

4. THE BUDGETING AND PLANNING PROCESS

4.1. Introduction

4.1.1. This section of the report details our findings in relation to the budgeting and development planning processes in Bangladesh and contains recommendations to resolve many of the problems encountered as well as identifying strategies necessary to correct constraints arising from issues of policy. It should be read in conjunction with the technical papers on Budgeting and the Interface between Planning and Budgeting which provide detailed descriptions of the existing systems, perceived weaknesses and proposed solutions. The chapter is presented in three sections. The first deals with the concepts of budgeting and describes some of the ideals which can be achieved in the perfect system. The second details the problems identified in Bangladesh and proposes a number of solutions to these problems and the third outlines the major strategies which we consider as necessary in order to achieve change.

4.1.2. The two technical papers on this area provide more information on the detail of the existing systems and issues we have identified. These are:

- 1 The interface between planning and budgeting
- 2 The budget system

A. BUDGETING CONCEPTS

4.2. The Purpose of Budgeting

4.2.1. The government budgeting process in its simplest view is the embodiment of the legal authorisation by Parliament of the country's expenditure and taxation proposals for the coming financial year. It should be by its nature a means of **allocating resources** to achieving the objectives of the government, a **management tool** for national economic and fiscal planning, and a means of **controlling and monitoring** the use of funds to ensure they meet stated objectives. National budgets are produced in varying formats internationally but all contain provisions for both development and revenue income and expenditure either in totally integrated statements or separately. In Bangladesh, as described later, the development and revenue budgets are presented separately.

4.2.2. In considering the effectiveness of the national budget in these three roles, it is important to evaluate the budget **process**, i.e. preparing the budget; and the budget **document** - whether the format and content of the document enable the budget to be used in the three ways defined above.

4.2.3. In addition the national budget needs to be based on a medium term plan, defining Government objectives, priorities and the resource framework within which to achieve objectives.

4.3. The Links between Planning and Budgeting

4.3.1. The concept of planning is not always clear, planning can mean different things to different people, i.e. physical planning, environmental planning, etc. The Terms of Reference for this study refer specifically to development planning, the development budget and its links to the revenue budget.

4.3.2. A development planning system provides the mechanism for making the decisions on the following issues:

- identifying development objectives;
- developing strategies and programmes to achieve objectives;

- assessing resources availability;
- prioritising between objectives and expenditure plans so as to match expenditures to available resources.

4.3.3. This section of the report, whilst concentrating on budget preparation also focuses on the link between the planning and the development and revenue budgeting processes, which are often ignored where the functions of planning and budgeting are split between Ministries of Planning and Finance.

