employee was in fact my readers in proxy. Tax matters and tax laws are by no means palatable subjects. I have just tried to bring a model situation to my readers most of whom I believe may replicate it in solving their individual tax problems themselves. If even a few of them have succeeded in doing so, I will feel immensely rewarded. My readers may please bear in mind that tax laws frequently undergo changes in response to the needs of the economy. They are advised to sustain their interest and update their knowledge as regards changes that may appear in the Finance Act each year by way of legislative enactments . (The model built up here is based on the provision effective for the assessment year 1995-96)

EXPLORATION OF OIL AND GAS UNDER PRODUCTION SHARING CONTRACTS IN BANGLADESH

Syed Sajedul Karim*

Introduction :

In order to accelerate the pace of socio-economic development of the country, the Government of the People's Republic of Bangladesh have laid emphasis on rapid industrialisation and modernisation of agriculture in addition to the development of social and physical infrastructure. This necessitates increased supply of commercial energy in various forms. The present per capita consumption of commercial energy is 58 kg of oil equivalent due primarily to resource constraints and inadequate supply of indigenous energy resources. Almost the entire oil and coal requirements are met from imports whereas the demand for natural gas is met from domestic sources. To augment the petroleum resources base of the country and to meet the growing demand for energy the government have opened up the energy sector to the private investors. Following the declaration of Petroleum Policy in July, 1993, Bangladesh has formulated and adopted Energy Policy of the country. This has created tremendous interests amongst international oil companies. However, in the past, also, the Government encouraged foreign investors specially the oil companies to enter into Production Sharing Contract for the exploration of petroleum resources, but it was mostly focused in the offshore area. Six international companies entered into Production Sharing Contracts on nearly all of the offshore shelf and adjacent strips of low lying coast during the period 1974 to 1978. Seven offshore wells were drilled by them.

There are 19 gas-condensate fields and 1 oil field in Bangladesh and the country is generally considered as a gas prone area. The present proven and probable gas reserve of the known fields are over 22 Trillion Cubic Feet and over 57 million barrel of recoverable condensate. Out of 19 discovered gas fields, only 7 gas fields are currently producing daily at an average of 700 million cubic feet of gas. The 78% of the produced gas is used for generation of electricity and manufacturing of urea fertilizer. By

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the year 2000 the gas demand of the country is projected in the vicinity of 1500 million cubic feet of gas daily.

With the present rate of gas production and the future demand of gas, Bangladesh has reviewed its petroleum potential, market development possibilities, and contractual fiscal framework in order to attract foreign investment in the petroleum sector.

Phases of exploration and development.

Since the early years of the present century, the search for Hydrocarbon has been continuing in this part of the world. Hydrocarbon exploration activities in Bangladesh can be classified into the following phases:

1) Phase 1	:	1910-1933
2) Phase 2	:	1951-1971
3)Phase 3	:	1972-1992
4) Phase 4	:	1993-Onwards

During the phase up to 1933, only 6 wells were drilled, first being in Sitakund, Chittagong but did not result in discovery. However, there was oil show. Drilling of 4 number of wells were completed in the same area by the then Burma Oil Company (BOC).

With the emergence of Pakistan, search for new discovery started vigorously in this part of the then Pakistan by Pakistan Shell Oil Company (PSOC), Pakistan Petroleum Ltd (PPL), Standard Vacuum Oil Company (SVOC), and Oil and Gas Development Corporation of Pakistan (OGDC). This phase of activities from 1951 to 1971 was indeed the most fruitful phase in Bangladesh. 8 numbers of the present major gas fields were discovered during this period.

During the period 1972-92, 24 wells were drilled out of which 10 were drilled by the foreign companies, 7 gas fields and 1 oil field were discovered by national organisation while 2 gas fields (one in the offshore) were discovered by foreign companies. During this phase a total of 9 gas fields were discovered against 24 exploration wells which make up discovery ratio of 2:4.1.

Exploration Of Oil And Gas Under Production Sharing Contracts In Bangladesh

In 1989, the area of the country was divided into 23 blocks of which 19 blocks including 6 offshore blocks were offered to the international oil companies for competitive bidding under Production Sharing Contract. But the major breakthrough was really achieved after a Round Table Conference on Exploration Opportunities in Bangladesh held in Houston, USA in September, 1993. Following the conference, Government of Bangladesh (GOB) have already signed 4 Contracts for 5 blocks and initialled other 2 contracts for 3 blocks. The negotiations for fresh blocks have been postponed till the next round of bidding sometime in September, 1996. Bangladesh Oil, Gas & Mineral Corporation (BOGMC) a parastatal of GOB intends to hold similar type of conference in Houston, USA and London, UK.

Since September, 1993 to date, there has been more liberalisation of Government policy to encourage foreign investors in the exploration of petroleum resources and the model Production Sharing Contract has been amended accordingly.

Production Sharing Contract (PSC).

The objective of the Production Sharing Contract is to explore, and produce the petroleum in the awarded contract area at contractor's sole risk and expense. In PSC, the contractor shall receive no compensation for his service nor any reimbursement of his expenditures, except for the share of petroleum from the contract area. If there is no commercial discovery in the contract area or if the production achieved from an oil or gas field developed by the contractor is insufficient to recover his cost, contractor shall bear his own losses. The salient features of the draft model PSC-95 agreement are as follows :

◊ **Parties**

i. The Government of the People's Republic of Bangladesh and Bangladesh Oil, Gas and Mineral Corporation (BOGMC)which is also known as Petrobangla .

ii. Company.

◊ **Contract Area.**

One or more designated Contract Areas ranging from 5740 to 13500 sq.

km is offered. One block or two blocks can be in one contract. Separate work programme for each block is required. Except for the right expressly provided by the Contract no right is granted in favour of the Contractor to the surface area, sea-bed, sub-soil or to any natural resources or aquatic resources.

◊ **Exploration :**

Contractor is required to commence exploration operation not later than sixty days after the signing of Contract. Seven years (basic period of three years plus two extension of two years each) exploration period is negotiable.

◊ **Appraisal**

Appraisal means any work carried out by way of Exploration Operation for the purpose of evaluating the commercial viability of a geological structure or feature in which Petroleum has been discovered. Up to a maximum of three years appraisal period is allowable.

◊ **Production**

Production Operation and all activities are related to Petroleum production of an oil field and/or gas field from the date of commencement of commercial production, such as extraction, injection, stimulation, treatment, storage within the production area, lifting and related operations. Contract for each production area is for 20 years from the approval date of Development Plan for an Oil Field and 25 years for a Gas Field, subject to an extension of five years on mutually agreed terms.

◊ **Relinquishment :**

Contractor shall relinquish 25% of contract area at the end of third contract year and an additional 25% at the end of the fifth contract year, all area not declared production area at the end of the seventh contract year.

◊ **Minimum Work Obligation :**

Minimum work obligations are specified in the Agreement for each commitment phase. Start-up shall be within 60 days of the Effective Date. The programme needs to be itemised for the petroleum operations to be conducted within or with respect to the contract area or production areas. The time schedule for accomplishing such operations is also required to be agreed upon at the time of negotiation.

◊ **Domestic Consumption**

Contractor shall provide pro-rata up to a maximum of 25% of his profit oil at 15% discount and remaining, if required by GOB/Petrobangla at full fair market price in convertible currency.

The Government has the First right to purchase Contractor's Gas.

The contractor will be assured of a domestic market outlet within 12 months of commercial discovery of gas failing which the Contractor would be free to find market outlet within the Country.

◊ **Export of Petroleum**

Gas : Contractor may export Natural Gas in the form of Liquefied Natural Gas (LNG), subject to negotiation with the Government.

Oil : After fulfilling contractor's commitment of oil for domestic consumption, contractor's remaining entitlement may be exported.

Fiscal Aspects :

The Government of Bangladesh have greatly liberalised the fiscal and legal policies in order to attract international oil companies to enter into a mutually beneficial PSC agreement. Since, the last round table conference at Houston, statutory regulatory order waiving customs duties for the import of machineries, equipment and consumables for petroleum operation by the PSC Contractors during the exploration, development and production stage has been issued. No PSC Contractor has to pay any corporate tax in Bangladesh. It will be paid by Petrobangla on their behalf from Petrobangla's share of profit. Compared to neighbouring countries, Bangladesh offers a better deal to the PSC Contractors. The main financial incentives are as follows :

◊ **Cost Recovery**

Cost recovery in respect of contractor's petroleum operations shall include all cost and expenses not excluded by the provisions of the contract or the accounting procedure, subject to the accounting procedure and the auditing provision of the PSC. The cost recovery is bidable and negotiated with 50% for oil and 55% for gas, condensate and natural gas liquid (NGL).

◊ **Profit oil/gas**

The remaining available petroleum including any portion of cost recovery not required to cover costs and expenses shall be allocated in trenches (bidable) according to total average daily production over the month.

◊ **Bank Guarantee**

On signature of contract and upon each request for extension of the exploration period, contractor shall provide an irrevocable and unconditional bank guarantee from an acceptable scheduled bank securing contractor's timely performance of minimum exploration works.

◊ **Valuation**

A. Oil : The value of oil shall be determined on the basis of the fair market value, the price which a willing buyer would pay to a willing seller under a long-term contract for the sale on an Arm's Length Basis.

B. Gas : The value of gas shall be determined in US $ per MCF on a monthly basis. For onshore, the pricing for gas will be 75% of the international price of high sulphur fuel oil with negotiated discounts. For offshore areas, gas will be priced at 25% higher than those from onshore areas.

◊ **Taxation**

Government will hold and keep Contractor harmless for all present and future Bangladesh taxes including any VAT and sales taxes of a similar nature.

Government shall assume, pay and discharge on behalf of Contractor, Contractor's Bangladesh income taxes from the sale or other disposition of Petroleum under the Contract.

◊ **Customs duties**

No duty will be levied on machinery, equipment and consumables imported for petroleum operations during the exploration, development and production stage.

◊ **Profit Repatriation**

Contractor shall have the right to receive, retain abroad and use without restriction the entire proceeds received from its share of petroleum from the contract area.

◊ **Fees and Bonuses:**

There will be no administering fee or signature bonus required for signing the Production Sharing Contract, discovery and production bonuses are bidable and special considerations have been given in PSC for offshore area. Annual contract service fee is negotiable but not less than US$ 100, 000 per block and US $ 100,000 as annual training fee is included in the Production/Sharing Contract.

Legal Aspects :

There exists a Petroleum Act known as the Bangladesh Petroleum Act, 1974 (LXIX of 1974) for the petroleum operation of the country. The Government is always ready to make necessary amendment, if situation demands. On the whole, Bangladesh is determined to go ahead with the rest of the world to accommodate foreign investors in this sector in the overall framework of privatisation scheme. The main aspects of Petroleum Act, 1974 which affects petroleum operations and production sharing contracts are as follows:

◊ There exists a broad enabling legislation authorising the Government to engage in all aspects of petroleum exploration, development, exploitation, processing, refining and marketing. The Government is also authorised to enter into a Petroleum Agreement with any person (Contractor) for any purpose of Petroleum Operations.

◊ It designates the Bangladesh Oil and Gas Corporation (now the Bangladesh Oil, Gas and Mineral Corporation) which is also known as

Petrobangla to exercise the rights and powers of the Government under the Act.

◊ It repealed the Regulation of Mines, Oil-Fields and Mineral Development (Government Control) Act of 1948 and the Petroleum Ordinance, 1974. (ord. XVI of 1974).

Present PSC Outcome & Status.

After the successful 1st Round of PSC Bidding, four Production Sharing Contracts have been signed and the contractors are working satisfactorily in the country. One or more designated Contract Areas ranging from 5740 to 13500 sq. km is offered. One block or two blocks can be in one contract. Separate work programme for each block is required. Except for the right expressly provided by the Contract no right is granted in favour of the Contractor to the surface area, sea-bed, sub-soil or to any natural resources or aquatic resources.

The present PSC Contractors are performing their respective minimum Work Programme and by this time one contractor has already discovered a gas field in the offshore block. The other Contractors are operating satisfactorily with their work programme and in some cases progress was made ahead of schedule.

