

Moving above and beyond the 'Poverty Line'

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HERE is controversy about Bangladesh's performance of poverty reduction during different parts of the last two decades and about the percentage of population who are currently living in poverty. But the absolute number of persons living in poverty is so large that there is no controversy about the urgency of reduction of poverty. The following discussion will focus on a different set of questions. It will highlight the urgency of talking about issues 'beyond the line.'

Whether a person is poor is decided on the basis of the poverty line. By now, 'poverty line' has become a part of common language and is no longer an economist's concept only. To recapitulate, the 'line' refers to a level of income which is sufficient to allow the consumption of required calories and nutrients and other basic requirements (clothing, housing etc.).

The most important controversy about the 'line' is that it is a 'livestock' concept and does not take into account the 'humane' aspects. Researchers have conducted 'participatory' investigation and found that human beings need the following, in addition to 'own family's current consumption': cost of schooling of children and for safe drinking water, expenses for essential health services, especially related to childbirth, expenses for legal protection in the case of robbery etc, savings for old age and natural calamity etc.' (the list is by no means complete).

However, extension of the list of basic consumption and inclusion of income allocations for some of the items listed above will raise the position of the 'line' and would imply that a larger per cent of population will be labeled as poor.

It should be clarified that the proponents of poverty line, did not, however, argue that a person must consume the suggested bundle. It is well known that people exercise their freedom and may spend a part of the income on items not prescribed in the bundle. The line cannot ensure that an individual consumes the suggested bundle. But as long as the consumption bundle behind the line remains

fixed, it can provide an intertemporal comparison of the number and per cent of population below the line.

While leakages occur from the traditionally suggested consumption bundle, leakage may be even larger; if the poverty line is drawn with provisions for additional allocations so that it becomes an 'effective poverty line' or 'human poverty line'. In fact, one should not be surprised if a large part of income of some urban poor is spent on harmful consumption items (e.g. narcotics etc.).

The list has also been extended to include 'respect' and 'human dignity' which are very much non-material and non-consumption items. Many persons may wish to have these ingredients as much as or more than material well being.

When the individual and the nation remain unaware of their abilities, and strengths and remain unenthusiastic in a state of lack of work and participation in the development efforts, the more 'useful' side of poverty cannot be noticed. Only if the nation and its people will use their own strengths and abilities, the calamity of poverty may be turned into a fight for a sustained improvement in all spheres and for a search of the space beyond the poverty line.

This may depend on ones present social status and experience of current deprivations.

In addition, access to social and community services provided by private and public organizations can improve the quality of life. Therefore, the human poverty index has been formulated, which consists of literacy and health related indicators as well as income indicators. This index can supplement the data on income poverty line based poverty estimates.

The current usage of the poverty notions and the emphasis on poverty reduction gives an impression that moving above the 'line' is the ultimate goal. There may be doubts whether the current interest in analyzing poverty and its causes stems from the noble motive of wishing to battle and vanquish poverty, or whether it is just an opportunistic form of donor driven research. Discussions and refinements of measurement methods, analysis and reanalysis of head count data and setting and revision of targets of the rate at

which poverty line will be crossed may imply interference by donors in not only research but also in the policies and for the setting of long run vision and goal of the society. Another argument against poverty research is that those countries which are poverty-free did not spend time researching and analyzing poverty, rather they jumped straight into action and eradicated poverty through their own initiatives. A third sympathetic voice can be heard, questioning whether the poor are such helpless, fragile creatures that they are subjected to head-count? And is it enough to merely provide them with a bare minimum of food and clothing? Even if the arguments behind some of these questions are not conclusive, the urgency of talking beyond the line must be accepted. The following (and many other) ques-

tion trigger this urgency. Whichever concept of poverty we use, poverty alleviation is all about 'access to income' and movement above the 'line'. It has no link with how income is obtained. Such a notion is devoid of the peoples concern about 'doing', about work and 'employment' which is the main route through which poor (and rich) persons can contribute to the economy and the society. There are 'non-work' routes of getting access to money and assets. Also there are many other non-work routes to make contributions to the society. Therefore, it should be clarified, why we begin with employment.

In countries like Bangladesh where unemployment (defined to include underemployment) rates are high, work or employment itself has an intrinsic value. This may be also valid for many high income countries with high unemployment rates. Type of work also contribute to ones satisfaction (or lack of it). In this respect, whether

increases in two items: income and leisure. Work does not enter the function because the result of work is income, which finds its place in the list. The particular formulation reflects the realities prevailing in advanced industrial economies where work is abundant, or in other words, close to full employment prevails.