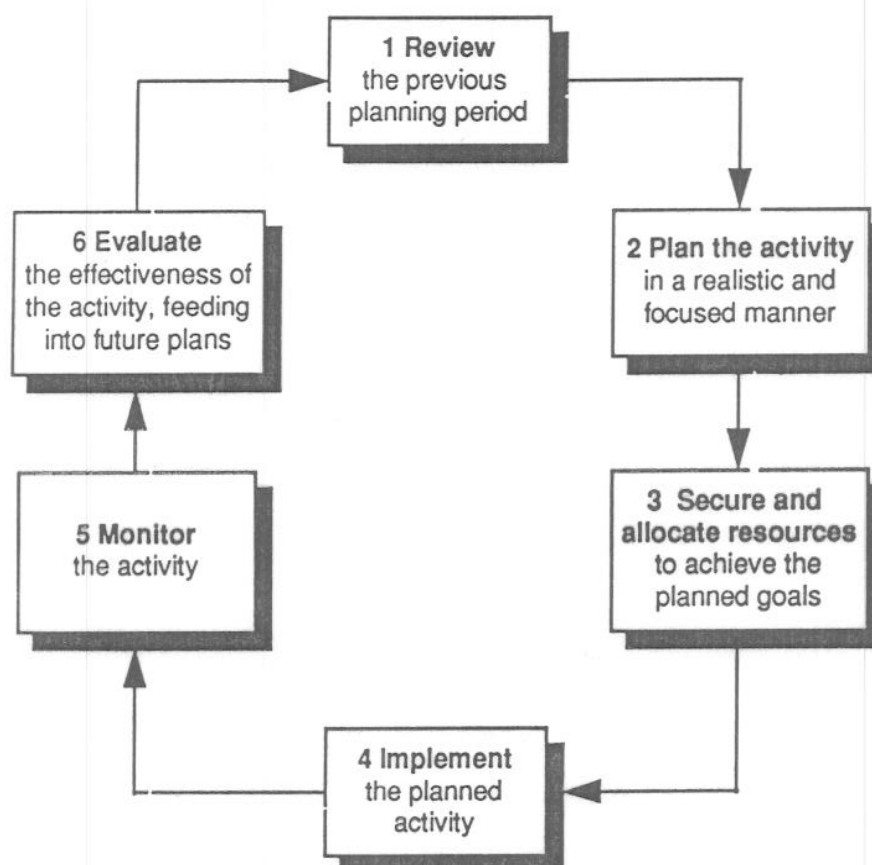
4.4. The Importance of Planning

4.4.1. Planning systems are usually centred on the preparation and implementation of a medium term (usually five years) development plan. The plan contains statements of Government objectives and policies, strategies for achieving objectives, a resource framework for the plan period (projections of revenues and expenditures) and a programme of sectoral development to be implemented during the period. The programme of projects should be based on the projected resource availability, while also taking account of the recurrent requirements for the period.

4.4.2. Development planning often focuses solely on development projects, as they are more likely to receive aid financing and are usually seen as the major source of economic growth. However, the planning system also needs to consider recurrent type activities, for example the funding of materials and salaries for schools and maintenance costs for existing infrastructure can make equally significant contributions to development. These are provisions which fall within the revenue budget therefore the same process of identifying and allocating funds through the revenue budget is necessary.

4.4.3. From the following diagram, it can be seen that planning should be closely integrated with the processes of budgeting and accounting. In fact some of the stages in the planning cycle are synonymous with budgeting and accounting. Securing and allocating resources (stage 3) is the process of budgeting and the monitoring of the activity (stage 5) should involve accounting for expenditure.

Figure 5: Stages in a Recommended Planning Cycle



4.4.4. The overall Budget should be the annual operationalisation of the plans contained in the medium term plan, translating resource projections into annual revenue estimates and expenditure plans into the annual revenue and development budgets.

4.5. The Resource Framework

4.5.1. The Resource Framework covers all financial resources available to the government, including domestic funds and external aid, and which are used to finance the budget proposals contained in the two areas of the overall budget. It should be viewed as one entity that is linked to both the Revenue and Development budget processes. The revenue budget is predominantly funded from local resources, whilst the development budget is funded from a combination of local and foreign resources. The annual budget exercise, covering both revenue and development budgets, should ideally be based on projections of resource availability and allocation of these resources.

4.6. Budget Cycle and Timetable

4.6.1. The preparation of the revenue and development budgets culminate in their presentation to Parliament and their approval in the Appropriation Act. The process should be scheduled in order that approved budgets are available for the commencement of the new financial year. There are therefore two targets that ultimately have to be met by the budget process:

- (i) completion of the process in time for the proposals to be incorporated in the budget speech by the Minister of Finance; and

- (ii) presentation of the budget to Parliament sufficiently prior to the financial year end in order to allow time for the final printing and distribution of the budget prior to the commencement of the new year.

4.6.2. In addition to meeting these "end" targets the budget preparation should ideally commence no sooner than six months into the financial year in order that trend analysis can form an integral part of the preparation process.

4.6.3. In order that there can be co-ordination of the revenue and development budgets to allow incorporation of the recurrent impact of development expenditure the revenue and development budget preparation processes should be integrated.

B. BUDGETING IN BANGLADESH

4.7. Legal Provisions

4.7.1. The Constitution of the People's Republic of Bangladesh 1972 provides the basic legal framework for the Governmental Budgeting process.

4.7.2. Articles 81 to 92 of the Constitution outline the requirements of budgetary procedures. In particular:-

- * Article 87 relates to the laying before Parliament of a statement of receipts and expenditure for a financial year in the form of an Annual Financial Statement.
- * Article 88 indicates Charged (i.e. non-voted) items of expenditure on Consolidated Fund.
- * Article 89 indicates that Other items of expenditure are submitted to Parliament in the form of Demands for Grant and may be voted upon.
- * Article 90 deals with the bill for the Appropriation out of Consolidated Fund to meet requirements.
- * Article 91 deals with Supplementary Budget requirements for the current year.

