

## FOCUS

## Budget 2000-2001: Why aren't the Public in the Conversation?

WITH the presentation of the FY 2000-2001 budget in the parliament yet another budget season has dawned on us. Politicians from this side of the aisle are hailing it as a plan to put us in a higher growth path; those on the other side are dismissing it for its unrealistic design. It is a dream of endless prosperity on one side, and a prescription for utter nightmare on the other. Economists are computing balance of payments, interest rates, deficit funding, growth rates, etc. and generating opinions only other economists understand. The payroll-subsidy-tax constituency are either loving it or hating it based on how their fortunes have swung since last year's allocations.

Chances are that if you are not a career politician, trained economist or a part of the payroll-subsidy-tax constituency, you either don't have much to say about the budget or what you say is inconsequential. But wait a minute, aren't you the biggest constituency in whose name the entire purse of Tk. 42,859 crore being allocated? Aren't you, in fact, the 'public' in the public sector budget? Why do we not see you then? Are you not interested on how your money is being spent?

**Should the public be involved?**

The budget process is to the public-sector manager what profit maximization is to the private-sector manager. It is a professor of mine, who wrote an approach to the subject of a public sector budget from its equivalent in the private sector. Assuming that all else remains the same, a profit-maximizing firm generally acts upon two types of signals, one from the consumers and one from the stockholders. The consumers will stop purchasing goods and services if the price exceeds the amount they are willing to pay. The stockholders will start selling shares if they feel that the company is not being profitable. The dual threat coming from possible bankruptcy on one hand and devaluation of the net worth of the company on the other creates perpetual pressures for managers of private firms to continuously thrive for efficiency and productivity gains.

Let us now contrast this with the case in the public sector. We have two inherent problems. One, the threat of extinction due to bankruptcy is not present. Public sector institutions can operate indefinitely in a loss-making mode. Just think of any of our state-owned enterprises (SOEs). Two, the ownership of the firm is diffused through the entire citizenry. The impact of one person's concern over the productivity of the firm is not immediate on those making allocation decisions. Your complaint about another late arrival of Bangladesh Biman is not going to have much impact on their on-time performance.

So why do we have a public sector if market can do a more

efficient job in the allocation of scarce resources? The reason is simple — market failure. Although market competition may result into an efficient allocation of resources, it does not mean that the market optimum and the social optimum will coincide. The market alone may not seek to provide telephone services in the rural areas, as profitability would be higher in the urban areas where the supporting infrastructure is already in place. Thus, if society desires telephone services in the rural areas, then it entrusts the government to step on its behalf and impose the social optimum. The government can provide the service itself or enact regulation to alter the behavior of the private firm.

Hence the public sector manager has dual objectives, to be efficient and to be effective. But how do we ensure that he or she fulfills either of these objectives? We don't have stocks that we can buy and sell. If we stop purchasing goods and services offered by the public sector it means either we can't get it from anywhere else or it wouldn't have any impact on the behaviour of the public sector manager. So the two means the public has in its possession to send a signal back to the public officials are votes and public opinion.

The first one is again a bit problematic when you have five-year election cycles and a system of governance where even local level public services have to be administered through the state bureaucracy. You can vote-in and vote-out, but between the election cycles you have no means for sending signals back to the public managers. Hence, public opinion surrounding the annual budget process becomes one of the most important means of interaction between the public and the elected officials. It is also the only document that you know, which will have to clear every year through the political process. So if you are in a situation of political gridlock or an impasse, nothing could be more sacred to you than the budget process.

**Why isn't the public involved?**

So why isn't the public an integral part of the budget process? The problem, in large parts has to do with the form of the budget itself. It is presented by the Finance Minister and projected as a fiscal document. The fact that it is a social document as well as a political document is not understood and communicated to the public at large. The public is not brought to recognise that it is the actual owner of the purse of the state and the politicians and the bureaucrats are mere managers.

If the budget is to be a fiscal, social and political document all at the same time, then it needs to be more than a mere listing of revenues and expenditures. In other words it needs to include not only efficiency factors, but also effectiveness measures. Here we have a challenge.

as effectiveness does not lend itself readily towards quantifiable measures. We know what we are putting into the system in terms of personnel, building materials, equipment, etc. But what we expect to get out of the system are elements such as cleaner air, reduced crime, increased educational opportunities, better transportation, improved healthcare etc. which cannot be readily priced. So in order to evaluate effectiveness of an appropriation, we have to rely on various indicators of output, performance and outcome.