Conclusion

The new Petroleum Policy '93 and Energy Policy '95 have generated interests in the international community of Oil/Gas industries. Presently, 15 blocks are available for bidding in the second round sometime in September '96. GOB is also open to any comprehensive proposal. In the meantime GOB also plans to off load part of its stocks of gas producing/distributing companies to the public in the near future.

EUROPEAN MONETARY UNION: QUESTIONING VIABILITY

Arastoo Khan *

"Thou art Euro and on this Euro
I shall build Europe".

Pedro Solbes,
Spanish Finance Minister

Europe[1] is poised to enter into a brave new world as it steps into the 21st century. It would be almost the dreams of Jean Monnet--"the United States of Europe" ---come true. Put to effect the European Monetary Union (from henceforth EMU) will fundamentally change the total banking, monetary and the currency system of the European countries. Most importantly, the changes are likely to be psychological and attitudinal. All transactions among the Europeans as well as the European Union (EU) trade outside Europe would now take place in terms of one common currency. There would now be a single European Central Bank, raking premonitions of the age-old Bank of England, Bundesbank and the like to go either out of business or play a peripheral role in terms of currency or monetary policy. A central European Bank would take-over all their job.

The signing of Single European Act of February 1986 aimed that by 1992, European market was to be complete and the Community would effectively have no internal boundaries. The Maastricht Treaty of February 7, 1992 set this cascade of unprecedented events as the world gaze in awe at a strange modicum of co-operation and understanding never taking place on the face of earth. The Maastricht aims to achieving 3 objectives: (a) a single European currency (b) the establishment of a European Central Bank after January 1, 1999 and (c) a single monetary policy.

The most remarkable of the reform package, psychologically, is for a Europe having a single currency. Most of the European currencies are at least few centuries old. There were indeed switches to different metals, from copper to silver, silver to gold, from metals to paper and then there evolved other instruments of payments like bank drafts, credit cards, ATM cards. etc. But all were *pegged* to their own national currency. The Spanish held their pesos, the French are used to francs in their pockets,

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[1] In this paper Europe will be understood to mean only the 15 countries who are members of European Union.

British traded for centuries in terms of pound sterling, the Germans took pride in their DM, the Italians cling to liras and so forth. Under the proposed arrangements the pounds and the pesos, the francs and the florins, the marks and the liras, the guilders and the schillings all would cease to exist from January 1, 1999. And from their ashes would now rise a new phoenix to be called--- the Euro.[2]

Scope of the paper:

This paper aims to probe beyond these ostensible hopes and euphoria that single currency issue generated in the minds of the policy makers of the EU. The Community-wide introduction of a single currency is the major issue, the establishment of European Central Bank and a common monetary policy are merely consequence of it. Thus the single currency will be focal point of our discussion. To what extent will a single currency -the Euro- be acceptable to the general masses who have been hitherto using their own national currency. To what extent will it be possible for the member countries to hit the must-achieve budget deficit level, inflation rate and public borrowing profile in order to qualify to enter the monetary union given the fact that only Luxembourg and Ireland now meets the requirements. France, Italy and even Germany, are unlikely to achieve the required levels by the year 1997. By the dateline a few of the smaller members are likely to qualify to enter the EMU, but what about the others who fail to qualify? What if the latter devalue their currencies and make their products more attractive to the EMU insiders creating market distortions. What about UK, who reserved an opt out clause to stay away from the EMU, in which case will the Exchange Rate Mechanism (ERM) be able to answer her needs? Would there be any fiscal federalism with the completion of European Single Market and European Monetary Union? To what extent the redistributive activities give impetus in the development of low income region e.g. Spain, Portugal, Greece etc. suffering from long term unemployment and also achieve "economic and social cohesion"? These are some of the questions directly linked with the success of the Euro as a single European currency.

The Problem of equalling the Unequals : the redistributive issues

The scenarios may be compared to the German Monetary, Economic and Social Union (MESU) of May 1990, although in a much wider scale and

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[2] The name Euro (originally proposed ECU) was proposed by Herr Weigel, German Finance Minister and was adopted in the Madrid Summit of European leaders in December 1995.

with somewhat different background. The German unification involved only the Germans sharing a common history, race, language, culture, attitudes. Their understanding of the problem is that the eastern half of Germany was locked behind a wall in an economic system they had not freely chosen, East Germans had borne a disproportionate share of the burden of the war, therefore, they were now entitled to transfers in a grand final act of post war burden-sharing. The German unification psychologically and historically was of paramount importance. It took place behind the heels of Chancellor Kohl's promise that the unification would be a Pareto improvement: "... no one will be worse off and many will find themselves much better off." [3]

Unlike in the case of Europe, domestic politics spurred political parties and alliances to aspire for political power in a united Germany. The announcement of a concessionary DM - East German Mark parity prior to the elections won laurels for the conservative Alliance for Germany having secured 48% of the votes in which Helmut Kohl's CDU (Christian Democratic Union) won 41%. On November 9, 1989, the day of fall of the Berlin Wall, the DM to East mark parity was 1:10 and Chancellor Kohl offered them an attractive 1:1 parity for up to 6,000 Marks for small savers and a general conversion of 2:1. The wage of an East German labour was fixed at 60% of his western counterpart. By the year 2002 the wage differentials would even out. The East Germans considered the monetary union as a concession clearly favouring them, the West Germans viewed it as something they are morally obligated towards their eastern brothers. While it was politically and morally expedient but the rush up for the monetary union without appropriate ground work was foolhardy. Karl-Otto Pohl, the then President of Bundesbank, termed the monetary union at that stage as "fantastical" -- a pill that he had to swallow two days' later as consequence of political decisions for a monetary union with East Germany. During a speech in Brussels on March 19, 1991 he warned of the consequences of an ill prepared hasty European Monetary Union , he pointed to the disastrous consequences of setting the wrong exchange rate for German Monetary Union.[4] The following year he resigned as President of Bundesbank.

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[3] Irwin L. Collier, Jr., "On the First Year of German Monetary, Economic and Social Union", Journal of Economic Perspectives, Vol. 5, No. 4, Fall 1991, P. 185.

[4] Irwin L. Collier, Ibid. P.181

The West Germans have to sacrifice a lot for their cousins emerged from behind the Wall impoverished by 50 years of communist rule. Until parity is achieved the richer half (Wessie) will have to continue to transfer resources into the east (Ossie). On the other hand, the case of Europe is altogether a different one. The Germans or for that matter any other nations better endowed are not likely to readily accede to proposals which would take away much of their economic, financial and technological gains for which they have toiled so hard.

It looks like that the EU have learnt from the German mistake. In the case of Germany, monetary union took place first, the removal of regional disparity followed. Opposite is in the case for the run up for the EMU. A certain degree of equality among the members of a prospective customs union, monetary union or an economic union is of cardinal importance. True, disparity among the West European countries are not as stark if compared with that of other regional arrangements. Within the apparent parities there are disparities. If all are equals, there are some who are more equal than others particularly referring to such late entrants as Portugal, Spain, and Greece. The 1986 Single European Act calls for fostering "economic and social cohesion", with EC viewing with favour reduction of regional inequalities. To achieve this objective, one of the tool was to doubling the total EC budget over the period of 1989-93 and at least two-thirds of it are reserved for countries with per capita income below 75% of the EC average. But the redistributive impact is not likely to have any significant impact given the fact that the total EU budget remains pathetically low in the neighbourhood of 1 percentage point of the GDP of the EU countries.

Need for Fiscal Federalism within a Monetary Union:

The proponents of EMU and single currency is shy on the issue of a common fiscal policy with each member state operating its fiscal and monetary matters under the framework of a federal or supranational entity. An efficient fiscal and monetary system is absolutely necessary for a functioning federation. Some modicum of state-centre relationship must exist for the success of the proposed monetary union. The federal authority must have an assertive role in relation to the areas fiscal policy and management. This is reflective of all federal system. Harvard Professor Jeffrey Sachs and Sala-i-Martin suggest " monetary union is a risky program if not accompanied by the development of a federal fiscal system."[5]

Problem of Europe is that it is not a nation in the sense Americans (US), Canadians, Australians or Indians. A kind of nationhood, linguistic, cultural affinity, strategic and economic compulsions, strong common needs are absolutely necessary to develop confidence. This confidence results in surrendering some of the powers to the federation usually in defence, foreign affairs, fiscal, and monetary areas. This has never been in the case of Europe. To a historian, Europe is home of competing nations, rife with rivalry for dominance. We have seen the rise and fall of the Portuguese, the Dutch, the invincible Spanish Armada, the French and the British. It was the arena of the 100 Years' War, the 30 Years' War, the two World Wars sparked from there and left trails of human carnage never witnessed in the catalogue of human crimes. It will take a long way to restore that confidence among Europeans.

There were indeed initiatives to transfer some fiscal authority in early 1970s but they were effectively defeated by the national governments with the result that the EU budget continues to remain in the neighbourhood of 1% of the EU GDP and the EU fiscal autonomy remains insignificant. Most of the EC budget resources are, therefore, contributions from member countries and not EU federal taxes. But federations do not survive by courtesy or dole-outs from member states. Unlike, national budget the EC budget is necessarily a balanced one. Therefore, European Community budget is not gifted with any of the fiscal policy instruments -- budget size, progressive taxation and borrowing ability --which are helpful in macro economic stabilisation. Dominique Bureau and Paul Champsaur[6] opines "national governments have been highly reluctant to relinquish authority to the European level as far as the fiscal policy is concerned".[7] Both during and after the December Madrid Summit John Major's comments on the issue of single currency and the EMU "were designed to reassure the Euro-sceptics that he shares as their fears about potential dangers of giving up

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[5] Jeffery Sachs and Sala-i-Martin, "Fiscal Federalism and Optimal Currency Areas: Evidence for Europe form the United States," NBER Working Paper No: 3855, National Bureau of Economic Research, Cambridge, MA, October 1991.

[6] French Ministry of Economics and Finance, Finance and Budget, 139 Rue de Bercy, 75572 Paris, France.

[7] Dominique Bureau and Paul Champsaur, Fiscal Federalism and European Economic Unification, the American Review, Papers and Proceedings of 104th Annual Meeting of the American Economic Association, May, 1992, P.90.

sovereignty over economic and monetary issues".[8]

Problems of Enforcement of Strict Fiscal & Monetary Discipline:

One of the major objectives set by the EU is to bringing together the performances of European economics --- the so called *convergence criteria.* It implies that the members must strive for greater discipline in budget deficits and lower inflation across Europe. The Madrid Summit reiterated the same spirit and agreed that the countries which would qualify to join the EMU would be based on their economic performance in 1997. The decision would be taken early in 1998. The countries who would qualify (a) in having its inflation no more that 1.5 percentage point above the average of three best countries (b) budget deficit no more than 3% of GDP and (c) gross public debt no more than 60 % of GDP will get entry into the EMU.

The problem here is not one of unfaithful pursuit of agreed policies but the inability of the members to contain themselves within the prescribed ceilings. This is because of the incapability of the European economies, as opposed to US and the Japanese, to adapt themselves to changing needs. Europe has developed the tradition of states to be more welfare oriented. European states run various social security services including health, unemployment benefits, agricultural subsidy, refugee rehabilitation, grants and aid to developing countries etc. The outlay of these programs often cannot be met from the proceeds of taxes levied. The natural recourse is public borrowing and which set the process of more public expenditure and thus inflation. Any attempt to belt tightening by the national economies following the requirements of Maastricht will mean cuts in the welfare services that the citizens have taken for granted. Evidently we have seen the strikes by the French railwaymen to "protest against the Maastricht-sponsored welfare cuts".[9] Similarly during the currency of the Madrid Summit the Greek Press Media Workers called a 24 hour strike to protest against cuts on the pension entitlements. The cuts were direct results of Greece's desperate attempts to meet the Maastricht conditions for membership of single currency.[10]

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[8] The Weekly Telegraph, London, January 2, 1996, P.14

[9] The Weekly Telegraph, London, January 2, 1996, P. 16.