4.8. Responsibility for Budget Preparation in Bangladesh

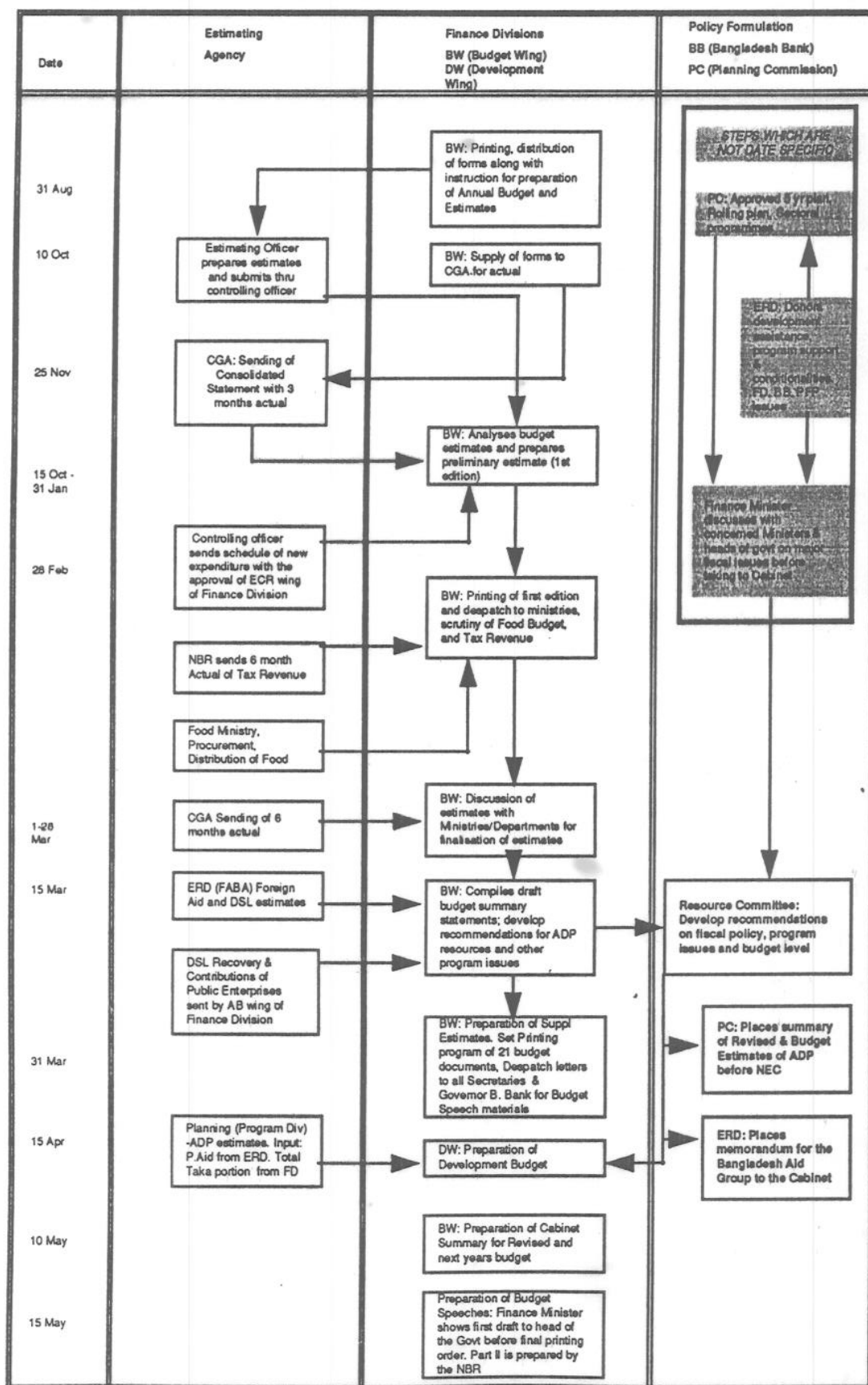
4.8.1. The Finance Division of the Ministry of Finance has overall responsibility for the orchestration of the Revenue and Development Budget preparation process. Within the Finance Division the Budget Wing has responsibility for collation and examination of Ministerial Revenue Budget submissions and for their summarisation and passage through Parliament to final publication. The Development Wing is responsible for the Development Budget.

