



## **National Budget Making: Bottom Up Approach and Inclusiveness**

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### **1. Introduction**

National Budget of a country is the annual program of the Government's expenditure and income for a fiscal year. In a developing economy like Bangladesh, the annual national budgets reflect the government's development philosophy, priorities and approaches towards equity and social justice. The role of the public sector to provide infrastructure and basic public goods is to create an enabling environment for the private sector to act as the engine of economic growth through the national budget. As the national budget formulated annually may undermine the economic stability and growth prospect in the medium term, it seems to be myopic. Medium Term Budgetary Framework (MTBF) is an effective measure for redressing the problems emanated from the short time limit of the annual budget. The framework of MTBF must be inclusive and bottom up to reach Bangladesh in a trajectory of high-performing quality growth with prices of commodities stabilized, income and human poverty brought to a minimum, health and education for all secured and capacity building combined with creativity enhanced, social justice established, interpersonal and regional income disparity reduced, and a capacity to tackle the adverse effects of climate change achieved as envisioned in GoB's Outline Perspective Plan (2010-2021).

### **2. Budget Making Process in Bangladesh**

The Finance Division of the MoF has the overall responsibility to prepare both the revenue and development budgets. The Secretary of Finance is in-charge of preparing the annual budget. The Revenue Budget wing is responsible for finalizing the revenue budget encompassing all the stages from collation and examination of ministerial submissions, summarization and passage through the parliament to the final publication. The Development budget Wing converts the ADP, prepared by the Planning Commission, into the Development Budget.

The budgetary procedure may be functionally divided into four phases: executive preparation and submission; legislative review and enactment; executive implementation; and expenditure control and auditing. Throughout these phases, the MoF performs the central co-ordinating role and remains exclusively responsible for the preparation of the budget. Various ministries and divisions are also involved in the entire process.

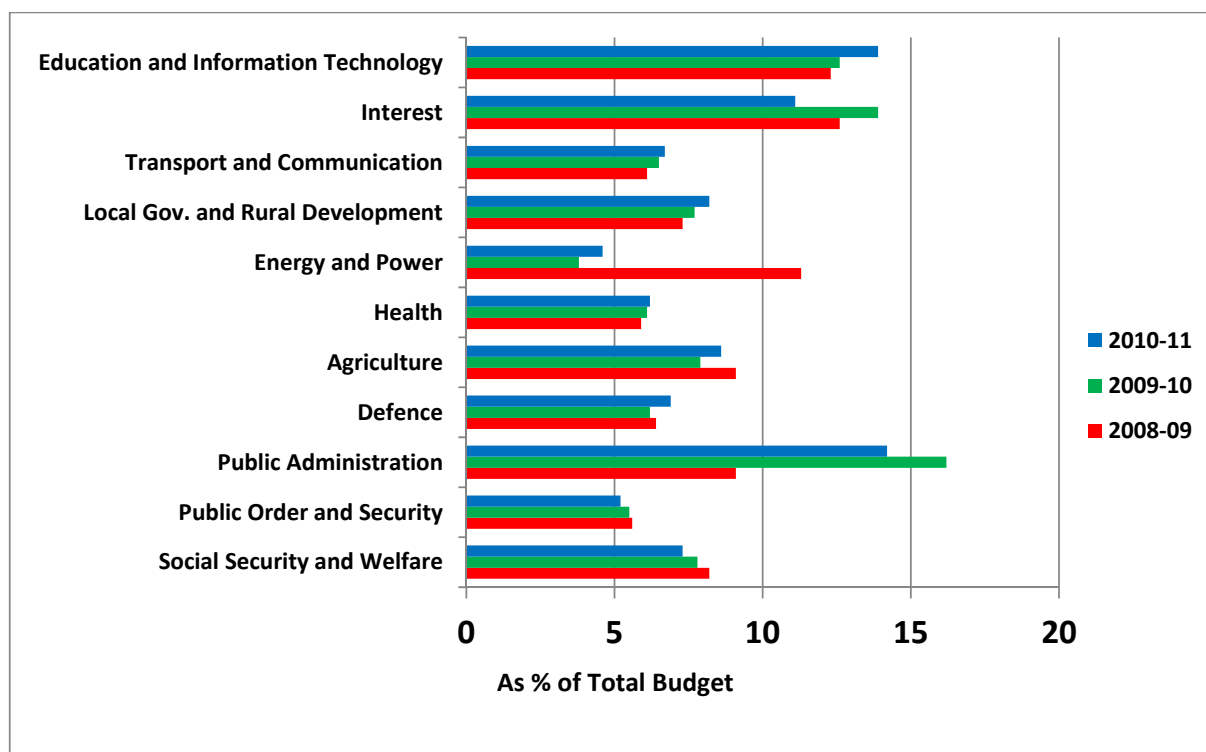
The administrative units where the expenditures take place send their expenditure estimates to the MoF through their controlling authority. These estimates consist of revised estimates for the current year and the budget estimates for the forthcoming year. These initial estimates are formulated on the basis of trends in the actual expenditure of the first quarter of the ongoing financial year, i.e. July-September.

