and never see any release of funds. Hence, disproportionate presence of block allocation in the national budget makes us uncomfortable.

A large amount of this year's development and revenue budget has been kept as block allocation. Block allocation for unexpected non-development expenditure increased from Tk 800 crore in FY2009 (of which only Tk 183 crore was spent) to TK 900 crore, while a whopping TK 3,388 crore of block allocation has been kept for the new pay scale. An allocation of Tk. 5,000 crore has been kept in the budget to continue the previously announced stimulus package. The LGRD ministry also proposed to keep Tk 5,000 crore as block allocation. An amount of Tk 2,200 crore is set as block allocation to aid the much-discussed public-private partnership (PPP) endeavour. In addition, most of the social safety net and rural development programmes have been announced based on block allocations.

The cancellation of a previous plan to offer block allocations to MPs for development is a welcome decision. The government should now take immediate steps to set up modi operandi, monitoring mechanism and project specific budget for the remaining programmes, which have been proposed under block allocations.

The uncertain
Deficit financing

As the finance minister admitted, financing and implementation of the budget will be its biggest challenge. The low fiscal capacity and high fiscal need to implement the budget will create a 'fiscal stress' in the economy. The deficit for new budget stands at Tk 34,358 crore or 5 percent of the GDP (almost a percent of GDP higher than the previous year's revised deficit).

If the global recession and slowing down of private investment hamper the achievement of revenue target (set at Tk 79,461 crore), the deficit scenario will turn dreadful. Since import duties constitute nearly 42 percent of the total tax revenue, a decline of duties on imports as a consequence of the fall in global commodity prices may particularly jeopardise the revenue collection effort. Provisional statistics suggest a sharp fall in trade related revenue earnings during FY2009 -- the collection of import duties fell short of target by 11.9 percent.

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The expansionary fiscal stance may also cause problems for the monetary sector if the government resorts to bank borrowing to finance its deficit. This may imperil the private sector investment either by increasing the demand for loan and thus increasing the interest rate, or by squeezing the share of private sector borrowing from the banking system. Securing foreign financing will be critical to keep the local funds available for the private sector. However, the global economic recession may turn that option all the more uncertain. Even successful financing of such a large deficit may cause long-term fiscal stress by increasing the interest payments.

Public Private Partnerships

The much-conversed public private partnership (PPP) in the national budget has created some opportunity and uncertainty at the same time. As discussed in a previous write-up (Daily Star, May 18), the scheme encourages off-budget financing by private sectors to meet the growing public debt and support the developmental need of the country. However, this opportunity is eclipsed by the lack of a legal and regulatory mechanism.

The budget proposed to administer the PPP projects under the Private Sector Infrastructure Guidelines, which was prepared by the Prime Minister's Office in 2004. A closer look at that document suggests that the Guideline is not comprehensive enough to govern the complex mechanism of PPP projects. For instance, the Guideline suggests forfeiting the tender security in case private partners fail to execute a contract, but it does not explain how the risks and consequences of such failure will be shared between government and private partners. That's why global experience of such scheme shows that most successful PPP projects are managed under a legal regulatory mechanism, not under executive guideline.

PPP is a synergy, not privatisation or deregulation. To ensure transparency and accountability of PPP contracts, and distribute the risks, resources and rewards among the public and private partners, setting up of an appropriate legal framework is required.*

* For detailed analysis of PPP budget and post budget analysis, see http://chorjapod.wordpress.com/budget/

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