4.8.2. Responsibility for preparation and review of the Five Year Plan rests with the Planning Commission. The 4th FYP which relates to the period from 1990 to 1995 was proposed during the previous administration and has not been formally approved although the broad policies it defines have been accepted. The FYP is due for review but no decision as to the date of review has been taken. In the meantime a three year rolling plan has been introduced.

4.8.3. The Planning Commission is responsible for preparation of the Annual Development Programme (ADP) which after preparation is converted into the Development Budget by the Development Wing of the Ministry of Finance. Following completion of the ADP the Planning Commission undertakes the updating of the Three Year Rolling Plan. Ideally the Annual Development Plan and the TYRIP should for co-ordination purposes be prepared together and it is understood that this an objective of the Planning Commission. Currently the ADP comprises projects from the second year of the TYRIP together with some new projects.

4.8.4. The major steps in the preparation of the Revenue and Development Budgets are illustrated in the following diagram.

MAJOR STEPS IN THE BUDGET PROCESS



4.9. Budget Documentation

4.9.1. A number of financial documents are prepared at the time of Budget presentation to Parliament. Several are produced in both Bangla and English versions. These include:-

- Budget Speech
- Supplementary Estimates
- Annual Financial Statement
- Budget Summary Statement
- Detailed Estimates of Revenue and Receipts
- Demands for Grants and Appropriations (Non-Development)
- Demands for Grants and Appropriations (Development)

4.9.2. Of these the Budget Summary Statements are particularly complex and consist of 14 separate statements. The purpose of these various statements is to show the composition of the government's budget by providing sufficient supporting detail and analysis.

4.9.3. The document most widely used by government officers is the Detail Estimates of Grants & Appropriation (Non-Development) volume, which is produced solely in Bangla, and not presented to Parliament.

4.9.4. In addition to the Budget Documents passed by Parliament, the Planning Commission produces several documents for the Annual Development Programme:

- an English ADP version;
- a Bangla version of the ADP, which provides more detail;
- the Three Year Rolling Investment Programme.

4.9.5. The TYRIP is produced using a computer and Lotus software but the ADP and revised ADP are still produced manually.

4.10. Budget Approval and Implementation

4.10.1. Following approval by Parliament and promulgation of the legislation the spending ministries are notified of their allocations by the Finance Division in a circular accompanied by the approved sections of the budget books appropriate to them. This constitutes the formal approval for sanctioning authorities to issue sanctions orders authorising the incurring of expenditure.

4.11. Weaknesses in the Bangladesh Budget Systems

4.11.1. In Bangladesh, there exists a structure for budgeting and development planning that is intrinsically very strong. The systems have evolved from those introduced when the country was still part of Bengal and subsequently Pakistan and have been developed to meet the particular needs of Bangladesh since liberation. The systems have gradually been expanded and sophisticated to cope with national development but remain mainly manual. However, increased volumes, together with the complexities resulting from aid programmes and the need to accelerate development to keep pace with the demands imposed by rapid population growth, have exposed problem areas as are identified below.

4.11.2. The rules and regulations detailing budget preparation procedures are contained in numerous documents which have been inherited from previous administrations and which have been expanded to meet identified needs over time. The standard budget documentation is prepared annually by the Ministry of Finance and circulated to sector Ministries. It too has been amended on an ad hoc basis to cover shortcomings in available accounting information. There is a need for the consolidation of all the budget rules and regulations and standard forms in one publication and for their simplification. The document should be published in loose leaf format to allow for future regular review.

4.11.3. Other weaknesses identified in the Development and Revenue Budget processes and in their co-ordination are described in the following sections together with recommendations for their improvement.

Recommendations

1 The rules and regulations and standard documentation relating to the budget should be revised, consolidated and simplified and published in one document.