After receiving the estimates from the controlling officers, the Budget Wing of the Finance Division scrutinizes their completeness. Any proposed expenditure must be approved by the concerned authority in accordance with the existing delegation of powers.

After scrutiny, the MoF sends the estimates to the controlling authority of each agency asking for adjustments and revisions with a brief explanation for those suggested measures. Budget meetings are held during March-April between the MoF and the agencies, where the latter are allowed to discuss their needs with the Ministry. Taking into account the actual expenditures of the past six months and other relevant factors, estimates are finalized at the budget meetings. The MoF prepares its Demand for Grants on the basis of these final estimates. Simultaneously, the Minister of Finance consults other stakeholders including economists, Members of the Parliaments, various professional groups etc. to gather innovative ideas on desired policy interventions. Some of these new ideas get reflected in his budget speech as well.

### 3. Recurrent and Development Expenditure

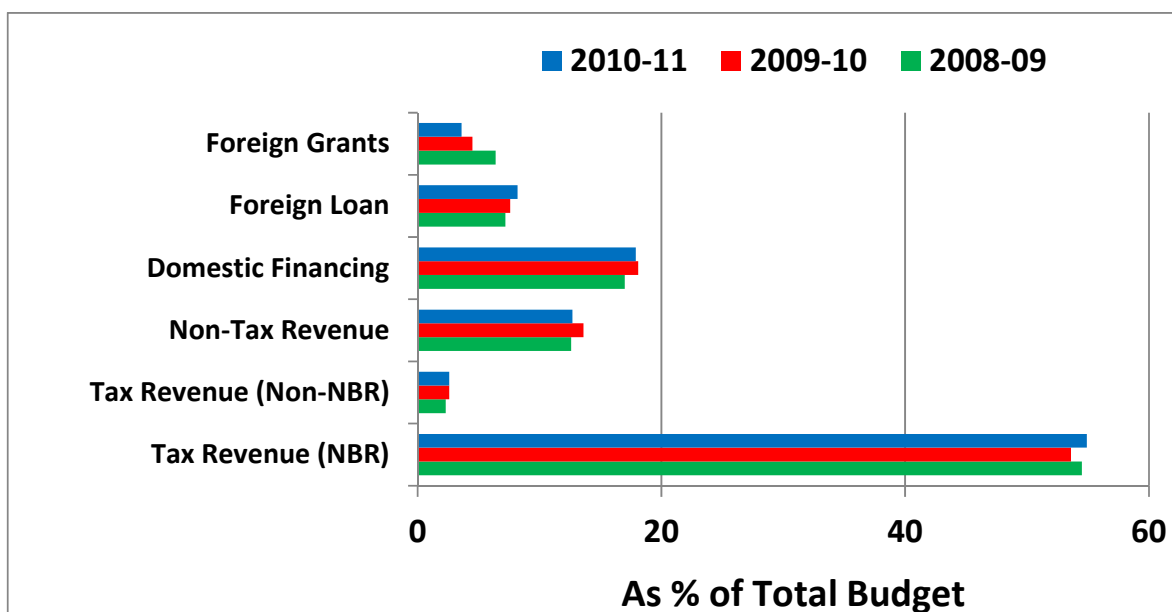
We see in the trends of recurrent and development expenditure in different sectors (Graph 1) to achieve the broad-based pro-poor and inclusive growth major allocations go to the Social Security and Welfare and Education and Information Technology. Interest payments on domestic and external debt also comprise a significant part of recurrent expenditure.