We may think about the possibility of individuals' contributions in another sphere. Irrespective of income and asset situation, one may contribute for the society and for other individuals a part of their wisdom -- which they may acquire not only through formal schooling but also through accumulated work experience. An immediate reaction to this statement will be that, such endeavor is almost impossible, when people cannot meet their basic needs.

High thoughts by persons with less than adequate calories has been a tradition of this land. 'Gyan O Dharma, Joto Kabbo-Kahini' were passed on to generations through informal discussions and teaching methods. Those were

days of conviction that the ultimate goal is not material gain, but a freedom of soul, from the wishes of tiny material gains towards an understanding of the mystery of this creation and the intentions behind this creation. According to this view, simple living, sacrifice of material gains (Tyag-Titkhyia) are the ideals of human kind.

The new emphasis on poverty reduction raises the question, whether those days are gone, when high thinking and philosophical endeavors amidst poverty were strived for and would command respect? Yes, those days no longer offer promises of return. One of the major reason is that, today, the problem of poverty is further compounded by the existence of inequality of income and its manifestations. The wealth inequalities between countries may be due to a

should be possible to move from poverty to progress using available resources and ensuring a better distribution of income and asset.

On the hard grounds of economic reality, it is not easy to 'work' out of poverty or to fight along the treacherous paths to reach 'beyond' the poverty line reality. In today's world, individual philanthropic effort to impart education or to establish health facilities cannot go far. One to one exchange of philosophy or 'Nyay' cannot sustain.

The institutionalized system must be made to work. Quality must be ensured in poor people's service delivery points, be it education or health. Movement beyond the poverty line reality will, in addition, require prospects of large scale employment creation, so that everyone can choose to work. It will require such economic growth as will reduce inequality. Other leakages through which inequality increases, must be stopped. All these are known strategies. Then why this is not happening? The problem is not peoples lack of willingness to work. The workforce who are at the lowest ladder, are still willing to work. The presence of a workforce willing to work at low wage rates should be a sufficient force to shake the conscience of those who cannot create an environment where enthusiasm about productive investment will be streaming in and quality services in social sectors will be made available, which will ultimately result in more employment and higher income for the poorer sections.

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Lest we forget

Justice Syed Mahbub Murshed

PROF MD AFSARUDDIN

MY first meeting with Mr. Justice Syed Mahbub Murshed took place in the very early 1960's. I was at the time, in the absence of the late Professor A K Nazmul Karim, the head of the department of sociology at Dhaka University. Justice Murshed was then residing in the impressive red house opposite the British Council.

I have had the privilege to know several distinguished men in my lifetime. Few men, however, have made such an indelible impression upon me, as had Justice Murshed during our twenty-year acquaintance. I look upon him as one of my most highly revered mentors and as one who will never cease to be a source of inspiration to me -- as a champion of justice, righteousness and all that is dear to me.

Justice Murshed was born during the second decade of the last century and a fair assessment of his merits has to be made in the light of the times he was born in. During that particular era in our history the Muslim community in Bengal lagged behind the Hindu community in various aspects. In particular, the dearth of Muslims established in diverse intellectual fields was acute. Justice Murshed was born at that time into a distinguished Muslim family of Murshidabad on 11 January, 1911. His father late Syed Abdus Salik was a member of the Bengal Civil Service and his mother late Afzalunnesa Khatun was a sister of Sher-e-Bangla AK Fazlul Huq.

In the academic field, he won his first accolade in 1926 when he matriculated first among all candidates in the Rajshahi division under the Calcutta University. He graduated with honours in Economics in 1930 from the Calcutta University. Subsequently, he obtained two MA's -- in Economics and in Persian. While reading for the bar in England during the 1930's, he obtained the first position in the Part I examination. He was and still is among the very few subcontinental Muslims who passed the bar final examinations with honours.

In the legal field, he was outstanding both as a barrister and later as a judge. He was never constrained by the letter of the law. His interpretation of the law was always for the greater good of society at large. He felt that the law was created to serve man and not conversely. In other words the purpose of law, to him, was to ensure a just society and secure the rights of man.

In that respect, he displayed the classical influence of Plato. On the bench, his pronouncements evinced in very great measure the most desirable traits in a judge -- courage, integrity and a fierce independence. His firm belief in the primacy of liberty and democratic values, more so than most men led to peerless judgements which rank as his highest achievements. For those of us who remember and are imbued with a sense of



history, his fearless espousal of the rights of the people of Bangladesh -- especially during the Ayub regime -- will forever be deeply embedded in our minds.