4.12. The Budget Calendar

4.12.1. The existing budget calendars are too long. They commence soon after the start of the current year preventing the proper analysis of expenditure trends and continue right up to the end of the financial year. Because they are not integrated estimation of the recurrent impact of development expenditures is not included in the revenue budget. Parliamentary Budget approval is often delayed, with the Minister of Finance having to make special provision for expenditures to continue while the Budget is being finished. We are informed that there is a wish in Parliament that Budget presentation should take place in May in order to allow time for approvals to be granted prior to the commencement of the financial year.

4.12.2. The existing Revenue and Development Budget Calendars are shown below.

Table 2: Budget Calendar - Revenue

Date	Activity -Revenue Budget
31st August	Printing and distribution of Budget Forms (Estimating Officers forms and Controlling Officers Forms) for next financial year
30th September	Preparation, printing and supply of Budget Forms to the CGA (CGA's forms)
10th October	Submission of estimate by the Estimating Officers
31st October	Receipt of estimates in Ministry of Finance and CGA's office from the CAO's with 3 months actuals
25th November	Receipt of consolidated estimates in Ministry of Finance with 3 months actuals from the CGA's office
20th January	Completion of examination of Budget Estimate in the Ministry of Finance
22nd January	Receipt of schedule of new expenditure in Ministry of Finance
15th February	Receipt of 6 months actuals from CGA's office
15th February	Commencement of Budget meetings with Sector Ministries at Ministry of Finance
28th February	Completion of review of the estimates on the basis of 6 months actuals in the Ministry of Finance
1st March	Preparation and despatch to the printers of 1st edition of the Budget and Schedule of New Expenditure
10th March	Receipt back of the 1st edition of the Budget from the printers and despatch to the Ministries
28th March	Completion of Discussion of the Estimates with Sector Ministries
7th April	Presentation of the Budget estimates to the Cabinet
May	Preparation and printing of Budget Estimate, details of Receipt and Expenditure, Supplementary Estimate, Finance Minister's speech and Budget at a glance
May	Presentation of Supplementary Estimate to Parliament
1st week June	Presentation of the Budget estimate to Parliament
1st week June	Authentication of Supplementary Estimates
1st July	Authentication of Budget Estimate

Table 3: Budget calendar - Development

Date	Aid Memorandum	Project Planning and Approval	Resource Projections	Three Year Rolling Investment Programme	Annual Development Programme	Development Budget
July/ Aug		Continuous process		Proposals for inclusion in TYRIP requested by Planning Commission		
Sept		New projects submitted by Directorates to Ministry Planning Cell				
Oct			Projections made for TYRIP Projections made for Revised ADP	Continuous flow of project through Programming Committee		
Nov	Preparation of Outline by ERD Sector Ministry submissions requested by Planning Commission	Project concept papers submitted by Ministry Planning Cell to Sector Division Planning Commission Sector Division submit project concept papers to ECNEC	Tax revenue projections requested by Budget Wing from Research Dept. NBR	TYRIP completed utilising indicative resource details		
Dec		ECNEC approvals granted		Printing	Estimates requested for revised budget	
Jan	Sector Ministry submissions received Draft Submitted to Cabinet by GED	Sector Ministry prepares detailed project proforma			Revised estimates received from Sector ministries	
Feb	Cabinet approval	Sector Minister approval sought			Revised ADP completed	
Mar					Sector Ministries submit estimates	Conversion of revised ADP commences
Apr					Sector Division scrutiny and Ministry meetings Programming Committee Meetings	
May			Final Resource estimates available		ADP finalised and forwarded to ECNEC for approval	ADP converted to Development Budget

4.12.3. Delays in submitting budget returns are often caused by Sector Ministries awaiting expenditure and income performance figures. The time allowed for revenue budget submissions from the commencement of the financial year (2.5 months) is seen by the Ministries as both too short and at a time in the financial year before current trends are apparent.

4.12.4. The current budget cycle needs to be shortened. The present constraints are first, that budget preparation is a manually intensive exercise, and secondly, that information on past trends of actual expenditure is out of date or not available in time to be of use in the budget exercise, with the result that the process has to commence early in order to meet Parliamentary deadlines and yet is based on inadequate information. It is appreciated that if a reduction in the length of the budget cycle takes place, then Budget Examiners in the Finance Division of the Ministry of Finance will face additional pressure in the overall control and monitoring of the budget. However it is proposed later that a Resource envelope be introduced at the beginning of the Budget calendar which will enable the setting of advance ceilings for sectoral ministries and which will reduce the necessity for such detailed examination. This together with a strategy to computerise the Budget Wing and to place more responsibility for collation and summarisation of their budgets with the sectoral ministries should in fact reduce the routine examinations carried out by the Budget Examiners and provide the opportunity for more material analysis. Computerisation will also allow for speedier printing of the Budget Statements.