Graph 1

### 4. Recurrent and Development Budget: Source of Income

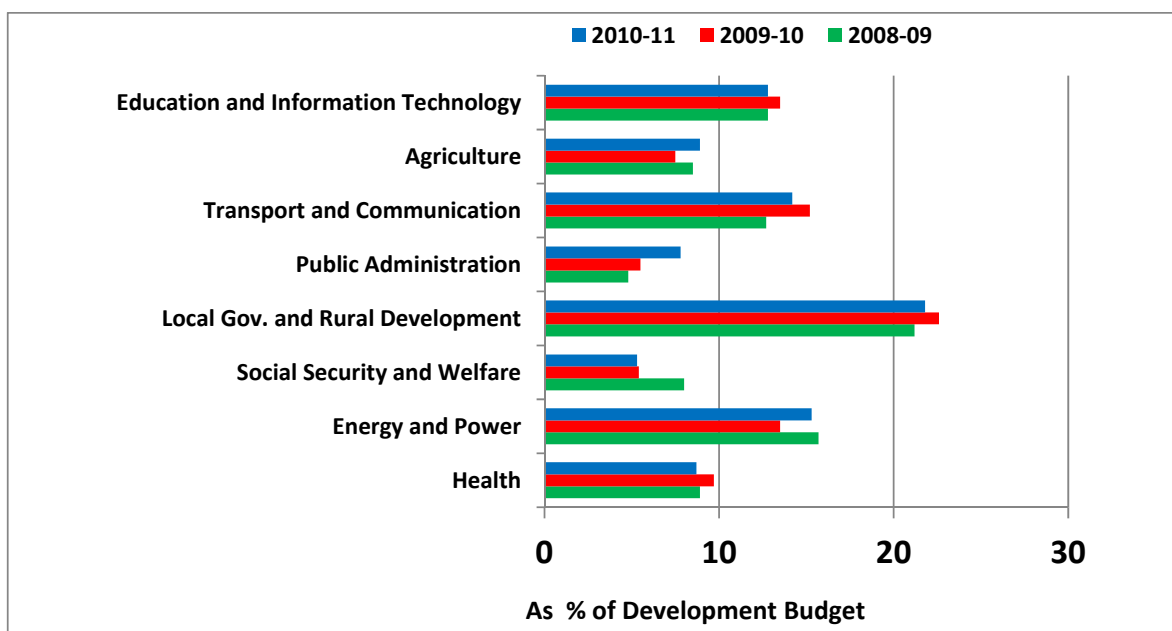
Revenue mobilization must be strengthened to limit budget deficits at reasonable levels. There is no doubt that our revenue –GDP and Tax-GDP ratios are the lowest in the region. However, our efforts at revenue mobilization have been gaining momentum in recent days. Sources of income in recurrent and development budget are shown in Graph 2.



Graph 2

## 5. Details of Development Expenditure:

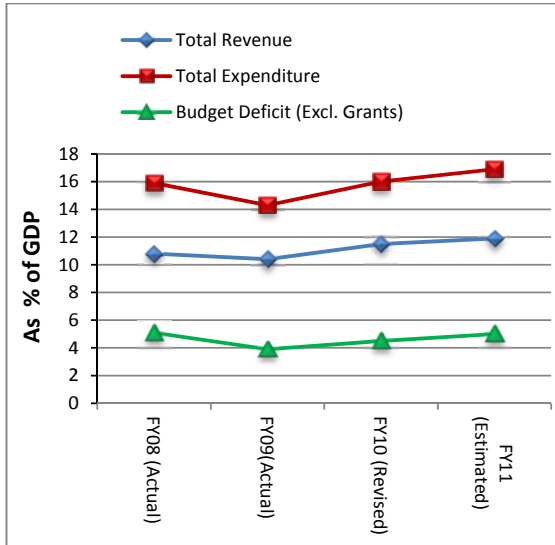
In the trends of allocations in different sectors of development budget (Graph 3) it is seen that to attain the medium term growth target allocations in energy and power, education and information technology, social security and welfare and in LGRD have been increased.