He was never the quintessential politician although he was associated with every major political movement in his time. Among these were the language movement of 1952 and the 21-point programme of 1954 associated with the United Front. His speeches during the round table conference convened by Ayub Khan in 1969 stirred the hearts and minds of the people of Pakistan. His contributions towards the 11-point programme of that year was considerable. During the 1971 liberation war his outright refusal to speak out in favour of the Pakistanis was an act of tremendous courage. Above all, he was always relentless in resisting evil, resisting the temptations of office with great fortitude and never allowing himself to be swayed by pressure.

Even in the midst of an active life he always found time to support worthy social causes. His intimate association with the Anjuman-e-Mufidul Islam during the great Bengal famine of 1943 is one such example. A deeply religious man, who had helped to establish and later inaugurated the Alia Madrasah in Dhaka, he was at the same time above all communal prejudice. In that respect his efforts to promote communal harmony especially during riots leading to the famous Liaquat-Nehru Pact of 1950 were extremely important. Apart from being a very cultured man, his activities as a patron of the arts was considerable.

In short, he was a man of parts. Any attempt to enumerate his accomplishments will fall short of doing justice to him. Such an undertaking would indeed be a Herculean task. He can be best described as: 'Justice Murshed is the autobiography of his own age.' As such, he has transcended his own times and his memory continues to be the object of our deepest respect. It is our earnest wish that his achievements find a permanent place not only in the intellectual and legal institutions of our country but in the entire nation. That will serve as a source of inspiration and unity to us all and lend a sense of direction to our society.

Financial management system : A critique

AHMED ALI

THE management of government finances has always been a critical issue for any developing country. Without proper management of public finances no country can dream of a financially sound society. During the past few decades the management of government finances is in a state of continuous development. The changing responsibilities of government have contributed to this development. The changes have been all pervasive touching the very substance of economic management. Changing economic conditions have seriously affected public money management practices. After Second World War budgeting is considered to be more instrumental for economic growth than being instrumental in restraining public expenditures. In Bangladesh, we have inherited a financial management system from our colonial master that is outmoded and ineffective in terms of applicability. However, in this article I will not deal with the well-established policies or other features of our government financial management system, rather my attempts will be to deal with the problems that might be the agenda for government financial managers in the coming years. The immediate concern of this article is the cumulative problems in the broad area of our government financial management. It seeks to be realistic, not apocalyptic.

The problems of accounting in preparing budget

We recognise three major groupings of our government entities:

- 1) The government, including the ministries and all other entities included, and financed entirely by the national budget.
- 2) Decentralised entities, including independent agencies, government owned corporations, universities and 'autonomous' entities, which may be fully self-financed from operating revenues, but most frequently are partially or principally dependent on budgetary transfers from the national government to finance their operations.
- 3) Regional and local governments, which in many countries are financed fully, or largely through budgetary transfers from the national government.

Based on the above or a similar scheme, Bangladesh government seeks to provide annual financial information and on a combined, though usually not consolidated basis at each of the foregoing levels. Thus our centralising accounting measures became extremely complicated owing to the problems of achieving uniformity to permit reporting of all government entities.

Our financial management

system has problems in enforcing timely reporting also. Our government has gaps in data owing to the failure of some entities to report. The traditional public accounts required by our constitution and/or law contemplate only government reporting. Bangladesh is yet to achieve timely reporting of combined information at all three of the above levels.

Lack of uniform accounting practices

There must be moves for effective annual reporting and evaluation plans so that availability of information could be improved to parliament and the public for both budgetary decision-making and for satisfying accountability requirements. In this regard our government has to overcome all the problems. For example, the absence of uniform accounting practices across all public sector reporting entities makes it difficult to make comparisons of financial performance. There are also problems in some of the traditional public sector accounting practices such as the reliance on cash accounting in the budgeting system. Our government accounting system remained largely unresponsive to efforts to improve them.

Defect in budget presentation

Our budgetary format is not up to the expectation. It needs to be more methodical, classified and communicative. The classified future public expenditure heads should be shown headwise so as to give clear picture of future government outlays. Itemwise public expenditure budget must be projected in our budgetary format. Our budget should depict all the features and techniques of management, planning and economic controls for ensuring legislative accountability and reducing expenditures or other growth rates.