The good news is that we do not need to reinvent the wheel. Measures for evaluating performance have long been in use in public sector budgeting. For instance, output measure for the police force may be the hours of patrol; number of crimes investigated; and number of arrests made. Measure of outcomes could be rates at which cases are cleared; response time; and citizen satisfaction. Output measures for mass transit would be vehicle miles, number of passengers, etc. Outcome measures for transportation could be per cent of population served, per cent of late trips, etc. Availability of

as it relates to the overall development agenda of the government. Second, it needs a detailed history and projection of revenues and expenditures so the public can see the general direction in governmental spending. Third, projection of revenues and expenditures means little if the relevant performance indicators do not accompany them. So history and correlation of performance indicators also need to be presented. Rarely could a public sector budget be envisioned without the termination of old or initiation of new programmes. Thus the fourth item that needs to accompany the budget is the result of cost-benefit analysis or justifications in support of programmatic changes.

**What happens if the public isn't involved?**

Recall from the earlier section the fact that unless checked, a public sector organization can continue indefinitely in a loss-making mode. Recall also that the people who are currently involved in the budget conversation would continue to benefit if they remain its sole constituency. Now in-

emerge at all from the proposed budget. What emerges from the budget is actually a departure from the position of limited, efficient and professional government and a further extension of the already bloated public sector. Consider for instance the allocation for the education sector. It is encouraging to hear that the government allocation for the sector has risen nearly 60 per cent in the past five years. But the brunt of these investments have not gone into expanding educational opportunities or improving the educational outcomes but to subsidize the teachers of non-governmental schools, colleges and madrasahs.

The expansion of the public sector in areas originally allocated to the non-governmental sector is alarming when we consider the level of corruption in our bureaucracy. In 1997, Bangladesh ranked the highest in the Corruption Perception Index (CPI) among Asian countries. A Transparency International Survey found that 41 per cent of households paid a 'donation' and 3.6 per cent a direct payment for the admission of children into schools, while 36 per cent of households made payments to or through hospital staff or other influential persons to secure admission into hospitals. A 1998 book identified corruption by the law-enforcing officials including the police force as one of the four major attributes to the high level of corruption.

Consider now the proposition in the budget to introduce an honorarium in the amount of 15 crore for 'risky duties' in order to 'improve the morale and provide incentive to the police forces.' The question to ask here is that incentive to do what? Allow more corruption and less law and order to prevail? Going by recently reported incidents of crime that would certainly seem to be the case. Last month alone 386 people were killed, 43 women and children were raped, 181 robberies were committed, 23 persons were subjected to acid-throwing, and 38 persons were abducted. Whatever the police is doing is not acting as a deterrent to crimes being committed. To reward them under these circumstances raises doubts about the outcome.

In general, if you look at the pattern of allocation decisions in the proposed budget, you cannot help but draw the con-

sistent failure to meet our GDP targets each year means that we have to make up more grounds each year if we are to get close to our year 2002 objectives. This calls for some real soul-searching about why our growth performance continues to be unsatisfactory.

Yet what we see in the budget is what we have seen in all previous budgets: a mere tinkering with tax, incentives and interest rates. What we don't see is any serious shift in the direction of the private sector by divesting the loss-making SOEs. Instead, what we do see is throwing in of some life support to rescue the nationalised commercial banks (NCB) but the retaining of the sick industries. It is reported that as of January, this year the SOEs have Tk 4,437.13 crore outstanding loans to different NCBs. And this is only the amount they owe not the amount they are draining from the economy every year.

If privatisation of state-owned enterprises, deregulation of industrial segments, and promotion of the private sector are the mainstay of the FFYP then that picture does not

conclusion that the government is primarily interested in either bringing new people under its payroll or increasing the payroll of those already under it. Subsidizing the salary of the non-governmental teachers is an example of the former. Risk duty allowance for police is an example of the latter.