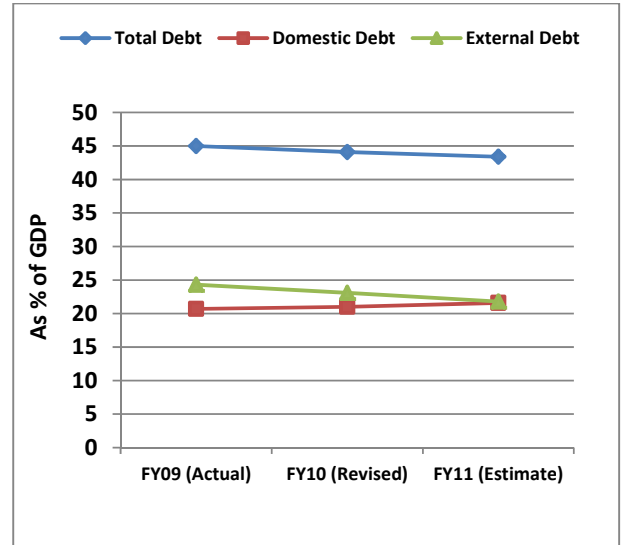
Graph 3

## **6. Budget Deficit and Budget Deficit Financing:**

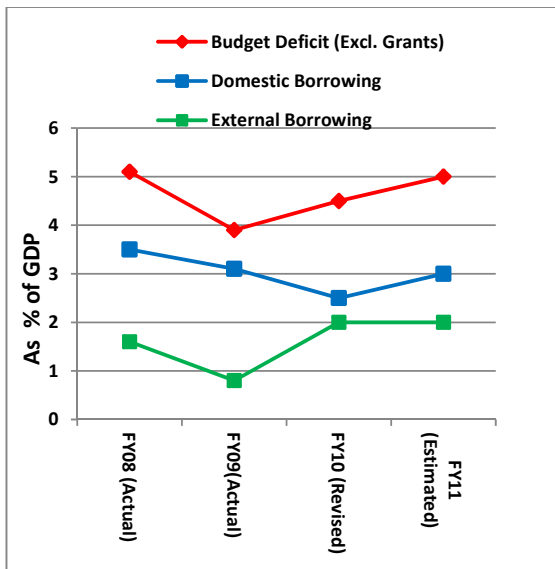
The strong impediment to meet the resource requirements in the public sector is our revenue-GDP ratio which currently stands at around 12 per cent. In addition, the tax structure does not have a pro-poor bias: the bulk of the revenue is still generated by indirect taxes, mostly value added tax, at local and customs levels, and the contribution of direct taxes is only about 28 per cent whereas the target is to raise the contribution of direct taxes to the total tax revenue to at least 40 per cent in 2021 making the tax-structure more pro-poor. The strategies like broadening of the tax base, raising both direct and indirect taxes with appropriate rationalization and reforms, strengthening the professional and technical capacity of the revenue administration to monitor potential tax payers, countering tax evasion, and making available strengthened and effective services to tax payers to raise tax compliance and deepening the organizational and other reforms of revenue collecting organizations to transform into quality institutions to meet the revenue needs, service requirement of tax payers, and facilitation of productive activities aspired in “Outline Perspective Plan of Bangladesh (2010-2021): Making Vision 2021 A Reality” to be adopted should be immediately operational in the full swing. Revenue mobilization must be strengthened to limit the budget deficits at reasonable levels. As indicated earlier, despite recent surge in revenue collection, our Revenue –GDP and Tax-GDP ratios are the lowest in the region. Excess government borrowing from the banking sector risks crowding out of private sector. All of our domestic borrowing is at market rates that’s why the interest cost on government debt is on rising trend. Bangladesh, being an LDC, is eligible for concessional financing from external development partners. Accessing these sources may help proper debt sustainability and keep interest payment lower. However, the external support trend which is already surging in the pipeline should first be released by improving our both negotiating skills and implementation capabilities. Graph 4, 5, 6, 7 depict the budget deficit, budget deficit financing, debt sustainability, and domestic borrowing respectively.