[10] Ibid. P. 16

European Monetary Union

The Maastricht Treaty organises common surveillance of national fiscal policies with ceilings of budget deficits, public debt and inflation. Prudential surveillance is justified but it should be so designed to allow national government a wide fiscal autonomy for the purpose of normal macroeconomic stabilisation. Otherwise, warns Begg et al that "the EMU will engage national economies on a bumpy course." [11]

On the performance of the three criteria, till date only Luxembourg qualifies to have entry in the EMU. A few are on the threshold of entering and can make way if they try in right earnest. Germany, France, Austria and Netherlands are border line states. The Dutch Central Bank President Mr Wim Duisenberg, however, optimistically expects that EU members are expected to be ready to launch the EMU in 1999 which would include , besides named above, Belgium, Ireland and Finland.[12] But there would be still some who are not likely to qualify the must-achieve level and secure an entry by the time set unless there is any easing of the requirements for entry which is highly unlikely. This would result in uncomfortable relations between those inside the EMU and those outside. We shall discuss in the following how their relationship in terms of trade and commerce would continue through an Exchange Rate Mechanism (ERM).

Countries Performance on the three EMU Criteria

Countries	Inflation %	Budget Deficit (or Surplus as % of GDP	Gross debt as % of GDP
Belgium	1.4	-4.5	134.4
Denmark	2.3	2.0*	73.6
Germany	1.6	-2.9*	58.6*
Greece	9.0	-9.3	114.4
Spain	4.7	-5.9	64.8
France	1.7	-5.0	51.5*
Ireland	2.4	-2.7*	85.9
Italy	5.4	-7.4	124.9
Luxembourg	1.9	0.4*	6.3*

[11] Fiscal Federalism and European Economic Unification, the American Economic Review, Vol. 82, No. P. 91

[12] The Financial Express, Dhaka, April 27, P. 6

Netherlands	1.1	-3.1	78.4
Austria	2.0	-5.5	68.0
Portugal	3.8	-5.4	70.5
Finland	1.0	-5.4	63.2
Sweden	2.9	-7.0	81.4
United Kingdom	3.0	-5.1	52.5*
Total EU	3.0	-4.7	71.0

TARGETS

Inflation: No more than 1.5 percentage points above the average of the best three countries.

Deficit: No more than 3 per cent of GDP.

Total debt: No more than 60 percent of GDP.

(*) asterisk indicates areas where entry parameters are met by countries

What would Euro Look Like:

The *Euro* would be like any other paper currency in circulation with the distinction that it would be a legal tender freely exchanged and accepted in all the member countries within the EMU. The Annual Report of the European Monetary Institute (EMI), the forerunner of the European Central Bank, said that still to be decided is whether the notes will be same for all countries. One option --- which might help alleviate the sceptics fear of loss of national identity--- is to have a limited national feature occupying no more than 20% of the space on one side. Names of European Central Banks in five variations and the 12 stars EU symbol will be printed.[13]

The EMU has called for outsourcing for designs of 7 bank notes 5, 10, 20, 50, 100, 200 and 500 euros denomination. The December 1995 Madrid Summit did decide on Herr Waigel's proposal to call it Euro but name for a "hundredth" of Euro was not decided. One suggestion was that it should stay as it is in each country. The EMU selected two possible themes ages and styles of Europe or an abstract/modern design. The Euro would be so sized, designed and the numbers so embossed that even the blinds

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[13] Financial Express, Dhaka, April 14, 1996, P.6

and the partially sighted can easily use the euros. Each denomination would be of different size (unlike US dollars) and different dominant colour and will show clearly visible numbers in the same positions as on all notes and perceptible by touch. The notes must match advanced security features to make them forgery proof. It would include watermarks, security threads and special printing techniques such as optically variable ink.

The Case of United Kingdom:

Separated by the English Channel from mainland Europe, with strong historic and commercial ties with the United States and the Commonwealth, Britain's role as the holder of balance of power in Europe for the last 200 years, the important role it played during the World War II and the pyrrhic victory it earned, all helped to shape a British thinking distinct from other continental European powers. An outlook more cosmopolitan and more outward looking. It is said that in times of crises, if Britain were to choose for friends between her neighbours across the channel and those across the Atlantic, it was usually the latter she chose. This has been the British thinking in international politics.

Over the years Britain has garnered, not unjustifiably, as the most reluctant member of EC (European Commission). When EEC was formed consisting of the inner six (the Benelux countries, France, Italy and Germany) in 1958, Britain led by Winston Churchill preferred to put its faith in the links with its imperial past offered by its trade with the Commonwealth and the special relations she fostered with the United States. Instead, Britain formed its own club with what was called the "outer seven" states and called it the European Free Trade Area (ÈFTA). EFTA having been less successful she applied twice for Community membership, once in 1961 during Conservative Government and again in 1967 during Labour Government of Harold Wilson. Charles de Gaulle of France ,on both the occasions, vetoed her entry for Britain's dubious relationship with the United States. She was admitted a member in 1972 only after de Gaulle's quitting the political scene, during the Conservative rule of Edward Heath. The next Euro-sceptic Labour Government ran a referendum on British membership which brought 2/3 majority for the Community membership. However, with Margaret Thatcher in 10 Downing Street, Britain again began to be perceived as anti-European particularly accentuated by Thatcher-Reagan tandem on international agenda. The Thatcher year saw Britain at odds with the rest of the Europe particularly when a Frenchman

Jacques Delors was appointed as the President of the European Commission in 1985.

A sudden U-turn towards improved relations in monetary policy took place when the Commission decided to allow sterling to be a full member of the Exchange Rate Mechanism (ERM) of the European Monetary System (EMS) in October 1990. This heralded attitudinal change for the Conservative leadership.[14] but that too was ephemeral. Within a couple of years Britain was to suffer a national humiliation when the pound bounced out of the ERM in 1992, fears that even the talks of rejoining a similar kind of arrangement in the future would reopen the old wounds. "The prospects of Britain re-entering any European Exchange mechanism are really not there" [15] said Kenneth Clarke, British Chancellor of Exchequer.

Britain reserves opt-out clause in having the flexibility to freely choose to be or not to be with the EMU. The present leadership of the UK does not wish to join. Now, being a major member of EU, if it is outside the EMU its currency should be pegged to euro through the ERM , like other members not qualifying for entry now. But the Conservative PM John Major supported by Tony Blair, the leader of opposition, prefers to have sterling out of the grid of the ERM of the European Monetary System. In which case UK would be effectively out of the EU and would reinforce the ignominy of being the most unwilling member of the EU. What would that mean to the EC's most ambitious project of monetary union?

The issue of Exchange Rate Mechanism for the members outside EMU

We have indicated above that there would be a sizeable number of EU members who would fail to qualify their entry and would remain outside EMU for quite sometime. States within EMU would freely use Euros within themselves. But for the transactions between the insiders and outsiders and among the latter, a new Exchange Rate Mechanism (ERM) would replace the existing one. The European Monetary Institute and EU's Monetary Committee submitted a more detailed report on the plan to a summit held in Florence, Italy in June. Majority believe that an exchange grid rate is needed to keep some degree of stability on international foreign exchange and to ensure proper functioning of Europe's single market.

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[14] The World Almanac (British Version) 1992, P.

[15] Financial Express, April 16, 1996, P. 6.

European Monetary Union

The new ERM would anchor the member countries' currencies outside the economic and monetary union to the future single currency -- the Euro. Pegging the member countries' currencies to euro may give rise to the same kind of inflexibility that bounced UK and Italy out of the ERM in 1992. Although at present, the countries of the EU can fluctuate their exchange rate within a narrow range of agreed central rates against the members of the mechanism. Under the new proposal the president of the proposed European Central Bank (ECB) would play a policing role initiating changes in the parity rates of currencies which are under speculative attack.

By and large it is now believed that only four to five states are likely to qualify for EMU entry based on the economic performance of 1997. These states may fear the consequences of those outside devaluing their currencies and gain competitive advantage. This fear may result in resorting to protective measures by the insiders which could damage the free trade. In which case, it would be a folly if the drive to a single currency served only to destroy the Single Market.

The British Prime Minister on his return from Madrid plainly wrote in his article " we have tested the ERM in the past and learnt the painful lesson that in today's global currency markets such inflexibility between currencies cannot be defended. So if Britain decides not to join the single currency, I could not recommend our country taking part in that kind of ERM."[16]

Britain has negotiated an opt-out from the single currency. It puts Britain in a comfortable position to choose to join or not to join the EMU. But this has a cost. From the European point of view Britain awaits a closed door so far her entry into EMU is concerned. Hans Tietmeyer, the president of Bundesbank, sent such a signal to UK saying that a country wishing to join the European currency must have been 2 years in the ERM without undue pressure on its exchange rate or a devaluation. United Kingdom was out of ERM since 1992 and it was forced out of currency grid which led to costly intervention by all the Central banks throughout Europe. French Finance Minister Jean Arthis said that "exchange rate mechanism will exist with or without Sterling".[17] Clearly UK cannot hop on the EMU bandwagon even if she wished to.

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[16] "Here are the Questions that Europe still has to answer", The Weekly Telegraph, Jan. 2, 1996, P.16.

[17] Financial Express, Dhaka April 15, 1996, P 6

Conclusion :

Many in Europe believe that the political significance of EMU in holding the Union is so great that Europe must go ahead at almost any cost. One can understand their perspectives but not necessarily share them. Strict adherence to the Maastricht requirement of low inflation rate, low budget deficit and a rational public debt-level would bring favourable impact to Community members with or without the EMU. Then what warrants the need for a monetary union which risks alienation among the EMU "insiders" and the "outsiders", pushing UK to the point of a Community pariah, holding the young East European democracies, some of whom staked national ambitions for becoming full members. Would it then not be a folly if the drive to a single currency served only to destroy the Single Market built over the years.

A single currency, a common monetary policy and a European Central Bank (ECB) are all manifestations of a federal set up. No trend towards fiscal federalism is evident in the process although a monetary union without federal fiscal system is considered a "risky" proposition. A federation cannot survive on dole outs and subscription from its members. To be effective, it must have enforceable fiscal instruments.

Opinion polls in Germany, UK, France and Italy show poor response to the idea of a single currency across Europe. They prefer to use their own national currency, some of which are centuries old. "Most Americans view EMU as a big Australian bird rather than an attempt to link currencies and economies in a way that could change history" [18] , US firms-with heavy investments in Europe view EMU as the premonition of a stronger dollar as the strength of Deutsche Mark is expected to dilute within a single currency zone of the Euro . This would mean diminishing export and less profit for them.

Even the great protagonist of EMU Hans Tietmeyer, the Bundesbank President said "if EMU works it would be beneficial to Europe, economically as well as politically, but it is not a panacea".[19] The misgiving is further exacerbated by the comments of Otamar Issing, Chief Economist of Bundesbank "against the general tendency to view Monetary Union as the start of new golden age with stronger growth, lower interest

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[18] Financial Express, Dhaka, Friday, August 15, P.6

[19] Financial Express, Dhaka, April 13, 1996, P.6.

rates stable exchange rates and new jobs".[20] Germany is known as the economic powerhouse of Europe. But it is itself locked in a resource sharing process with former East Germany. This is seething serious resentments among the former affluent West Germans. The German magic of economic miracle does not click any more. It is overpaid, became fat and indolent. The cause of meteoric rise of the German economy can be found in Friedman's Law--- reconstruction after wartime destruction makes for high growth, not the omnipotence of German economy. We find similar slowdowns in Europe and Japan after post war reconstruction spree was over. Thus MIT Professor R. Dornbusch, summed up on the waning of Europe: "Prospects for an integrated Europe, with common money and fully integrated markets and joint policies are fast moving out off the screen".[21]

[20] Ibid. P. 6

[21] Rudiger Dornbusch, "The End of German Miracle", Journal of Economic Literature, Vol. XXXI (June 1993), P. 881

Financial Control Process of the Government : The Instruments used for the purpose.

Asif Ali *

All financial activities of the Government revolve round the budget it presents. Both Revenue and Development budgets, though different in approach, call for efficient financial management. In order that the funds provided in the national budget are properly and efficiently utilised, the financial control process has four main elements:-

(a) Setting of standard and desired goal

(b) Comparing actual performance with the desired goal;

(c) Evaluating the results through measurement, analysis and reporting system and

(d) Taking corrective measures and planning future course of action.