Inefficient asset management

A major emerging issue is that of promoting improved asset management. The proper treatment of assets is widely recognized problem of our government financial management. All departments and many budget-dependent agencies use cash-based accounting. Under this system the cash is taken into account when the money is spent (as a full charge in that year's budget). Assets registers are maintained, but for most noncommercial organizations of government only historical values are recorded. When assets are sold all revenues paid into consolidated revenue. This system means that managers have relatively poor information and very little incentive to use existing assets efficiently.

The following measures could be taken to overcome these problems:

- 1) Commercial and quasi-

commercial agencies of government should be encouraged to prepare their financial accounts on an accrual basis and to use current costs for asset valuation;

2) Guidelines on departmental financial statements for inclusion in annual reports should require statement of assets and liabilities valued on a current cost basis; and

3) Sale of surplus assets should be encouraged in certain cases by allowing a share of the revenue to be applied to an agreed development plan.

The recording of fixed assets by our government is accorded low priority and assets are rarely compared physically with accounting records. Fixed asset records are usually incomplete, undervalued, or non-existent. Obsolete and fully expended assets rarely are removed from records once recorded. Our government periodically attempt nationwide inventories of assets, the cost of which seems highly questionable in the light of the failure to establish adequate accounting records and control. Information reported on

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fixed assets by government is often dubious.

Lack of discipline in the environment

An underlying absence of discipline permeates our government. Proper accounting and sound financial management depend on a disciplined environment under the control of disciplined officials. Failure to observe the prerequisite of timeliness invalidates whatever other benefits accounting and financial management might offer. Discipline is demanded in the daily recording of financial transactions in such a way that they can be summarized and reported in a useful format. Because transactions data are not comprehensively captured and recorded adequately and promptly, our government accounting system collapse at the very beginning of the accounting process.

The historical absence of useful and timely financial information has led our public officials to learn to operate government without it or with a minimum of ad hoc data (often unreliable estimates) acquired through any means possible.

Absence of effective budgetary control

A proper system of accounting is essential for developing a satisfactory budget. The formation of the budget depends upon information largely collected from the cost

accounting system. An important feature of the budgetary control is comparing actual performance with prior estimates or targets laid down in the budget to make sure that actual performance is steering in the right direction. Lack of understanding of budgetary control will misdirect the government for the subsequent years regarding its financial management. Through budgetary control the government will come to know the variance of the goals fixed in the budget and the results achieved. Variance will, ultimately, lead the national government to analyse the factors that contributed to the variance. Our government financial managers are yet to understand the implication of budgetary control. They do not possess the clear conception of budgetary accounting to account for budgetary activities and to prepare financial statements so as to reflect the status of government finances. So, our government financial managers are weak in analysing the developments in the execution of budget. As there is no well-defined budgetary control in government

financial management there is no effective analysis of budgetary activities and no evaluation of results.

Uncertainty in the submission of budget

As a result of economic uncertainty and the lack of ability of systems to reckon with it, our budgets which are considered to be policy instruments and embodiments of programmes of action are submitted much too late in the fiscal year. Instead of promoting a coherent strategy, they are put together in hurry and more as a ritual, with more pray than reason.

Outmoded budget structure

Owing to lack of a periodic update and to rapid changes in government policies and activities budget structures, which are supposed to promote a management bias in government, have become outmoded.

Problems of Budget implementation

Due to midstream changes in allocations exacerbated the uncertainty and contributed to a rush of expenditures and to excess expenditures in several areas. That is why budget implementation suffered heavily.

Allocation of expenditures

The viability of any budget

depends on the information available on competing demands, costs of projects and programmes, and macroeconomic linkages and implications. Although political decisions may really be made that are contrary to economic and financial indicators, the budgetary process should be organized to generate the data needed. Though government is supposed to decide allocation issues between public and private sectors, but our government has yet to achieve a balance among and within programmes. The allocative balance appears to have been further skewed in the context of crisis budgeting as a result of arbitrary limits imposed on budgetary inputs. Our budgetary process is also not generating data on the future implications of current policies, or on the operations and expenditures needed to maintain completed projects. Decisions are therefore piecemeal, some as part of the formal budget. Also, the revenue and expenditure budget lacks congruence, which frequently contributes to situations in which outlays are determined

without reference to resources available.

Lack of computerisation

Computers are already playing important role in shaping the national government financial management structure in the developed world. During the 1960s and 1970s computer technology carried the developed nations into an era of large powerful mainframe systems that were capable of handling volumes of data and numbers of transactions far beyond previous capability. Without computers many parts of the government could not function. In this regard at that time our government was lagging far behind. We have missed that period. The 1990s offered new opportunities through computer technology to change the financial management structure of the government. But, due to callousness of our bureaucrats we remained unresponsive to improve our financial management system through computerization in the 1990s. Our government receipts and payment system are yet to be computerized completely. The 2000s is opening for us more expanded horizon of opportunities for using new generation of computers with wide spread extensions of their uses and capacities. This time let us not fail to take the help of computers in restructuring our outmoded financial management structure.