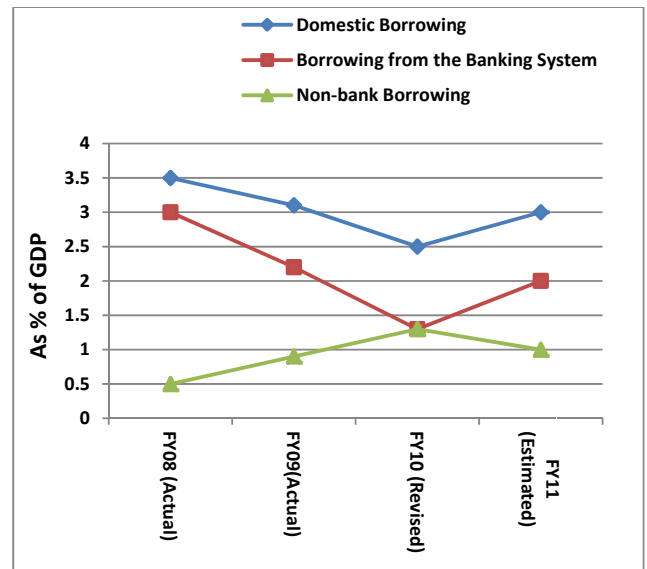
Graph 4



Graph 6



Graph 5



Graph 7

## **7. Medium Term Budgetary Framework (MTBF)**

With a view to improving the efficiency and effectiveness of public expenditure and attaining the goals set out in the strategic documents government launched MTBF since FY2005-06. FY2010-11 Budget prepared within the three year context of MTBF with the direct involvement of 33 line ministries /divisions was destined to establish the alignment between the government's strategic objectives, policy priorities and public spending allocations which were guided by the government's key priorities for sustainable development with a view to achieving the Millennium Development goals and the aims of "Vision 2021". Government is hopeful to bring all of the line ministries/divisions in the FY 2011-12 Budget under the extended MTBF to five years from existing three years for making consistent with the Sixth Five Year Plan.

## **8. Bottom up Approach and Inclusive Budget**

- In the bottom up approach the socially excluded groups get prioritized access. The poor people get more involvement in the national budget if we can specify the social safety net spending for them with direct payment instead of middle-men through electronic system. The national budget should be proposed with more targeting of the subsistence facilities to the poor and middle class as the richer class can afford the private facilities. The poorer class is loser approximately in every case even when they produce something as they don't get the higher price in the first hand. Although in the current budget including the development budget the social safety net spending is around thirty percent it can be increased ensuring the targeted payment and service to the poorer class who actually deserve the priority.
- Through the bottom up approach the national budget can enhance the inclusion of the poor who mainly depend on wage-labour for survival and are excluded by their inability to participate fully in social and economic activities and in decision-making. This social exclusion denies them the consumption of essential goods and services like healthcare and they are highly vulnerable to any shock, such as natural disasters, death, or disability of an income-earner, illnesses requiring costly care. A health

insurance smart card could have enhanced their capacity to cope with this perpetual erosion of income due to this health disaster.

- The capacity and efficiency of existing public universities should be strengthened instead of establishment of more such institutions to serve all. Mere establishment of more physical infrastructures without caring for efficiency in running the same is indeed a drain on our hard earned public resources. The richer class is already enjoying the private university facilities and they can also get further access to the public universities given the quality of education their sons and daughters receive. The freedom fighters may have better privilege in the efficiency and capacity strengthened public hospitals. Here also more establishments will incur more inefficiency, and corruption.

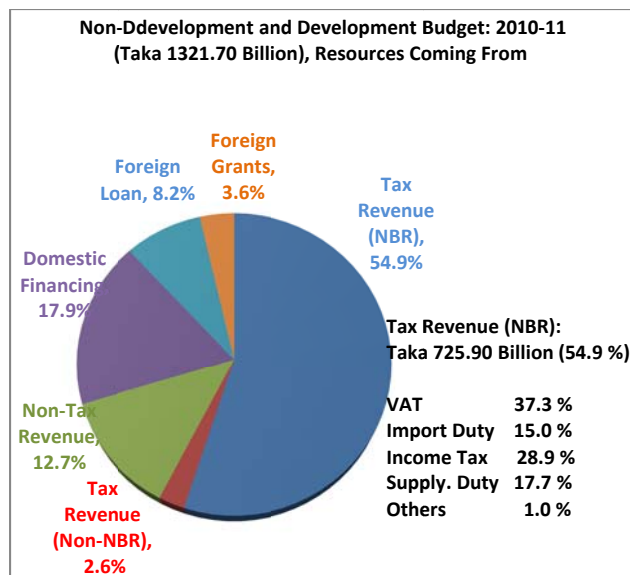
## **9. Priority Sectors in the Budget**