These elements of financial control system are regulated directly or indirectly by all the three organs of Government i.e. the Executive, the Legislature and the Judiciary. But the basic source of financial control originates in the constitution of the People's Republic of Bangladesh.

i. Article 80 (3) allows the President to return any Bill passed by the Parliament with a request that the Bill or any particular provision thereof be reconsidered save a Money Bill. So the final disposal of the Money Bill rests with the Parliament.

ii. Article 81 (1) elaborates the provisions of Money Bill which relates to the imposition, regulation, alteration, remission or repeal of any tax; the custody of the Consolidated Fund, the receipt of moneys on account of the Consolidated Fund or the Public Account of the Republic etc.

iii. Article 82 provides that no Money Bill, nor any Bill involving expenditure from Public Money shall be introduced into the Parliament except on the recommendation of the President.

iv. Article 83 provides that no taxation could be determined except by or under Act of Parliament.

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v. Article 84 determines the form and manner with which the Consolidated Fund and the Public Account of the Republic are to be regulated.

vi. Article 84 regulates payment into and withdrawal of Public Moneys from both Consolidated Fund and the Public Account.

vii. Article 87 (1) and (2) provide for placement of Annual Financial Statement before the Parliament which shows the sums required to meet expenditure charged by or under the constitution upon the Consolidated Fund and the sums required to meet other expenditure proposed to be made from the Consolidated Fund wherein Article 89 spells out the procedures relating to Annual Financial Statement.

viii. Article 88 specifies the expenditure charged upon the Consolidated Fund whereas Article 86 speaks of moneys payable to Public Account of the Republic.

ix. Article 90 provides for Appropriation Act for appropriation out of the Consolidated Fund of all moneys required to meet grants made by Parliament, expenditure charged on the Consolidated Fund etc.,

x. Article 91 provides for Supplementary and Excess grants whereas Article 92 provides for votes on Account, votes on credit etc. making room for due grant in advance in respect of the estimated expenditure for a part of any financial year pending the voting of such grant in accordance with the provision of Article 90, any grant for meeting unexpected demand upon the resources of the Republic, and grant for exceptional situation etc.

The Parliament acts upon the above financial instruments of the Constitution so that the basic financial powers of the state emanate from these provisions. The main principle behind the legislative control of public expenditure is that there must be legislative authorisation behind all public expenditure. The Parliament also exercises financial control through examination of the Annual Finance Accounts, Appropriation Accounts and Audit Reports as prepared by the Comptroller and Auditor General and submitted to the President who causes them to be placed before the Parliament. Public Accounts Committee, Public Undertakings Committee etc. of the Parliament consisting of members of the ruling as well as opposition political parties within the Parliament examine and scrutinise these documents for final settlement by the Parliament. The Legislature also decides upon the level of public receipts in the form of Government revenues and the price of the products and services of the enterprises keeping in view the social welfare goals of the Government.

The financial laws passed by the Parliament by virtue of Articles 80 to 92 of the Constitution are put into force by the Executive organ of the state e.g. the Cabinet headed by the Prime Minister with the help of the administrative machinery.

The Ministry of Finance is mainly responsible for preparing the proposed financial policies including the national budget to be placed before the Parliament for ultimate enactment. Four Divisions in the Finance Ministry are engaged in these tasks with well laid jurisdictions.

i. The Finance Division is responsible for formulation and review of fiscal and monetary policies, regulation of budget and ways and means, appropriations and reappropriations, analysis of and research on financial policies, expenditure control, publications of documents like Economic survey etc., offering advisory services relating to Export, Import policies, administering affairs relating to Accounts and Audit, regulating the activities of Autonomous, Semi-autonomous and Nationalised bodies through the System for Autonomous Bodies Reporting and Evaluation (SABRE), formulating pay scales and other Service rules relating to leave, Pension, TA/DA, GPF, Group Insurance, Codal rules relating to Accounts and Audit, Money supply, Currency, Coinage, Legal Tender, creation or new posts, remuneration of Comptroller and Auditor General etc.

ii. The Internal Resources Division is engaged in raising necessary domestic revenues through the National Board of Revenue, handling matters relating to taxes, customs, excise duties, fees, Lotteries, National savings, Stamp duties, liaison with other countries and international organisations relating to treaties and other subjects within its jurisdiction etc.

iii. The Economic Relations Division is responsible for assessment of Foreign exchange requirements on the basis of Economic Plan and Annual Development Plan, regulations for securing economic aid from foreign government and organisations, scrutiny of proposals for allocation of foreign exchange resources i.e. loans, credit, grants etc., assessment of requirements and negotiations for securing technical assistance for Bangladesh from foreign Governments and International organisations, review of the utilisation of foreign aid/credit of aided projects, servicing of foreign debts and maintenance of accounts thereof, disposal of property of foreign nationals and foreign organisations, Foreign Exchange budgeting other than cash foreign exchange budgeting etc.

iv. The Banking Division looks after the administration and interpretation of the Bangladesh Bank (Nationalisation) Order, 1972 Act (P.O. No. 26 of 1972), The Bangladesh Bank Order, 1972 Act (P.O. No. 127 of 1972) and orders relating to specialised Banks and other matters relating to Banks and Government owned financial institutions, Regulation of share market, Capital issue, Credit rate policy, Interest rate policy, Review of investment policies and programmes, Public debt including loans and aids, Institutional finance for development of Industry, Trade, Agriculture, Housing etc., Banking including co-operative Banking etc.

The Finance Ministry, thus, through budgetary and expenditure control and other financial evaluations is responsible for the overall financial management of the country on the basis of the laws enacted by the Parliament and the directives and decisions issued by the Executive. All other Ministries have to ensure good financial management through proper adherence to budgetary allocations and observance of stringent financial discipline. The Secretaries as Principal Accounting Officers (PAO) of respective Ministries/Divisions are responsible for expenditure control, pre-verification of claims against budgetary provisions, payment against passed bill of claims and compilation of appropriation accounts. Thus, the Principal Accounting officer is accountable for all expenditures incurred within respective Ministry/Division. He is assisted by the Chief Accounts Officer (CAO) as far as pre-verification of claims of payment and compilation of classified monthly accounts are concerned though the CAO is under the administrative control of the Comptroller and Auditor

General (C&AG) through the Controller General of Accounts (CGA), as far as his placement, transfer, promotion and disciplinary matters are concerned. The PAO is in a position to monitor expenditure control of all big subordinate departments through the monthly classified accounts that he prepares with the help of the CAO. The PAO is also able to assess the status of development projects under his Ministry/Division in the same process. He has to account for the spending out of his Ministry's/Division's budget vis-à-vis the objectives, time frame and economy to the Finance Ministry at regular intervals and to the Public Accounts Committee and such other committees of the Parliament as and when asked for on the basis of Finance Accounts, Appropriation Accounts and the Audit Reports placed to the President by the C&AG. The Executive authorities regulate financial discipline in the realm of administration through various Rules, Regulations, Codes and Manuals.

In a broader spectrum, the financial control process of the Government is subject to, other two kinds of important controls, namely the Accounting Control and the Auditing control. Articles 127-132 provide for the office of the Comptroller and Auditor General of Bangladesh appointed by the President assigning him the responsibilities to keep public accounts of the Republic in such form and manner as prescribed by him with the approval of the President and audit the public accounts of the Republic and of all courts of law and all authorities and offices of the Government with access of himself or any person authorised by him, to all records, books, vouchers, documents, cash, stamps, securities, stores or other Government property in the possession of any person in the service of the Republic. The Comptroller and Auditor General (Additional functions) Act, 1974 and the Comptroller and Auditor General Additional Functions (Amendments) Act 1975 enable the C&AG to keep the accounts of Government commercial undertakings, Statutory public authorities, Public enterprises having 50% Government share and prepare the Appropriation Accounts and Finance Accounts showing disbursements or annual receipts while the Comptroller and Auditor General (Addl. functions) (Amendments) Ordinance, 1983 allows the Government to keep public accounts of the Republic by other persons responsible for keeping public accounts facilitating the introduction of Departmentalised accounting system in 1985.

Under the new arrangement the former offices of Accountant General (Civil), Accountant General (WW), Accountant General (PT&T) and Addl. Accountant General (Foreign Affairs) were reconstituted into 20 Departmental Accounts Offices called the Chief Accounts Offices and 3 Audit Directorates called Directorate of Audit (Civil), Directorate of Audit (Works) and Directorate of Audit (PT&T) subsequently renamed as Directorates General in 1995. A Central Accounts office of the Controller General of Accounts (CGA) holding equivalent scale of an Addl. Secretary was set up for preparation and consolidation of the Finance Accounts and the Appropriation Accounts of the Republic and for submission of the same to the Government through the C&AG. 400 Thana Accounts Offices and 64 District Accounts Offices forward the classified monthly accounts of both Consolidated Fund and public Account to 20 Regional Accounts offices who consolidate the same and transmit the accounts pertaining to the Consolidated Funds to the 20 CAOs and the accounts belonging to the Public Accounts to the CGA. The CAOs submit the classified accounts major headwise on the basis of the accounts received from the Regional Accounts Offices (RAOs) and the accounting units in Dhaka city to the CGA after necessary consolidation. The CGA consolidates the same along with the Debit-credit memo, the Bank closing statement and Small coins Account received from Bangladesh Bank, Exchange Account between CGA & CGDF and settlement account between CGA and Railway. Thus the Civil Accounts is prepared. The monthly civil Accounts flow from the grass root to the CGA/C&AG and the Ministry of Finance.

The Military Accounts system was re-organised by reconstituting the office of the former Military Accountant General (MAG) into the office of the Controller General, Defence Finance (CGDF) with equivalent scale of an Addl. Secretary; and Director, Audit (Defence Service), now known as Directorate General, with the introduction of the Revised System of Financial Management for the Defence Forces in 1982. CGDF heads the central accounts office of Defence services. Senior Finance Controller (Army), Senior Finance Controller (Navy), Senior Finance Controller (Air), Senior Finance Controller (Defence Purchase), Senior Finance Controller (Defence Works), Finance Controller (Log Area), Finance Controller (Miscellaneous), Finance Controller, Pay-I, Finance Controller, Pay-II and other subordinate pay offices and Area Finance Controller offices send monthly classified accounts directly to CGDF with copies to the respective controlling offices. However, Finance Controller (Miscellaneous) sends the same only to the CGDF and does not have to send copy of the monthly accounts to any other office since it is directly under the control of CGDF. After consolidation of the accounts, the CGDF forwards the monthly classified accounts of the Defence Services to the CGA and information copies to Ministries of Finance, Defence, three Defence Services Head Quarters and the Defence Forces Division.

After the abolition of the Railway Division, the Bangladesh Railway Authority was constituted recently. But the accounting system so long practised in the Railways with the CGA responsible for compiling the Railway Accounts has been retained. The Addl. Director General (Finance), Bangladesh Railway Authority holding the equivalent scale of an Addl. Secretary; heads the railway accounting responsibility and reports to the C&AG through the CGA as far as the railway accounts are concerned. The Addl. D.G. (Finance) collects monthly classified accounts of the railways from Financial Adviser and Chief Accounts Officer (FA&CAO) (East), who is responsible to centrally collect the accounts from FA&CAO (West). D.F.A, Paksey; D.F.A., Chittagong Workshop Division; Central Locomotive factory, Parbatipur, Central Workshop, Pahartali etc., and centrally compile the same along with his own accounts. The monthly railway accounts are submitted by Addl. D.G. (Finance) to the CGA with information copies to the Ministries of Finance and Communication. FA&CAO (Project) since included in the Development Budget sends its monthly classified accounts directly to the CGA.

The CGA is responsible for preparing the Finance and Appropriation Accounts of Civil and PT&T, the CGDF of Defence and Addl. D.G. (Finance), Railway of Railway. The CGA finally prepares the Finance Accounts on the basis of his own accounts and the accounts he receives from the CGDF and the Addl. D.G. (Finance), Railway. Though the Government's departmentalisation of accounts system has been operating with the CAOs working functionally under the respective Secretaries. e.g., Principal Accounting Officers, the Thana Accounts Offices (TAO), District Accounts Offices (DAO) and Regional Accounts Offices (RAO) are operating both functionally and administratively under the C&AG through the CGA. The pre-audit functions of these outlying offices are controlled by the C&AG.