**How could we involve the public?**

Before taking on the most difficult of all the questions posed, let us review what we have said so far. We started by observing that a large part of the citizenry is not involved in the conversation surrounding the annual budget of the government. We began by posing the normative question, should they be included? Our answer was a unanimous yes because we considered the budget process in the public sector as equivalent to the profit maximization motive in the private sector. In a centralized bureaucracy characterized by five-year election cycles and political gridlock, the budget process is the only guaranteed mean for the government and the public to interact in a meaningful manner.

If it was indeed imperative for the public at large to be involved in the process, we then proceeded to ask why weren't they involved in the process? Here our answer alluded to the form of the budget, which is being presented largely as a fiscal document. We maintained that for the general public to take an interest in the process the budget needs to be presented for what it actually is, a fiscal, social and political document—all at the same time. This requires that the budget be accompanied by supplemental documents, information and justification that allows the public to evaluate the proposition based on efficiency, effectiveness and relationship with the overall developmental strategy for the nation.

It is quite conceivable that the budget process could be doing just fine without the involvement of the public at large if the stakeholders were conscientious enough to stay true to their stated mission. So, the third question we investigated was to look at what has happened to the outcome of the budget process in the absence of the public at large. What we saw was quite alarming. The process has become one of conservatism, complacency and protecting the status quo. Not only there are gaps between plan and action but sometimes the actions run counter to plans. So our conclusion was that the citizens who were not part of the current budget constituency, citizens who could make an objective assessment of the budget, need to become urgently involved in the process.

Let us now posit how this can be done; how do we give back to the public the control over their own purse? The right way to do this is to decentralise government and bring public benefits as close as possible to the budgetary authority. Part of the problem is that sitting in Na-

tore your demand for increased protection from extortionists stands lesser of a chance of being heard if the allocation decision is to be made in Dhaka. If that allocation decision rested with city government in Natore then your chances increase exponentially because you can now give the budgetary authority to someone whom you know and trust. Coupled with a shorter election cycle, accountability for public budget would not be difficult to institute at the local level.

However, we do not live in an idealised world and it is most likely that the right way would be a very long way. So we have to speak in terms of strategies for the interim. To be meaningful, this strategy has to have two components, an awareness component and an action component. The awareness component has to concentrate on the demystification of the budget process. This would largely be an effort to make the public more aware about their rights of participation in public hearings and debates about the allocation decision of the government. Interest groups such as citizens for responsible government, citizens against government waste, citizens for budgetary accountability etc. could be formed to increase awareness about citizens' rights and government's responsibilities.

The action component has to take advantage of the modern media and advanced communication technologies like the Internet to close the distance between a centralised government and an underrepresented citizenry. In the past two years, we have seen a tremendous growth of Internet based networks and interest groups connecting not only people from all over the world but also people from disparate parts of Bangladesh. Thanks to the increased availability of reliable news and information, these groups have taken up causes such as the protection of the environment, facilitation of technology transfers, extension of minority rights and social justice, and promotion of local governments. It is quite conceivable that a network for budgetary accountability may not be far in the making.

In closing, let us consider that the time has come for us to recognize that the distance between Dhaka and Natore may still be enormous in terms of bureaucratic red tape but the distance between Dhaka and Washington, and Washington and Natore, is fast closing. If the road from Natore to Dhaka has to go through Washington then let it be so if it can bring a positive change to the people of Natore, because if we can create thousands of Natures, a prosperous Bangladesh may not be too distant in the horizon.

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these measures is what allows the government the ability to provide rationality and justifications for the spending decisions.

Still, we are missing an important piece of the puzzle, the allocation decision itself. On what basis shall it be decided to allocate X amount of funds to activity A instead of activity B? Why should we spend money on defence and not on education? Why is military security more important than economic security? What kind of future could we expect by securing our borders from the threat of outside forces but leaving our people hungry and uneducated? The public sector budget is not only a matter for efficient and effective allocation of resources; it is also for projecting a future that the government wants to deliver for its people.

So, in addition to the actual allocation document, the public sector budget cannot be complete as a political document in the absence of supportive documents, facts and information. First, it needs a coherent budget message, which provides assumptions and explanations behind the allocation priorities

sert into the consideration the fact that the budget is the government's means for delivering on its promise to the people. So, if you leave the objective stakeholders out of the process you will essentially retain the current status quo without feeling the necessity to draw the linkage between the budget and the overall developmental agenda for the nation.