As per the Medium Term Budgetary Framework (MTBF) 2010-11 to 2012-12, public spending framework during FY11 to FY13 to be driven by the requirement to meet MDGs was designed giving priority of investment in the energy and power sector to overcome the power shortages. To achieve the broad-based pro-poor and inclusive growth major allocations are also prioritized to go to the social security and welfare, education and information technology. As desired in the MTBF 2010-11 to 2012-13 priority in health sector has been linked to the measures to improve the efficiency and effectiveness of spending on government health services.

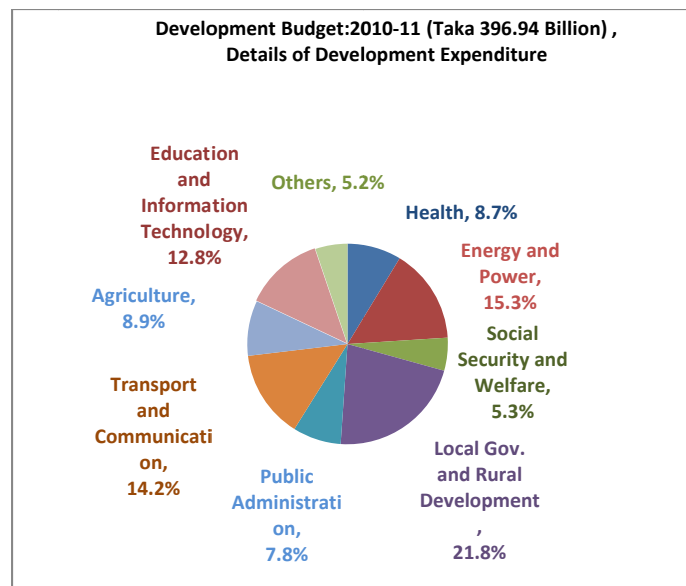
## **10. National Budget: 2010-11**

The Peoples Republic of Bangladesh Government has introduced a Medium Term Budget Framework (MTBF) since 2005-06 moving away from traditional budget formulation in order to improve the efficiency and effectiveness of public expenditure. The FY2010-11 budget has been prepared within the three year context of MTBF paying utmost importance on the fulfillment of election commitments as portrayed in the government's strategy- 'Vision 2021'. The sources along with their shares of resources in the National Budget: 2010-11 are depicted in Graph 8 and where the resources are designed to be used are depicted in Graph 9. The details of Development Expenditure of the National Budget: 2010-11 and monthly ADP allocations over time are portrayed in Graph 10 and 11 respectively.