The auditing control forms another very important aspect in the Financial control process of the Government. As stated earlier Article 128 (I) empowers the C&AG to audit all authorities and officers of the

Government and to have access to all records, books, vouchers, documents, cash, stamps, securities, stores or other Government property. Audit reports so prepared by the C&AG have to be submitted to the President for onward placement in the Parliament. The Public Accounts Committee and Public Undertakings Committee decide on the audit objections in the audit reports by allowing hearing to the Principal Accounting Officers, i.e., Secretaries and place their report to the whole house of the Parliament for final settlement. The C&AG carries out post audit on test check basis of the accounts of the Republic through various Directors General of Audit as mentioned below :

i. DG, Commercial Audit audits all autonomous and semi-autonomous statutory bodies, Government Commercial undertakings, Public enterprises having minimum 50% Government share, nationalised banks and nationalised financial institutions etc.

ii. DG, Local and Revenue Audit carries out audit of all local bodies, the Secretariat and Civil Government departments, Universities, Port authorities and revenue earning departments including the National Board of Revenue etc.

iii. DG, Works Audit is responsible for auditing all departments of Public Works, Roads and Highways, Bangladesh Water Development Board, Power Development Board etc.

iv. DG, PT&T Audit carries out audit of all the Postal and Telecommunication Departments including the T&T Board.

v. DG, Railway Audit is responsible for auditing the Railway Authority including its subordinate offices and its accounting outfit.

vi. DG, Foreign Aided Project Audit audits all projects with foreign aid and GOB contributions. But the executing agency/office belonging to revenue budget is audited by D.G., Local and Revenue Audit.

vii. DG, Audit (Defence Services) carries out audit of Defence Service Establishments and the CGDF and its subordinate departments and offices.

viii. DG, Civil Audit is responsible for auditing the CGA and all the Thana/District/ Regional and Chief Accounts Offices.

ix. DG., Mission Audit audits all Bangladesh Embassies, High Commissions and overseas offices of Biman, Bangladesh Shipping Corporation, Sonali Bank and other Government organisations.

Besides Audit Offices, DG, Audit & Accounts Training Academy is responsible for offering training for human resource development in the Audit and Accounts Department. The Academy also provides training to the Audit & Accounts staff of other Government Departments and Organisation as and when requested by them.

Statutory Audit or Supreme Audit that the C&AG carries out covers pre-audit, post audit, concurrent audit, and special audit. We have already narrated that in view of the Departmentalisation of Accounts order, 1985, the Secretaries or the Principal Accounting officers get the pre-verification of bills done through the CAOs in the Presidency e.g. Dhaka City whereas other accounts offices outside Dhaka city pre-audit all bills of claims under the control of the C&AG via the CGA. The C&AG carries out post audit of the accounts of the Republic through the 9 DGs of Audit as mentioned earlier. The C&AG also places concurrent Audit parties on request to Government Departments. and other statuary organisations against audit fees payable to the Government. There are concurrent Audit parties in most of the Universities and some other organisations. The C&AG also carries out special audit on request of the Ministries/Departments and other Government organisations or on his own. The Finance Accounts and the Appropriation Accounts are the products of pre-audit/pre-verification of all payments and the Audit Reports are the products of post-audit/special audit of the above mentioned Accounts of the Republic.

The auditing methods followed by the Audit Department are still traditional in the sense that the main emphasis of audit continues to be on regularity and propriety of financial transactions rather than on their efficiency, economy and effectiveness. Parliamentary financial control cannot be effectively established in the absence of an efficient auditing system. Of late, attempts have been made to gradually institutionalise Performance/Value for Money audit so that audit can become an effective tool to establish Accountability at all levels of the Government. This would, however, call for far-reaching reforms in the Audit Department and adequate co-operation form the auditees.

Financial Control Process of the Government

A considerable portion of public money is spent for the Autonomous/ Semi-autonomous and other public enterprises as well as the nationalised institutions some of which are surviving on regular Government subsidies. Their efficient management forms an integral part of financial management process of the Government. Strong inbuilt internal control system side by side with efficient Government control mechanism could combine together towards appropriate spending of public funds by these organisations.

Internal audit for bigger organisations is an important tool used by the management to detect flaws, obtain recommendations for proper rectification and enhance the delivery system. Some of these Government owned commercial organisations are also subject to External audit which is 100% audit by authorised Chartered Accountants who certify their financial results, profit and loss and correctness of the accounts which are placed before the Board of Directors. Internal audit and External audit, however, are both subject to Supreme Audit e.g. C&AG's audit covered during the normal audit programme of the C&AG. The Development projects are also subject to the same process of audit by the Comptroller and Auditor General.

The judiciary is indirectly involved in the financial control process of the Government offices or public enterprises since it takes care of the rights of any individual who may be deprived by the public office of his legitimate financial claims and it protects the rights of the public office in respect of the financial losses or irregularities committed by any individual or individuals. The judicial control system functions on the basic principle that every person can go to a court to protest against the public servant when the latter does not adhere to the constitution and the ordinary law of the state. This is equally true for the public office or enterprise when any individual does not adhere to the law and thereby incurs losses or commits financial irregularities. The Court may decide to award different punishment or financial recovery or fine or both in order to ensure the rule of law. There are, however, some limitations of the judicial control process. The legal procedures are usually very lengthy and cumbersome and nature of case handling is very expensive. Besides, acts of commission can be challenged in the court of law, but acts of omission e.g. failure to act in most cases can only be enforced on moral grounds.

Mass media like newspapers, magazines, radio, T.V. etc. may also be potential sources of information that could be effectively used by the Government and the Parliament in the financial control process. In democratic countries they play vitally important role in forming public opinion against corruption, malpractices, nepotism, inefficiency and wastes and put pressure upon the Government to do away with financial mismanagement. The law makers also are made aware of their responsibilities in this regard.

Numerous problems are encountered at different levels of the financial control processes. The whole bureaucratic machinery of the government is beset with problems mostly due to its enormous size and larger volume of transactions. The huge task of budgetary allocation, accounting and auditing ranging over hundreds of public organisations suffer from the drawbacks of too much impersonality resulting into wastefulness, negligence and indifference to the interest of the people at large. Largeness of Government organisations is an inherent problem which cannot be easily solved. But recent moves of decentralisation of powers and functions augur well for better financial management. This will ensure close supervision and vigilance effecting better financial control as well as higher efficiency of performance. Owing to bureaucratic complexity and job security the decision making process badly suffers in many cases. Too many formalities and complicated rules and procedures have to be observed in procuring and spending funds, pricing of products or services and disposing of cases of financial irregularities. Similarly long time is taken in settling the audit objections raised by the Audit Department. Although the Audit Manual prescribes time limit within which replies to audit objections are to be given, unfortunately very few heads of public offices follow this provision. A long chain of back and forth correspondence goes on for a long time between the auditor and the auditee and as a result when the Parliament reviews the audit reports much of them lose relevance. Even then after the Parliamentary decision is given, the remedial action may still take a long time. Thus, public accountability remains a far cry.

The following measures may improve the situation :

i. Audit awareness has to be inculcated among the spending Departments. Since audit is an aid to good governance, a more functional relationship has to be developed between the spending offices/organisations and the Audit Department.

The members of the bureaucracy and all those involved in administrative processes have to become more conversant and acquainted with the instruments of financial control particularly the Codes, Rules and Regulations. All the Government Training institutes should organise special training programmes covering courses on accounting, auditing, budgetary control, development finance, public sector financial management etc. The role of the Audit and Accounts Training Academy (AATA) under the C&AG in this respect could be specially mentioned. It is heartening to note that a number of Government departments /organisations belonging to the Ministries of Foreign Affairs, Education, Water Resources, Women Affairs etc. volunteered to avail of the training programmes in AATA.

ii. An objective and rational revision of accounting and expenditure control systems is the order of the day. It is very timely and appropriate that the Reforms in Budgeting and Expenditure Control Project (RIBEC) mainly financed by the ODA under the Finance Ministry is working on that mandate. Considerable progress has already been achieved and Phase 2A of the Project is now nearing completion. Training is an important component of this project and the project aims at integrating its training component with the mainstream AATA training courses.

iii. Strict application of the existing laws and stringent punishment have to be enforced to root out corruption from all segments of public management. Honest and patriotic persons in the administration should be properly rewarded and the corrupt ones should be promptly dealt with according to existing law.

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Colonial influence on our Accounting and Auditing System

Rezaul Karim *

The basic accounting and auditing structure that we had inherited from the British India was very sound and dependable. It had stood the test of time and proved to be very robust. In the colonial days, it had never failed to meet minimal requirement of the then government. How much it has been able to meet the needs of an independent and growing nation is debatable. Originally, the whole thing was developed for keeping a reliable record of revenue collection of a non local establishment. Stress was given to introduce an intricate system of internal checks and balances to minimise misappropriation and misuse of the collected funds. Nevertheless, with the gradual expansion of the British interest and activities in the sub-continent, even in those days, new demands were made on the system itself. The tasks of delivering essential service to the local inhabitants were added to the list. The concepts of self rule and development of indigenous economy were gradually getting popular. That necessitated the financial records of the government to become more flexible and receptive to changes. Some modifications in the system were initiated at that time, but it did not fully meet the total need of the time. Many things remained unattended during those days.

The accounting and auditing systems that existed within the government were centralised at one place and there was no separation of these two functions. They were overlapped in many respects. The work procedures and practices were over-laden with innumerable checks and balances. All disbursements had to be specifically authorised by the central audit before payment. The key accounting tasks were also concentrated at the headquarters. Only the peripheral works relating to custody of cash and up-keep of currency chest were passed over to the subordinate district treasuries. The pre-audit of claims of administrative units was considered to be the most important and vital activity of the audit and accounts department. Moreover, being directly under the authority of Secretary of State, the audit and accounts set-up in India enjoyed unique powers in interpreting rules and regulations of the government. That is why in the

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present-day publications of financial rules and codes we find so many audit instructions and audit notes. On many occasions, those interpretations and clarifications had completely changed the original intentions of the rule makers and made major deviations from the earlier concept.

The responsibility of keeping transaction-wise initial accounts of the government was entrusted to the district authorities .The district treasuries, in those days, were wholly managed by district administration staff with little accounting background. They were not seconded from the centralised accounts office at the headquarters. Those persons worked under full control and supervision of the head of local administration, the District Magistrate and Collector, who was then known by that name. One of his prime functions was to look after the treasury. He was personally responsible for smooth running of this institution. Frequent inspection of the treasury was all but mandatory for him. That included laborious counting of huge amount of stocked notes in the currency chest. The Officer-in-Charge of the treasury used to be a senior magistrate of the district. All that meant that they had to be well-conversant in government rules, accounting procedures and treasury rules. Surprisingly, they were not found lagging in that. Most of them acquired that knowledge through an intensive in-service training programme .

In the central office, the work on accounts compilation used to start after receiving monthend list of initial transactions from the district treasuries. There, at first, they would enter the totals of individual treasury data under a transient suspense slot. Then they would proceed on to scrutinise each individual transaction thoroughly and simultaneously go on for clearing the suspense head with the accepted figures. At the end, they would come out with a corrected account covering all the treasuries for the whole month. The differences detected at the time of central examination were then pursued with the local authorities till adjustment. For that they maintained a set of well-documented broad-sheets to watch the progress. No doubt that process enabled them to produce a dependable and correct account, but nevertheless, it smacked of complete distrust and suspicion towards subordinate offices. Devolution of responsibility was then totally unknown to the authority. Though a fairly reliable manpower was available at the local level, but they were never trusted with the compilation work. Since liberation that role of the office has dramatically changed. Currently, great reliance is put on the lower level accounts keeping. Unfortunately it has failed to give the desired benefit as the quality of the people at that end has since deteriorated. Now a days there is an acute shortage of expertise in those offices. Training of personnel has been greatly neglected. In addition, the absence of requisite registers and forms at that level have contributed to multiplication of the problem.

From the British period, the existence of various kinds of below-the-line accounts and linkages with the mother government through sterling accounts, which was there to suit the latter's interest, complicated the accounting presentation of the government. The final statements merely listed up a chain of financial events of the government without bringing out the net effect of its operation. That might have served the limited purpose of an alien government, but the fact remains that it was not in line with the prevalent accounting practices. It also did not meet the need of an effective government. Those deficiencies in accounts were created and nurtured intentionally to cover the transfer of resources from the country. Through that ineffective system it was possible to hide the transparency of information in documents. After the departure of the foreign power hardly any initiative had been taken to change that outdated practice in accounts keeping. As a result of that neglect the accounts of the government have not yet become an effective management tool.