In fact, that is precisely what has been happening to our budget process. It has become a document that speaks for complacency, for conservatism, and for protecting special interests — a document that is only superficially connected with the development document for the nation. Taking the FY 2000-2001 as a data point, but recognising that it is representative of not just this particular budget but of all previous budgets under a different administration, let us compare the rhetoric with the reality.

Target growth rates of GDP in the fifth five-year plan (FFYP) for 1997/98, 1998/99 and 1999/00 have been set at 6.01 per cent, 7.27 per cent and 7.55 per cent respectively. Private sector, efficiency and professionalism has been identi-

fied as the primary vehicle for realising these targets.

In tune with the current global trend, the government has fully committed itself to the market economy and has been pursuing policies through which the private sector would play the dominant role in the country's development efforts. In all cases where public ownership is retained, efficiency must be increased through improving management, decentralising the decision making process, ensuring commercially viable operation and following economic pricing of all goods and services produced by the parastatals. Success in management is to be rewarded through appropriate incentives, while inefficiency and poor performance will bring punitive actions. Professionalism in management will be an important element of the public sector strategy.

Let us now look at some actual measures starting with the growth rates. The actual growth rates of GDP for 1997/98, 1998/99 and 1999/00 have been 5.2 per cent, 4.9 per cent and 5.5 per cent respectively, well short of the targets set in FFYP. Our

consistently failed to meet our GDP targets each year means that we have to make up more grounds each year if we are to get close to our year 2002 objectives. This calls for some real soul-searching about why our growth performance continues to be unsatisfactory.

Yet what we see in the budget is what we have seen in all previous budgets: a mere tinkering with tax, incentives and interest rates. What we don't see is any serious shift in the direction of the private sector by divesting the loss-making SOEs. Instead, what we do see is throwing in of some life support to rescue the nationalised commercial banks (NCB) but the retaining of the sick industries. It is reported that as of January, this year the SOEs have Tk 4,437.13 crore outstanding loans to different NCBs. And this is only the amount they owe not the amount they are draining from the economy every year.

If privatisation of state-owned enterprises, deregulation of industrial segments, and promotion of the private sector are the mainstay of the FFYP then that picture does not

movement.

**Lack of political stability:** Due to political instability along with fall in local investment, there is practically no foreign investment. Production in the industries is very often stopped due to hartal, strikes etc. Export business comes to a standstill very often and the foreign buyers are discouraged to issue any import order.

**Inadequate port service:** The main seaports of Bangladesh are Chittagong and Mongla. Besides these, Chalna, Narayanganj and the few more riverine ports are there. The standard of service at the Chittagong port is very low in comparison to international standard. Many a time the importers and exporters are stranded due to labour unrest and strikes in the seaports.

**Free and open import policy:** After the signing of WTO agreement open and free commercial practices have ensued in Bangladesh. For this reason the market has been flooded with foreign goods. Production in many local industries has been stopped. The factories, which are closed, are unable to pay bank loan.

**Smuggling:** Bangladesh is surrounded by a frontier with India on all three sides. Indian goods are smuggled into Bangladesh through this frontier. As a result, the small industrialists and businessmen being unable to sell their goods in the local market are also unable to pay the bank loans.

**Short term policy and bureaucratic tangles:** In Bangladesh, the policy of the

government changes with the change of power from one political party to another. This is the greatest problem for an entrepreneur. With the change in policy, the price of goods produced in the industries are affected on one hand, and the entrepreneurs are obstructed from getting loan and other facilities due to red-tapism in the government office, on the other.

**The way to stop loan default culture**

1. The President's view on the loan defaulters' participation in politics is in fact accurate and suited to the present time. The loan defaulters having access to the present day politics can directly and indirectly influence politicians. Besides, the loan defaulters who are members of various federations, chambers of the industries and business organisations influence the government directly and indirectly.

It is necessary to bar the loan defaulters from contesting in the national assembly elections and elections of federations and chambers of industries and commerce, which will make them aware of their position. It is a fact that there will be little solution to the problem if the loan defaulters are only barred from politics. They should also be socially boycotted. Then only the loan default culture can be stopped.

