

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 isle 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 generalizing 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," wrote a professor of mine. So, let us approach 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 create 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 (SOE). 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 measurements. 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 population served, per cent of available trips, etc. Availability of

emerged 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 parastatal. 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

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. Risky 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 be 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-

ture your demand for increased protection from extortions 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 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 hospitals.

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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... 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.

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 our 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

insert into the consideration the fact that the budget is the government's mean's for delivering on its promise to the people. So, if you leave the objective stakeholders out of the process 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 — 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 identified

consistent failure to meet our 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

tal 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-

Emran — the Proud Armenian
by Mesbah-us-Saleheen

PRESIDENT Shahabuddin Ahmed asked all political parties to drive out all defaulters from politics in a meeting at Osmany 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 Governor of the main opposition party BNP had said, "Defaulter may remain in any political party, we should try to collect the debt from them." Mr Abdul Manan Bhuyan, 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 defaulter. 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 overinvoiced profile in their bid to get extra money from banks. And some corrupt 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.

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 hartial, strikes etc. Export business comes to a stand-still very often and the foreign buyers are discourage 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 reverent 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 lack of infrastructure development.

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 their bank loans.

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 profit-making 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

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 defaulter 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 defaulter 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.

4. The bankers responsible for dealing with bank loans should be transparent in their performance and honest.

5. The improvement of law and order situation is imperative.

6. The personal skill and experience of an entrepreneur must be brought into consideration while advancing loan to him.

7. It is desirable that the people at all levels i. e. the government, opposition parties and the business community should feel for their country and society. There will be no improvement in the present status of the country if we lag behind in honesty, dedication and patriotic feeling. The administration should care for high level of moral values and sense of accountability towards the people.

So long as we avoid to understand that the bank's money is the people's money and assets of the nation, we cannot get rid of the curse known as loan defaulter culture.

If the banks and the loan defaulter culture are given very strict powers to recover loan and if side-by-side the loan defaulters are boycotted socially, then only we can get rid of the curse known as loan defaulter culture.

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TOM & JERRY