From the early days cash accounting conventions have been followed in the government for its easy operational qualities. But in practice that could hardly produce a simple, balanced and timely financial statement on state activities. The architects of the system have consistently failed to recognise the benefits of the accrual accounting which could perhaps guarantee proper matching of accounting information with economic actions. The presentation that comes out from the traditional method is very much complicated due to presence of cumbersome adjustment entries and below-the-line returns. The end products of the process are not understandable to an ordinary individual and it usually takes an accounting wizard to comprehend the full implication of those documents.

For the first time in the subcontinent the presence of centralised audit and accounts and the need for an independent Auditor-General were officially recognised with the introduction of Constitutional Reforms in 1919. That arrangement was subsequently fully secured under the provisions of the Government of India Act of 1935. Since then, insignificant alterations have been made to the basic framework. After the end of the British period, the Pakistan (Audit and Accounts) order of 1952 and thereafter in Bangladesh, the Constitutional provisions and the Comptroller and Auditor General (Additional Functions) Act of 1974 ,have brought only cosmetic changes in the previous content. The Auditor General or Comptroller and Auditor General, in whatever name he has been called was never considered as an integral part of Parliament and his accountability line has always remained undefined. This office has consistently been representing executive head of the government and has sought protection from the latter.

The fundamental changes in audit perspective have never been addressed. Attempts for separation of audit and accounts from a centralised setting have been very perfunctory and superficial in all the countries of the subcontinent. Though in Bangladesh currently the government has been pursuing a policy of disjoining them, till today it could not implement that decision due to lack of vision and effectiveness. In India with many provinces in existence the bifurcation has always remained a difficult task. Presently, they have taken some half-baked measures to separate functions at the Federal level. In Pakistan, so far, no start has been made on those lines. In general in this part of the world the institutional reorganisation of the audit and accounts set-up has remained insufficient over a long period of time. Our unnecessary attachment to the inherited traditions has blurred our thoughts. The presence of negative attitudes among the people, who really matter, has not allowed us to recognise the necessity of introducing reforms on modern lines so far.

FINANCING OF LOCAL GOVERNMENT INSTITUTIONS AND THEIR FINANCIAL MANAGEMENT

Rezauddin M. Chowdhury *

Introduction :

The Local Government Institutions in Bangladesh have been undergoing transition in the recent years. The experiment with the local government institutions in our country initiated in the early sixties is still continuing as we are yet to decide on the best possible means to reach the desired goal of sustainable development.

The Commission set up by the previous government for review of the structure of the local government submitted a report in July 1992, on the basis of which the transition began. The Commission recommended a two tier local government system with the Union Parishad (UP) at the lower and Zila Parishad (ZP) at the higher level. Outside these two tiers the Commission also recommended a Gram shabha for each village and a Thana Development and Co-ordination Committee (TDCC) for each thana to assist the local government institutions and co-ordinate the development works. However, only a part of these recommendations was implemented. Gram Shabha was considered very important, but nothing was done regarding formation of Gram Shabha.

Under the existing system Union Parishad is the focal point of local government. In 1993, government amended the Local Government (Union Parishad) Ordinance 1983 to bring about the changes in the light of recommendations made by the Commission. However, the question of constituting Zila Parishad as per recommendation of the Review Commission remained unresolved. There are other local government institutions in the urban areas like the Municipalities and the City Corporations, but for the present we leave them out as the purpose of this paper is to study the trend and the procedure of public expenditure by the local government institutions in the rural areas and their system of financial management.

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Union Parishad :

Since the days of Panchayet and local board this local government institution has been sustaining on dole from the central government. The Union Parishads, like other local government institutions always had the authority to levy certain rates and taxes, but the revenue earnings from these sources were very meagre. Most of the U.P. Chairmen were never very keen on tax collection as any tough measure in this respect would definitely tell on their future election. Also the revenue income of the Union Parishad dwindled as many of the tax items were transferred to Upazila Parishad (Thana Parishads) by an Ordinance in 1983, when Upazila (Thana) was declared to be the centre of all local government activities.

The Ordinance amended in 1993 gave most of the powers back to the Union Parishads to levy taxes and rates. The second schedule, section 53 of the amended Ordinance of 1993, includes following items on which UP may levy taxes.

1. Tax on the annual value of homestead or union rate to be levied in the prescribed manner.
2. Tax on the professions, trades and callings.
3. Tax on cinemas, dramatic and theatrical shows and other entertainment of like nature and amusements.
4. Fees for licences and permits granted by the Parishad.
5. Fees (lease money) from specified hats, bazaars and ferries within the union boundaries to be determined by the government. Accordingly, the government decided to hand over hats, bazaars and ferry ghats having annual income less than Tk.50,000 to UPs.
6. Fees (lease money) from Jalmahals situated entirely within the union boundaries to be determined by the government.

In pursuance of the provision of this act, the government decided to hand over jalmahals below 20 acres to UPs. However, the tax schedule does not specify rates for different items. The UPs still follow the model tax schedule of 1968 for the purpose of fixing taxes.

Apart from these, the UPs also receive their shares of development grants from the TDCC. As all the UPs do not have equal number of hats/bazaars, ferry ghats and jalmahals, a system has been evolved to share the revenue collection from such sources through the TDCC in an equitable manner. This has been explained in a latter paragraph.

The UPs receive revenue grants from the central government each year as part of the salary and honorarium of the UP Chairmen, Members, Secretaries, Dafadars and Mahalladars. This revenue grant has been increasing over the past years rising from Tk. 27.58 crore in 1991-92 to Tk. 44.98 crore in 1995-96. The Union Parishads' Food for Works (FFW) programme, which generates employment and income, is entirely financed out of government fund.

The development expenditure in the Union Parishads by the central government is also filtered through the TDCC. There has been steady growth of development expenditure by the central government in Union Parishads. Allocation in this regard in 1995-96 was Tk. 200 crore as against Tk. 60 crore in 1992-93. In the FY 1991-92, the development grants by the central government to Upazila suddenly dropped to Tk. 15 crore only, as the new government was indecisive at the time regarding the future role of Upazila. Since 1993, almost all the development grants given to the Thana Development Co-ordination Committee are spent through the UPs.

Trend of Public Expenditure in Union Parishads :

A study carried out by the Centre for Integrated Rural Development in Asia & the Pacific (CIRDAP) on Public Expenditure by Union Parishads shows that the average annual growth rate of expenditure by the UPs during the period from 1980-81 to 1988-89 was (-) 0.02 percent[1]. The study explained this trend by the fact that as a rule UPs cannot spend more than their receipts and the trend of growth rate of receipts during the said period was also (-) 0.02 percent per annum at constant prices.

It may be noted that taxes, fees and tolls and central government grants in the receipts side declined sharply in real terms over the period. This has also been explained by the fact that many of the sources of income of the UPs were transferred to Upazila Parishad by the local government (UP) Ordinance of 1983. This trend has reversed since 1990-91 and in the last

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1 Public Expenditure and Poverty Alliviation in Bangladesh : by Abdul Ghafur Chowdhury & Dilip Kumar Roy (CIRDAP)

three years, with the dismantling of the Upazila Parishad and passage of the amendment act of Local Government (Union Parishad) Ordinance in 1993 the public expenditure in the UPs has sharply increased [2] . This change is mainly due to increase in central government expenditure in the UPs in the form of development grants, food for works programme and salary/honorarium subsidies. We are yet to measure the impact of transfer of certain number of Jalmahals, hat bazaars and ferry ghats of UP authorities on public expenditure, as all the figures are not available, However, the process has started, and for the purpose of calculation of revenue earnings to be spent by the local government institutions in the rural areas this information is immaterial.

Thana Development & Co-ordination Committee :

Thana Development and co-ordination Committee, as we described in an earlier paragraph, is not a tier of the local government, but an intermediary body to co-ordinate the development works of the Union Parishads. With the abolition of Upazila Parishad, the government recognised the need for Thana Development & Co-ordination Committee to fill in the vacuum left by the Upazila Parishad as a co-ordinating body. All the Chairmen of the UPs within the thana are members of the TDCC. One of them becomes Chairman of the TDCC by rotation. The other members of the TDCC are, three female elected UP members within the thana and all heads of government departments in the thana. Its job description includes thana level planning, execution of development works and allocation of resources. Ideally perceived, the TDCC is an important extension of the powers of the UPs since it has endowed the Union Chairman with the decision making power over the allocation of central government resources. However, in reality because of vagueness in the definition of the role of the TDCC Chairman and the loose framework of its body, the TDCC is yet to prove its worth as a policy planning authority. The Upazila Parishads were formed to play significant role in the local level development works.

It is debatable whether they were successful in the performance of their assigned role. However, much of public expenditure was made through the Upazila Parishads since 1983. CIRDAP study on public expenditure in

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2 Statistical Year Book of Bangladesh - 1994 (BBS).

the Upazila shows a growth rate of .06 percent per annum during the period 1984-85 to 1988-89. With the abolition of Upazila Parishad and formation of TDCC this has declined sharply and as TDCC is not a substitute of the Upazila Parishad, public expenditure by the TDCC cannot be equated with that of the Upazila Parishad.

Thana and Union development assistance fund allocated by the government from the ADP each year is distributed by the TDCC on the following basis :

(a)	Population	40%
(b)	Area	30%
(c)	Under developed areas	30%

The fund is released in two equal instalments for the purpose of development of agriculture, irrigation, construction and repair of rural roads, education, sanitation and water supply. The UPs are supposed to adopt schemes from the Thana and Union plan book and submit them to the TDCC with the resolution of the Union Parishad.

Apart from allocation from the ADP by the central government, the TDCC also mobilises resources by leasing out hat/bazaars, ferry ghats and jalmahals beyond the specified limits of the UPs and within the jurisdiction of the thanas. The TDCC also receives 10% of the lease money of hat/bazaars leased out by the Union Parishad. The fund created thereby is also spent for the purpose of development of the UPs. The Union having no hat bazaars, jalmahal or ferry ghat is given priority in the distribution of this fund. So, in the present context the Thana Development and Co-ordination Committees' financial activities revolve round the Union Parishads.

Zila Parishad :

Zila Board, the present Zila Parishad, was the most important tier of the local government before 1947. In the first few years of Pakistan, Zila Board retained its supremacy, though much of its glory was gone. Till 1956, both Union and Zila Boards were comprised of elected and nominated members. In 1956, S.D. Khan Committee set up by the then Pakistan Government recommended a two tier local government system with the Union Council at the lower and Zila Council at the upper level. S.D. Khan Committee recommended election of all members to local government organisations on the basis of adult franchise. The Committee also recommended setting up of a local government directorate and a local government service commission. However, till 1959, only one recommendation of the S.D. Khan Committee i.e. formation of local government bodies with only elected members was implemented.

In 1959, under the Basic Democracies Order, a four tier local government system was set up. The tiers were Union Council, Thana Council, Zila Council and Divisional Council. Zila Council was formed with the nominated and elected members. In 1963 provision was made for election of Vice-Chairman from amongst the members. District Magistrate was the ex-officio Chairman of the Zila Council. Since inception Zila Board/Zila councils' activities included construction and maintenance of rural roads, hospitals, dispensaries, schools and other educational institution buildings, Dak Bungalows etc. health care and sanitation programme. Zila Board/Councils' sources of income were revenue earnings from cess, council tax, toll, fees, lease money and grants from the government. However during the rule of Ayub Khan, under basic democracy, Union Council gained attention of the central government. Zila Council continued to remain as a mere additional structure of the local government subordinate to civil administration. With the introduction of Upazila Parishad in 1983 reconstituted Zila Council (Zila Parishad) became a moribund institution.

Local government (Zila Parishad) Act was passed in 1988. This act provided for a Zila Parishad comprised of representatives and nominated members with a Chairman nominated by the government. Thus, inspite of the fact that MPs were nominated by the government as Chairmen, the Zila Parishad failed to regain its former glory. The duties and responsibilities of the Zila Parishad as well as sources of their revenue remained the same, but the income from government source decreased because of the shift of focus to Upazilas.