Financial reporting

If financial managers are to fulfill their responsibilities, they must have the information and resources necessary to function and to manage the affairs of the government. In addition they must demonstrate through the financial reporting process their financial responsibilities. But our government financial managers generally lack the following type of information that is used for analysis and decision-making purposes.

Cost information;

Periodic summary performance reports of budgeted versus actual expenditures;

So in order to improve our financial manager's performance they need to be provided with the aforementioned information for good decision-making purposes.

Inflation Accounting

Our economy has been subject to inflation at varying degrees. As a result financial data from any two years are rarely comparable without adjustment. Most countries publish official indices that are

used for adjusting historical values by private sector enterprises and by public enterprises as well. As our government financial reporting is not well developed our government rarely use these indices in their accounting system; although they may be used to adjust columns of comparative historical in some financial reports.

Management, cost and public works accounting

Our government is yet to explore this area. Till now our government has not made any attempt to design and put into practice a cost and management system for our financial structure. Internationally financed development projects require establishment of a special project administrative and accounting unit to handle all project accounting and financial management outside the regular entity financial management in the ministries or other large government agencies. There is poor public works accounting in Bangladesh.

Austerity Management and Accounting

High inflation, increasing unemployment, and decreasing economic growth rates are the general symptoms of fiscal stress in every country, and they call for effective austerity management. The core agencies are supposed to distinguish the components of the spending department's programs

in line with government's priorities and to re-examine the revenue, and internal and external borrowing projections during budget formulation and execution. Our financial agencies' performance is not satisfactory at all in this regard.

Weak institutions

The financial system is inextricably bound with the economic activity of the state. And, several government institutions are responsible for maintaining soundness of the system.

Our budgetary system and financial planning are developed within a comprehensive legal framework. The main roles of the central agencies are as follows:

- 1) Ministry of finance : As the main executive arm of the government, it is responsible for the following tasks in the area of financial management : prepares and submits a draft of the budget to parliament; defines rules of budgetary resources utilization; and generally supervises budget administration. It manages budget administration; organizes supervision over local budget performance; submits periodic reports on budgetary performance to parliament; formulates tax system rules and standardizes financial planning and financial policy through the issuance of norms.

- 2) National board of revenue : Ministry of finance supervises national board of revenue. It deals with assessment and collection of taxes and other budgetary receipts, tax control and penal cases.

- 3) Office of the Accountant general : This organization is responsible for the audit of government transactions and reports on budgetary management to parliament.

- 4) Bangladesh Bank : Treasury functions of the government are managed by the Central Bank. All government accounts are kept with Bangladesh Bank.

The professionals working in these organizations that support the financial management of the country are weak. Lack of adequate expertise, on the part of these professionals, has caused have on our economy. Many of them have no rudimentary concept of modern financial management. Our government has no development scheme for the bright young stars working in the core agencies. There are few established criteria or

standards for government accounting, budgeting, cash and debit management, internal control, financial reporting, or auditing. Our accounting professionals, primarily concerned with private sector, public sector financial management, are not skilled enough to discharge their duties effectively.

It is a sad reality that at this dawn of twenty-first century our financial management remains largely in the hands of weak professionals.

Conclusion

We do not have yet a rational financial management system framework. Antiquated legalistic provisions and practices continue to prevail in Bangladesh's financial management system, obviating the possibility of utilizing modern techniques and technology. Our financial management system is fragmented and uncoordinated. The different units responsible for budgeting, accounting, cash management, debt management, and auditing rarely communicate and coordinate their activities or share information. The modern managerial concepts of entity wide responsibility through the organizational framework, accountability for resources and results, sound internal control structures, and the system approach to planning, recording processing, and auditing financial transactions cannot function within limitations imposed by law, tradition, and irrational political decision making our financial management data lack reliability and credibility.

There have been few real initiatives to improve government accounting and financial management in Bangladesh on the part of our government and on the part of international donor organizations since our inception in 1971. The present chaotic economic situation that demands many severe austerity measures of our government makes it highly unlikely that Bangladesh government will be in a position to improve the quality of its financial system without massive external assistance directed to that end.

Time has changed. In order to survive in a rapidly changing world we have to change ourselves. Let us not forget only timely reform in any area of governance could help us cope up with time.