4.12.5. A proposed revised integrated calendar for both the Development and Revenue Budgets is shown below.

Table 4: Proposed Revised Budget Calendar

Date	Activity - Revenue Budget	Activity - Development Budget
31st August	Preparation of estimated Resource Envelope for coming financial year	Preparation of estimated Resource Envelope for coming financial year
30th September	Delivery to Ministries of guidelines, Budget Forms, and Indicative Budget Ceilings	Delivery to Ministries of guidelines, Budget Forms, and Indicative Budget Ceilings
31st October		Identification of Projects by Project Directors and calculation of effects of new and existing projects on revenue budget
30th November	Submission of proposed Budgets by Principal Accounting Officers to Ministry of Finance	
December/January	Examination of Budgets by Ministry of Finance and informal discussions with Ministerial Budget Officers	
31st January	Receipt of 6 month expenditure figures	
31st January	Receipt of final development programme from Ministry of Planning	Receipt of final development programme from Ministry of Planning
15th February	Printing and delivery of 1st edition of approved Revenue and Development Budgets to Sector Ministries	Sector Ministries submit estimates
28th February	Commencement of Budget meetings with PAO's at Ministry of Finance and of Sector Review Meetings	Sector Division Scrutiny and Ministry Meetings
15th March		Programming Committee meetings
31st March	Completion of Budget meetings	ADP/Development Budget finalised and forwarded to ECNEC for approval
7th April	Presentation of Budgets to Cabinet without additional tax measures	ADP/Development Budget presented to Cabinet for approval
May	Preparation of Ministers speech and printing of final budget documents	Preparation of Ministers speech and printing of final budget documents
May	Presentation of Budget to Parliament	ADP/Development Budget presented to Parliament
June 15th	Release of approved Budget to Ministries	Release of approved Budget to Ministries

4.12.6. Sector Ministries have to provide the same information several times for the Development Budget, the Revised ADP, the ADP and the Three Year Rolling Investment Programme.

Recommendations

2 The current lengthy calendars for revenue and development budget preparation need to be compressed and integrated.

4.13. Resource Estimates

4.13.1. The availability of resources is secondary to past expenditure experience in the budgeting process, despite the lack of accurate past expenditure information.

4.13.2. The view exists that early estimates of total resource availability would be inaccurate and thus the final resource framework is not agreed until April/May of the financial year. However, the National Board of Revenues are able to produce advance forecasts for some 85% of the total estimated locally generated government income. Sufficiently accurate estimates of the availability

of foreign aid funds for the budget period can also be made. By definition a Budget is a forecast of revenues and expenditures for a specified accounting period. Total accuracy will only be achieved with the benefit of hindsight as in the accounting process and there seems no reason therefore why an earlier NBR forecast, together with aid forecasts should not be used as the basis for the estimation of resources for use in the production of indicative ceilings for revenue and development budget preparation.

4.13.3. Because of the delay in formulating resource availability, Sector Ministries are not given formal ceilings, nor any indicators of growth or inflation factors for use in the preparation of budget submissions.

4.13.4. The National Board of Revenues produces figures for the major part of the government's income, and should prepare projections early in each year, to enable the National Resources Committee to make rational decisions on the extent of the available resources and provide resource ceilings to Sector Ministries before they start budget preparation. This will enable Ministries to budget with certainty, will encourage objective budgeting, will reduce the need for budget examination at the Ministry of Finance and at the Planning Commission and will reduce reliance on past trends.

4.13.5. The model to be set up in the Policy Analysis Cell of the Finance Division should be used to provide three year projections for the budget. The information for these projections would be provided by the NBR, the Planning Commission and the Bangladesh Bank, in addition to data from the Finance Division and Economic Relations Division of the Ministry of Finance. This model would also analyse various expenditure options, for example different resource allocations between revenue and development, between sectors, the effects of increasing salaries and operating funds, and the recurrent cost implications of development projects.