The Study of CIRDAP on Public Expenditure by local government shows a decline in the annual growth rate of real receipts and expenditure of the Zila Parishad since 1980-81. These rates are (-) 7 and (-) 6 percent respectively which indicate that this level of local government is becoming extinct at a rather fast pace. Although the Local Government Structure Review Commission, 1992, recommended an elected and powerful Zila Parishad, no bill was passed in the Parliament in this regard. So the 1988

Act still remains in force with gradual worsening of the situation. Most of the functions and development activities of the Zila Parishad have been taken over by the other organisations thereby reducing it to the level of a liaison office, a body to implement instructions of the central government and perform the routine work. The Zila Parishad in its present shape can hardly be called a local government institution.

Financial Management Of The Local Government Institutions :

The Zila Parishad has not been regularly constituted and the functions it now performs are mere routine work, so we leave out Zila Parishad from our discussion of financial management and concentrate on Union Parishad as the new focal point.

The Union Parishads are administered under the Local Government (Union Parishad) Ordinance of 1983 as amended in 1993. This ordinance contains financial rules and regulations and the procedure of book keeping for the UPs. However, all these rules and regulations have been adopted from the Basic democracies Order of 1962.

The Ordinance vests the financial power of the UP in the entire Parishad. The Chairman executes the decisions of the parishad. He is entrusted with the task of collection of taxes, lease money, tolls and fees through his tax collector or Secretary as the case may be. The Ordinance provides for formation of several committees to discharge different financial and development activities of the Union. However in practice most of the Union Parishad activities are run by the Chairman himself, though from time to time the Parishad confirms its approval by passing resolutions.

Section 43 of the Local Government (Union Parishad) Ordinance provides for formation of a Fund known as Union Fund. The Union Fund is formed with the balance of such fund left by the previous Parishad to which the present one is the successor and all income of the Union Parishad earned from different sources including the government grants, contributions from local authorities and individual donations. Section 44 of the UP Ordinance provides that moneys credited to the Union Fund are to be kept in a Government Treasury on in such other manner as specified by the government. The Ordinance also specifies the application of this fund. The Ordinance draws a difference between charged and other expenditures laying emphasis on payments of charged expenditure most of which are liabilities of the Union Parishad. The Ordinance also lays emphasis on payments of salaries and allowances to the officers and employees of the Union Parishad.

The Union Parishad is also required to prepare a budget i.e. a statement of its estimated receipts and expenditure before the commencement of each financial year and send it to the Thana Development & Co-ordination Committee for approval. If the Union Parishad fails to prepare its budget, the Thana Development & Co-ordination Committee may prepare it which will be deemed to be the budget of that Union Parishad for that financial year.

The UP Ordinance also makes provision for keeping of accounts in prescribed manner and preparing an annual statement of accounts to be forwarded to the Deputy Commissioner by the 31st of December of the following financial year.

The financial responsibilities of the Union Parishad also includes, levy of the taxes in the prescribed manner, notification and enforcement of taxes, assessment and collection of taxes, leasing of specified hat bazaars, ferry ghats and jalmahals within the jurisdiction of the Union, payments of RMP (Rural Maintenance Programme) contribution and other government and Thana Development Co-ordination Committee dues.

The present state of financial management :

The Basic Democracies Order of 1962 from which most of the instructions regarding Management of the Union Parishad emanated outline in details the procedure of accounts keeping and financial management to be followed by the Union Parishad. However, in practice the UPs seldom follow these details. The UP Chairmen in most of the cases are reluctant to perform their duties as financial managers and Chief Accounting Officers of the Union. The UP Chairmen, have not been given proper training to manage the financial affairs of the UP.

Under the amended Ordinance, the UPs are to play a vital role in nation building. UPs have been declared by the government as the focal point of the local government and the national government has endowed it with increased responsibilities. Declaration of UP as an administrative unit is also in the offing, but the UP Chairmen are barely conscious of their newly assigned responsibilities.

As it stands now, the financial management of the Union Parishads is in total disarray. In every UP there is a Secretary to assist the Chairman in the performance of his job, but he acts at the directives of the Chairman and if the Chairman is not willing to keep his books in order, the poor secretary can do little as he is dependant on the Chairman for his job and half his salary. Most of the UP Chairmen are reluctant to use any bank accounts for the UP fund. Though, there may be bank accounts, but the UP Chairman do not have much use of them as hardly any transactions take place through these accounts.

Chairmen of the UPs in most of the cases keep money in their personal accounts. Chairmen are often found taking pleasure in violating the rules. However, the root cause of this mismanagement lies in the ignorance of many Chairmen about the financial discipline and as we stated earlier, in their lack of training. The Chairmen are yet to grasp the importance of their role as head of the most important tier of the local government.

Management of hat bazaar, jalmahal and ferry ghat is a new feature in the Union Parishad scenario. Though regulation and convenience require maintenance of separate books of accounts for these heads, most of the chairmen are yet to open any. It is about two years the UPs have been entrusted with the management of hat bazaars and jalmahals, but till to day, they have not furnished any information regarding collection from these sources to the higher authority. Moreover, no system has been evolved to ensure proper utilisation of the income derived from these sources. In the absence of proper mechanism to check, it is apprehended that some of the UP Chairmen may come to regard these as their personal properties and in collusion with the Parishad members they may squander the fund as some of them did with the FFW (Food for Works) food grain.

A random verification of the cases of dismissed/suspended UP Chairmen shows that about 80% of them lost or are about to lose their office for mismanagement of FFWP fund (food grain). Unless a proper mechanism is devised, mismanagement of hat bazaar-ferryghat-jalmahal fund may also lead to dismissal of hundreds of UP Chairmen in future.

We also stated earlier that the UP Chairmen are reluctant to collect tolls and taxes at the cost of their popularity. The Monitoring, Inspection, and Evaluation Wing of M/O LGRD and Co-operatives in its report on the activities of UPs in the Chittagong Division for the year 1990-91 showed that about 50% of the UPs collected tax less than 40% of the claim. The condition is almost similar in other divisions also. Moreover, there is a doubt about the correctness of the report submitted by the UPs in the prescribed from. About 23 UPs in Chittagong Division reported to have collected more than 100% of the claim, which is absurd. Reports on the present state of UP activities is still awaiting, as most of the UPs are yet to send any report on their activities since 1993-94.

A few of the reports sent by the UPs reveal some interesting features. Though the government has authorised the UPs to collect six types of taxes, tolls and rates and omitted the erstwhile chowkideri tax, the UPs are still continuing to collect only Union rate and chowkidari tax, ignoring other items mentioned in the tax schedule of the amended ordinance. A recent survey of the UPs within Dhaka district shows that out of 10 UPs so far surveyed, two have not collected any tax in the last three years.

Conclusion :

The aim of the government is to make local government institutions self sustaining and viable and with this aim in view the Local Government (Union Parishad) Ordinance was amended in 1993. However changes in the Local Government Ordinance failed to bring about the desired result as those changes were not effectively reflected in the day to day activities of this institution. Already three years have elapsed since the enactment of the amended Ordinance, but the local government institutions at the lowest level still continue their functions as if no change had taken place. The local government leaders have not been given any significant training so far to understand their role under the amended Ordinance. Though the Local Government Structure Review Commission suggested a two tier local government system with UP at the lower and Z P at the upper level, the Zila Parishad bill is yet to see the light of the day. So, the Zila Parishad except for routine work, is a non-functional institution.

The new government have expressed strong commitment to carry out much needed and long awaited reforms in local government institutions. Hopefully, the new reform process will be initiated soon. Along with institutional reforms efforts should be made to establish efficient financial management system in local government institutions. The spirit of accountability and transparency must be established at grassroots level to strengthen and sustain democratic institutions at all levels of government. Training, monitoring and effective supervision would be crucial elements in this process.

REPORTING RESULTS OF PUBLIC SECTOR AUDIT IN BANGLADESH

Ranjit Kumar Chakraborty *

Introduction :

The audit process in the public sector after passing through the rigmarole of different phases culminates in the reporting phase. In this phase, auditor's full range of efforts together with his own flair and imagination find expression in the audit reports. That is why, the reporting phase, among other phases of the audit process, is considered to be the most critical one. Needless to say that the crucial test of efficiency of an audit operation rests, in most part, on the effectiveness of reporting. All endeavours associated with planning and conducting of audit might turn out to be ineffective if the reports generated therefrom fail to create the desired impact on the audience for whom they are intended. Roger Buttery et al in their book entitled 'Audit in the Public Sector' have rightly pointed out: 'Much excellent audit work can be wasted if the resulting audit reports are unprofessional and ineffective'. 'It is therefore, important to have an appropriate reporting procedure with the aim of ensuring that the results of audit gain intended effects'. [1]

Against this background, an objective assessment of the reporting arrangement for communicating the results of audit in the public sector in our country gains importance. The purpose of this paper is to bring to focus the relationship between effective reporting and audit methodology; the issues to be addressed in formulating effective reports; the report formulation process followed by the Supreme Audit Institution (SAI) of Bangladesh; major thrust of the audit reports brought out by the SAI of Bangladesh, the style and contents of the audit reports and their impact on the audience. Finally, with the identification of the problems inherent in the whole process the paper comes up with some recommendations for improvement.

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[1] S. B. Krishnan : Value for Money Audit

Reporting and Accountability Function :

While dealing with the issue of reporting results of audit it should be remembered that the reports brought out by the SAIs have a definite role to play in establishing accountability. It is a common knowledge that all democratic societies, while acknowledging the supremacy of the authority of the Parliament, also aim at achieving a transparent as well as an accountable public administration for the sake of good governance. They want to achieve this by way of inculcating effective accountability relationship between the Executive and the Legislature. The purpose of this relationship is best served by the statutory audit through regular reporting to the Parliament. Indeed it is the constitutional obligation of the SAIs to present reports to the Parliament reflecting the results of audit. Then it is the Parliament's turn to act on these reports through appropriate committees. Normally the Standing Committee on Public Accounts acts on behalf of the Parliament in this regard. The Committee deliberates on the comments and observations made in those reports in formal meetings, takes evidence and finally makes recommendations for remedial measures to be taken by the executive departments. Although this Committee is essentially a recommending body, its recommendations are, in a way, binding upon the executive departments. The Committee also reports its findings to apprise the Parliament as to the status of discipline in public financial management as well as the degree of accountability of the holders of public office. In the United Kingdom, the reports of the Committee on Public Accounts are debated once a year on the floor of the House of Commons, The entire process clearly reflects the importance of the reports of the SAIs in establishing accountability in administration.

Relationship between Effective Reporting and Audit Methodology :

Very often, it is said that the quality of audit reporting goes hand in hand with the degree of sophistication of the audit methodology. There is much truth in this. None will disagree with the fact that an improved methodology of audit which goes in the name of Performance Audit/ Comprehensive Audit/Full-scope Audit can, in reality, widen the scope of audit, bring in newer dimensions in the procedure of scrutiny and generate new information. And all these can contribute to the enrichment of a report to the fullest possible extent. Indeed, in today's perspective, one cannot expect a report to be able to create the desired impact on the audience if it is prepared on the basis of the results of traditional compliance and financial audit. But, at the same time, one cannot ignore the fact that even after the commissioning of the finest methodology of audit, the reports may still remain substandard in the absence of a well-knit reporting arrangement and real skill to project the results of audit. Therefore, audit methodology, by itself, cannot ensure effectiveness of audit. It is to be supported by qualitative, persuasive and objective reporting.