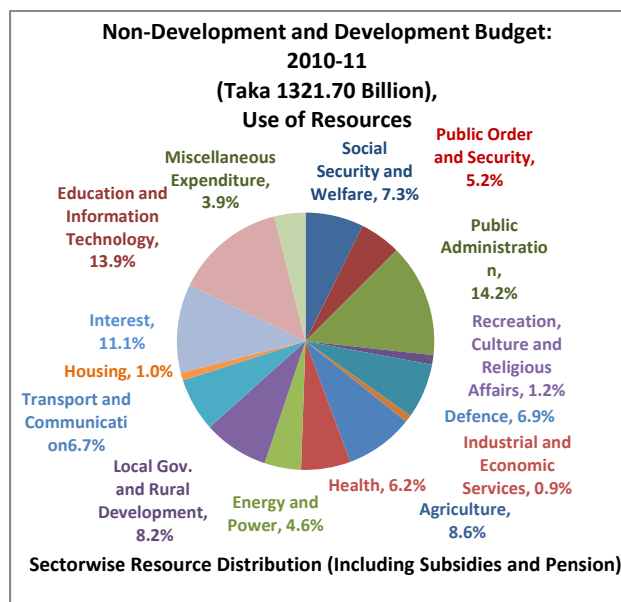




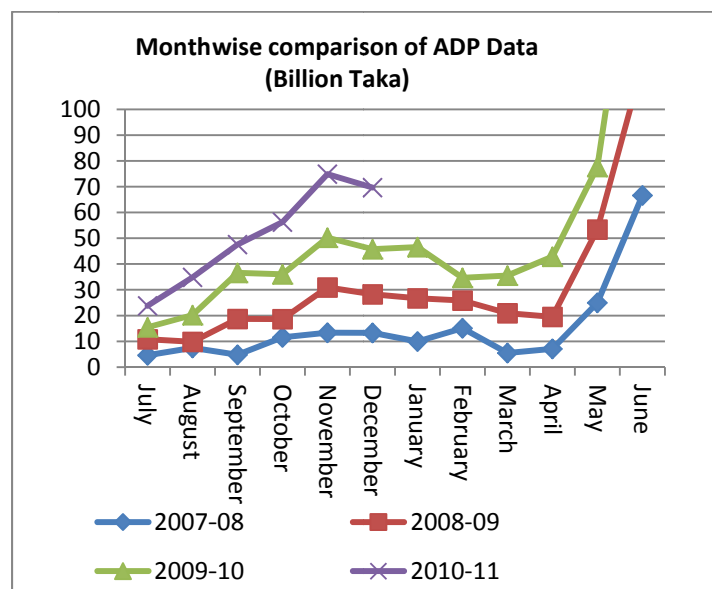
Graph 8



Graph 9



Graph 10



Graph 11

## **11. Latest Development of National Budget: 2010-11**

Tax revenue collections by NBR during July- January of FY2010-11 grew by a healthy 28.4 percent y-o-y, with 18.2 percent growth in the non NBR component (which is only about 4.32 percent of collected NBR tax revenues in this period). Non- tax revenue receipts representing income surpluses of SOEs reportedly declined 1.8 percent during this period, mainly due to FY10 profit fall of BB and low revenue earnings of BTRC. Profits of BB are expected to recover substantially in FY11. It is expected that non-tax revenue will increase in FY2011-12 because of the increase of 2G license renewable fees of mobile operators. Overall, government's revenue receipts look well set to attain the 16.8 percent growth target set in the budget for FY11.

The 42 percent of annual 'non ADP' or 'revenue' expenditure allocation reportedly utilized in first seven months of FY2010-11 remained roughly on target. On the other hand only 33 percent of ADP allocations reportedly utilized during this period of FY11 indicate continuing sluggishness in ADP implementation which was 39 percent in the same time of previous year.

## **12. Role of Members of Parliament in National Budget:**

Outreach by parliamentarians to civil society and other groups is very powerful tool that can be used to enhance parliament's role in the bottom-up budget process. Nothing can strengthen parliament more than enhancing its representativity of its constituents. In addition to parliamentarians' working individually at the constituency level they can hold public hearings and regularly keep a finger on the pulse of the feelings of the electorate. Parliamentarians now only approve the budget. They can also monitor and audit the budget. They can also raise questions about the pace of implementation of the budgeted projects/programs. Parliamentarians should be provided sufficient resources including adequate research support to play an effective role in the budget cycle, to hold public hearings, to play a proactive role at the constituency level

and to help build national consensus around budget issues. Parliamentary committees can also organise public hearings to solicit inputs for budget across the country both before and after the budget is drawn up, and in this way they can help provide public input into the budget process.

### **13. Conclusion**

After weathering the global financial crisis and economic slowdown in good shape without losing footing on growth path, Bangladesh economy is now well poised to embark on a higher growth trajectory aspired for in the medium term Perspective Plan. We do believe that in this land of immense potentiality, the earnest endeavours of our policy makers with a view to implementation of national budget with proper mobilization and utilization of required resources will never be futile to lead us in our aspired destination. Any attempt at making the budget decentralized, participatory and accountable will go a long way in fulfilling this cherished goal.