2. There should be more transparent policy in allowing loan from the banks.

3. It is necessary to change the recovery system of bank loans to make it effective.

The writer, ex-Vice President of BGMEA, is Vice Chairman of BTMA, President of BSTMEA, Chairman of Youth Group and Editor of Monthly Panorama

## Emran — the Proud Armenian

by Mesbah-us-Saleheen

IT is really shocking that my dearest old friend K.M. Ejazul Huq is no more. We all knew he was fighting for his life as he was undergoing treatment in the United States, but still the news was unexpected. My acquaintance with Emran, as he was popularly known, took place soon after 1952 when he was admitted to the Armenian Govt. High School, Dhaka in class III. We both passed our Matriculation Examination from the same school in 1959.

Then we went to attend Notre Dame College — Emran in the arts group and I in the science. After our Intermediate Examinations in 1961, we got ourselves admitted to the Department of Geography, University of Dhaka.

In our school days, Emran was always friendly, sincere and had a natural instinct to make friends. He lost his beloved mother, probably in 1953 or 1954. They established a family library at their old house in Nazirabazar naming it 'Mayer Smriti Pathagar'. Emran would bring books from the library and lend them to his friends for a few days. Thanks to his generosity, I developed a habit of reading stories and novels right from class IV. Emran was very fond of reading the adventure books of Dattu Mohan, written by Sasadwar Datta. There were about 200 books in this series.

Due to his persuasion, we had read all those. Emran was also a very good sportsman. He used to play cricket and was a very stylish batsman. Table tennis was also another sport he liked very much.

He used to represent our school in inter-school sports in these games.

In our short college life, we were members of the editorial board of the Blue Gold. He loved acting and as far as I remember, we acted in two plays in our college days. Our university life was even more enjoyable. We were only 11 students in our batch (10 male and 1 female). A good combination of heart and head, Emran was also liked by our respected teachers. In school days Emran was tall and lanky. He suffered from health related problems in the late sixties and for that he had to be very careful about his health. He was a successful student and had exemplary achievements in his career.

In our last gathering of Armenians '59, Emran was philosophical, talked more about logic than reality. He told us about his sufferings and asked us to pray for him. Emran, we pray for you and will pray for you as long as we live. May Allah give you peace, my friend.

The writer is, Professor, Department of Geography & Environment, Jahangirnagar University

**P**RESIDENT Shahabuddin Ahmed asked all political parties to drive out all defaulters from politics in a meeting at Osmani Auditorium, on the occasion of Mujibnagar Day on 17th April 2000. He also called upon government and opposition parties earlier to refrain from indulging students in politics. Government and opposition parties did not respond to this call of the President. After that, the President has asked all political parties to expel the loan defaulters from the parties for sustaining socio-economic development, continuity of investment system and preventing growth of any new defaulter.

But government and opposition could not be united on this issue either. In a report published in the daily Ittefaq on 18th April it was mentioned that Awami League General Secretary and Local Government Minister Zillur Rahman had said, "Defaulter may remain in any political party, we should try to collect the debt from them." Mr Abdul Mannan Bhuiyan, General Secretary of the main opposition party BNP had said, "It is not possible at this moment to say whether loan defaulters are there in our party, but we know that all defaulters remain under the shelter of government... It is not right to expel them from political parties. If they are expelled, debt will not be recovered. Debt should be collected under the current law of the land."

The question is, if the government and opposition parties couldn't be one with the President's view on the issue, then what actually is the way to stop the loan defaulter culture? Perhaps we have to think anew over this. Before stopping loan defaulter culture, we have to

find out why one turns into a defaulter and accordingly we have to adopt preventive measures.

**How a loan defaulter is created:** Investors and entrepreneurs may turn into loan defaulters for some unintentional reasons but others, say importers, who are involved in trading business only, have no reason for being defaulters. Some of the reasons for which investors and entrepreneurs may default in paying their loans are discussed below:

**Shortcomings in preparation of actual project, lack of honesty and sincerity of purpose:** When an entrepreneur takes up any project, he prepares a project profile. The main goals, objectives, and the cost of production are set out there meticulously. Likewise, the loan seeking importers are also required to submit their project profile showing therein the proposed rate of profit as saving to the banks for the purpose of obtaining loan. Here it is seen that unscrupulous entrepreneurs and businessmen prepare overinflated profile in their bid to get extra money from banks. And some corrupt bank officials in these nefarious acts help them.