Critical Issues for Effective Reporting :

In public sector audit environment, formulation of effective reports is indeed a difficult task. In dealing with this task, a public auditor has to address a number of issues among which the most important ones are discussed here to give an impression as to the intricacies inherent in the task itself. These issues are:

i. **Fast changing environment :** Audit in the public sector operates in an environment which is susceptible to changes in quick succession. To keep pace with such an environment, there is a constant necessity to bring about changes in the approach of audit with resultant changes in the style of reporting. An auditor who has tuned his faculty with a particular style of reporting, finds it a real challenge when he has to switch over to a new style in formulating his reports in the changed environment.

ii. **Magnitude and diversity of audit coverage :** The audit coverage in the public sector is wider both in magnitude and diversity than it is in the case of the private sector. Broadly, it includes government departments, statutory public authorities and statutory public enterprises. Organisations under these entities have got their own special features and different styles of management, priorities, goals and objectives. To formulate effective reports in an environment having such magnitude and diversity, the auditor has to take into consideration all the attendant features and problems of individual organisations. Meeting this challenge is not an easy task.

iii. **Wider audience :** It is fairly obvious that unlike private sector audit, the reports generated from the operation of public sector audit have to cater to the varied expectations of a much wider audience which includes the legislature, the executive, the media and at times even the planners and the policy makers. A public auditor faces the real challenge when he has to rise up to the expectations of an audience of such a mix in his bid to formulate an effective report.

iv. **Wide range of topics :** Because of the multifaceted operations carried out in the public sector, a public auditor has to deal with a wide range of topics having their own peculiarities. While reporting on these topics, a public auditor has to choose appropriate styles which can best express and illustrate his views.

Report formulation process of the SAI of Bangladesh : An overview.

Having discussed some of the general aspects of reporting, let us now move on to relate them to the prevalent practice in Bangladesh. In doing so, it would be relevant to introduce, in brief, the overall report formulation process followed by the SAI in Bangladesh.

The SAI of Bangladesh brings out a number of reports every year reflecting the results of its annual audit operation. These reports take their final shape after passing through a number of processes and absorbing efforts of a number of teams engaged in the operation of audit.

The subordinate audit directorates under the SAI deploy their audit teams at field level to conduct local audit inspection of the auditable units. As soon as the local audit inspections are over, these teams, on the basis of their findings, formulate the initial reports and transmit them to the headquarters for review and further scrutiny. Then it is the headquarters' turn to issue those reports to the auditee organisations for their comments and corrective action. Normally only those observations which point to serious financial irregularities, significant waste, loss and lapses are supposed to be included in the final audit report of the Auditor general. No observation is included in the final audit report of the Auditor General without giving the auditee organisations enough opportunities to resolve it.

Apart from the local audit inspection conducted at field level, some of the directorates also conduct central audit on the accounts of the auditee organisations which is done at the headquarters. Broadly, these organisations are of two categories, viz., statutory public authorities and public enterprises. The accounts submitted by these organisations to the headquarters of the concerned directorates are examined on the basis of certain set criteria and commented upon accordingly. These comments are also included in the final audit reports.

According to Article 132 of the Constitution of the People's Republic of Bangladesh, the Comptroller and Auditor General submits these reports to the President of the Republic who causes them to be laid before the Parliament. As soon as these reports are placed before the House, they stand referred to the Public Accounts Committee. The Committee examines these reports in the light of the procedures laid own in Rule 233 of the Rules of Procedure of the Parliament and then makes appropriate recommendations as to the actions to be taken in connection with the observations and comments made in the audit reports. In this process, the Committee summons the heads of the executive departments and gives them opportunities to express their views in order to defend their position.

Major thrust of the audit reports :

The audit reports brought out by the SAI of Bangladesh, essentially contain the results of traditional compliance and financial audit as it is now practiced here. The nature and scope of this type of audit has been epitomized in the following definition of audit as provided in the Audit code : "Audit includes an examination of the books of accounts and other documents relating to the receipts and expenditure of the government statutory public authorities and public enterprises with a view to ensuring that rules and orders framed by the competent authority in regard to financial matters have been followed; that sums due have been properly assessed, realized and brought to account; that expenditures have been incurred with due regularity and propriety; that assets have been properly utilised and safeguarded and that the accounts truly represent facts."

The broad objective of this type of audit is to examine the adherence to the basic principles of traditional compliance audit. In our fascination for adopting modern methodology of audit the effectiveness of traditional audit cannot, however, be ruled out in our context, where fraud, corruption, extravagance, improper and wasteful expenditure are rampant.

However, such being the nature and scope of the existing methodology of audit pursued by the SAI of Bangladesh, the reports tend to typically focus those deviations which go against the basic principles of orthodox finance and thus they include observations on financial irregularities, wasteful and assumed the present proportion gradually since independence at different phases either in the wake of major policy decisions of the government or in response to the normal expansion of governmental activities. It is indeed a difficult task to formulate quality reports out of the results of audit operation on such a huge number of auditable units. Moreover the type and category of the auditee organisations are different in their character of operation and styles of management. Such inherent diversity in the audit coverage turns the task of formulation of quality reports more complicated.

ii. Absence of meaningful survey and study :

Identification of issues and areas to be focused by audit reports calls for constant survey and study by the teams of qualified and trained personnel. In the developed countries as well as in many developing countries such survey and study form part of audit operation. Unfortunately this is not present in our country and as such many important issues and areas which can enrich a report remain unattended.

iii. Lack of skilled staff and officers :

Meaningful report formulation calls for high level of skill, intuitive flair and imagination which again demand carefully drawn up personnel policy so that people having proper aptitude and skill are selected for the auditing job. But this is seldom done here in an objective manner. Sometimes, the task of reporting is considered as a job which should be done by the people who have only clerical bent of mind.

iv. Inadequate response from the auditees :

A quality report draws response from the auditee, but formulation of such a report again calls for adequate response from the auditees too. Sometimes response from the auditee motivates the auditor to give a second thought to what he has written in his observation and turn his mind to reformulate it. This interaction between the auditor and the auditee if properly developed can make a report really meaningful and effective. But due to lack of accountability culture in our country, the auditees in most cases do not take the audit reports with due seriousness and as such their response remains lamentably inadequate. As a result, what is reflected in the audit reports, essentially contains the lopsided view which turns the reports ineffective and at times, even counter-productive.

v. Lack of Professionalism :

Audit in general and reporting in particular demands a high level of professionalism. The Audit and Accounts Training Academy with its limited resource personnel and other facilities does provide professional training to the officers and staff of the department, but this is not consistent with the need to ensure a high level of professionalism. As a result, both audit and its resulting reports remain substandard and thus fail to achieve the intended results.

Suggested Improvements :

In the light of the discussions in the preceding sections of the paper it might be relevant to put forward here a few suggestions for improvement.

i. Full-blown reports on important issues and high risk areas :

With the identification of the important and substantive issues and the high-risk areas after conducting meaningful survey, the auditors should concentrate their investigative audit on those areas and produce full blown objective reports on those issues.

ii. Bringing in journalistic flavour and judicial restraint :

To attract the wider audience as well as to make the reports truly unbiased it is essential to bring in a fine blend of journalistic flavour and judicial restraint while formulating the language of the audit observations and comments.

iii. Avoidance of "information" overload :

There is a tendency to put in a lot of information in the report without considering there necessity to substantiate the views of auditor. But too much information tend to blur the significance of the main issues. All information should therefore be arranged in a manner so that they appear to be strictly relevant to the issues.

iv. Careful editing of the initial reports :

Those who are associated with the formulation of initial reports at field extravagant expenditure, expenditure in excess of the budget provision, material defects in the presentation of accounts etc.

Style and contents of the reports :

An audit report to be really effective must have meaningful contents, a positive approach and a pleasant and persuasive style of objective reporting. Considering all these as necessary attributes of an effective report if one looks at the reports brought out annually by the SAI of Bangladesh, the impression one would get would generally remain far from being positive.

The approach and style followed in formulating audit observations and comments often tend to be too negative and unpleasant in the sense that the observations and comments made in the reports put forward only the bare facts without explaining the real context, remain either constantly critical of the auditees or insensitive to the problems and constraints of the auditees and contain mechanical interpretation of the rules and regulations.

Apart from the approach and style, if one looks at the contents of the reports one would find that the issues dealt with in these reports are, in most cases, either inconsequential in nature or have a little bearing in a wider context. At times, some of the bigger issues which deserve full-blown reporting find their places in the audit reports but they are presented so sketchily that they effectively do not receive any attention of the audience. Consequently the issues brought out in the audit reports remain unresolved for years together. For example, issues like system loss in the public utility bodies; acquisition of capital assets by various government departments, statutory public authorities and public enterprises; maintenance of government buildings, use of government transports; selling out public enterprises to the private sector, recurring losses in state owned corporations etc. all need to be focused in the reports with all their ramifications to project the status of discipline in the management of public resources and thereby arousing awareness of the public managers responsible for managing them. But unfortunately they are addressed in the reports perfunctorily at times and in most cases not addressed at all.

Moreover, there are instances of observations in the reports which could be resolved either by exchanging notes between the auditees and the auditor or by holding bipartite meetings. It will be seen from the reports of the PAC presented to the Parliament that even the Committee, in many cases, recommended such modalities for settling observations which point to irregularities in payment of personal claims, deduction of income-tax from contractors' bills, bare procedural lapses etc. and which appear in the reports in a repetitive cycle year after year.

Impact of the reports :

Unlike many other countries, the audience of the audit reports brought out by the SAI of Bangladesh has traditionally been limited to the executive and the legislature. Even in this limited sphere the reports generated from the operation of statutory audit cannot draw a full- scale readership. Part of these observations can be substantiated by the fact that the auditees, in general, respond to the reports only under compulsion, i.e. as and when they are summoned by the PAC, not on their own accord. Although absence of accountability culture is largely responsible for this, but absence of positive approach and pleasant style in the audit reports are no less a contributing factor in this regard. It is indeed true that an audit report is not generally intended to create a dramatic stir in the mind of the audience by narrating sensational stories, but at the same time it should not be a document which fails to create the desired impact on the audience for whom it is intended. And unfortunately, this has been the case in our environment. An audit report is not viewed here as an aid to the management for bringing about changes and improvements in the system and procedures, rather it is considered as an embodiment of criticisms which are designed to deter the drive and initiative of the executives in carrying out their activities.

Problems inherent in the process of formulation of audit reports :

In Bangladesh the process of formulation of audit reports is characterized by a number of problems among which the most significant ones are discussed here :

i. Magnitude of audit coverage :

At present, there are as many as 22,250 auditable units under audit coverage of the SAI of Bangladesh. The magnitude of this coverage has level, sometimes, get swayed by the information they receive from different sources, other than those they gather from the documents and records. This, in a way, distorts their objectivity in attitude. Therefore, while editing their reports, the auditor should be in a position to delineate this aspect and raise the reports to a higher level of objectivity.

v. Shorter reports :

It has been observed that the PAC can concentrate only on a few pages of a report which often runs hundreds of pages. The remaining part of the report thus eventually remain redundant. Preparation of voluminous reports entails both cost and endeavour. Since shorter reports can serve the purpose meaningfully, the reports should be designed in that fashion.

vi. Highlights of the reports :

The readers of a report before going into the details generally look for its main features. It is, therefore, essential to highlight the main features of the reports suitably to draw the initial attention of the readers.

vii. Quality assurance team :

There should be a high-powered 'quality assurance team' to judge the quality of the reports in terms of production, style and contents. This team should have access to the reports published by other SAIs so that they can suggest new ideas to improve the quality of the reports. The team should, however, remain attached to the report wing of the Auditor General and initially place their suggestions to this wing which in turn would get them approved by the Auditor General.

viii. Use of graphs and Charts :

All statistical information can be conveyed meaningfully to the readers of a report if they are presented using suitable graphs and charts. This indeed also saves the space of the report as well as adds to the beauty of presentation.

ix. Development of professionalism :

Quality of audit and audit reports depend largely on the professional standard of the auditors and continuous exposure of the key personnel to training, seminars and workshops. It is, therefore, essential to have a strategic plan to develop desired level of professionalism in a phased manner.

In today's perspective, an audit report should act as a catalytic agent to establish a symbiotic relationship between the auditor and auditee without deviating from its main purpose. A public auditor should, therefore, acquire the kind of skill which would allow him to present a well-balanced report making it useful to the wide range of audience for whom it is intended.

Conclusion :

In Bangladesh, a modest beginning has been made to adopt modern auditing methodology commonly known as Performance or Value for Money Audit. While establishing this technique on a firm basis through wide ranging reforms, simultaneous actions are needed to improve the art of reporting of audit findings. This particular area has recently been given special attention by the SAI and hopefully we will soon find significant improvement in the content and quality of audit reports.

WITH THE BEST WISHES TO
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