**Weak management:** Some industries turn into sick industries in spite of getting adequate loan from banks. The main reason for this is weak management, wrong recruitment and administration of labour not maintaining the standard of commodity and not following correct marketing proce-

dures.

**Excessive rate of interest and charges imposed by the banks:** In our country, the interest of bank loan for project is 15-18 per cent. And is some banks the current rate of interest on capital investment is 14-18 per cent. But it is often so difficult for an entrepreneur to earn even the same profit as bank's interest. On the other hand, he has to pay his dues to bank in time. The bank charge is too high from L/C opening to various other stages. And for this reason an entrepreneur fails to pay back his loan by selling his goods in time.

**Natural disasters:** Natural disasters are very common features in the day-to-day life in Bangladesh. Recurring tornado and flood have caused devastation to industries many a time. It is not possible to turn such devastated industry into a profitable one by an entrepreneur even over a long period.

**Unfair labour movement:** The political parties of our country are using labour movement in their own interest. That is why work in the factories is often stopped on illegal demands in the name of labour

movement.

**Lack of political stability:** Due to political instability along with fall in local investment, there is practically no foreign investment. Production in the industries is very often stopped due to hartal, strikes etc. Export business comes to a standstill very often and the foreign buyers are discouraged to issue any import order.

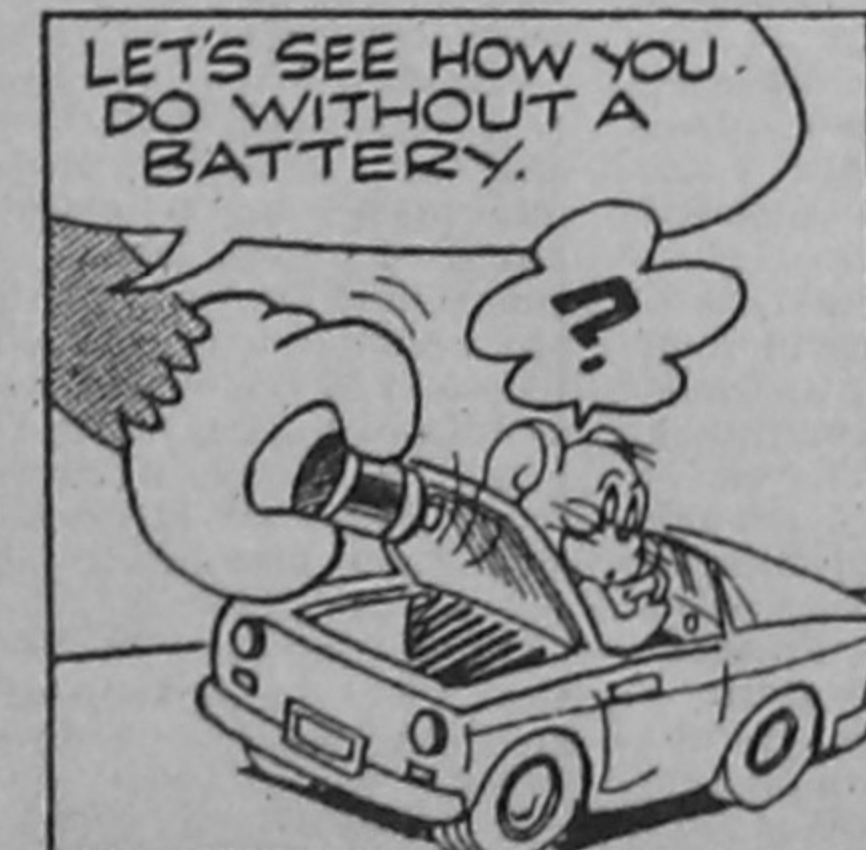
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TOM & JERRY



By Hanna-Barbera

James Bond



BOND, MIKE, AND ARYANE SAIL EAST IN THE LITTLE CATHRA. WHILE THE ALTRIX CONTINUES COURSE TO SOUTHWARD, AS ORDERED