4.13.6. The National Resources Committee should be strengthened to enable it to accept responsibility for the early estimation and allocation of resources.

Recommendations

3 A resource envelope describing projected funding for the forthcoming year and enabling the preparation of a resource framework for the development and revenue budgets should be made available prior to commencement of the budget preparation process.

4 The National Resources Committee should be strengthened to enable it to accept responsibility for this role.

4.14. Forward Perspective

4.14.1. The Budget process continues to be largely incremental, based on previous year's expenditures and covering only one year at a time. The Budget is not being used as a management tool for restructuring government expenditures. Although the Three Year Rolling Investment Programme (TYRIP) was developed to introduce a planning perspective into the Development Budget, the Annual Development Programme and the TYRIP are still separate exercises, and the ADP still only focuses on one year ahead. There is no forward planning of the Revenue Budget.

4.14.2. Although three year forecasts are produced for the TYRIP and the Policy framework Paper, these do not seem to be used for forward planning of the Revenue or Development Budgets. The impact of new loans on debt servicing capability is not assessed, nor are the long term recurrent cost implications of development projects. The lack of a simple medium term forecasting model prevents sensible projections of future resource utilisation.

4.14.3. There is a need to integrate the processes of planning and budgeting by introducing a forward perspective for the development and revenue budgets. This would involve producing resource projections for a three year period, (these are already produced for the TYRIP and the Policy Framework Paper), requesting Sector Ministries to submit estimates for three years for both the revenue and development budget and presentation of the three year estimates in the Budget. The resource framework revenues and expenditure projections would be updated and rolled over each year, in the same way as the TYRIP is rolled over at present.

4.14.4. While the first year's estimates would be presented in detail for approval by Parliament, the second two would only be indicative. Thus it would not be necessary to request estimates for each item as shown in the annual budget, but perhaps summarised to a minor head level for the revenue budget and for each project for the Development Budget. This level of detail would be sufficient to indicate the changes in resource allocations in the medium term, enabling the Budget to be used as a management tool.

Recommendations

5 There is a need to integrate the processes of planning and budgeting through the introduction of a forward perspective for the development and revenue budgets.

4.15. Supplementary Estimates

4.15.1. A single supplementary appropriation bill incorporating the Revised Budget, is submitted to Parliament at the end of the financial year, covering all supplementary estimates for the year. The supplementary estimates presented to Parliament for consideration have received prior approval from the Ministry of Finance under an unofficial system of "parliamentary trust". This appears to be contrary to the constitutional requirement for Presidential approvals and as expenditure is often incurred even before Ministry of Finance approval it is difficult to see how it serves the concept of financial control apart from retrospectively authorising technically illegal overspending.

4.15.2. Supplementary estimate requests should be submitted for approval, as required by the constitution. It is recommended that this should be at regular intervals, if possible within the constitution through a form of delegated authority, (formalising the role of the Ministry of Finance) during the year in question, and prior to the incurring of expenditure. Ideally, Parliamentary approval to supplementary estimates should be granted on a regular basis and not as a single annual activity.

4.15.3. Supplementary Estimates should only be needed when ministries require additional funding and this as explained above should be the subject of application prior to the expenditure being incurred and not at the financial year end.

4.15.4. In addition, ministries should be given greater flexibility to reallocate funds within their annual ceiling, as well as to allocate between the three year ceilings of the three year rolling budget. Improved expenditure planning should reduce the need for ministries to request additional funds.

Recommendations

6 Supplementary estimate requests should be submitted for approval as required by the constitution. This should be at regular intervals during the year in question, and not at the end of the year.

4.16. Separation of Revenue and Development Budgets

4.16.1. The Revenue and Development Budgets are prepared as completely separate exercises, with insufficient consideration of the links between the two. They are published as separate documents. Ministries do not always calculate recurrent costs arising from development projects and demands for additional recurrent costs are frequently covered initially from the Unexpected Head in the revenue budget. The impact on the revenue budget is not always assessed before the project commences, nor the appropriate provision made in future revenue budget forecasts. The lack of a longer term revenue budget means there is no mechanism for providing for recurrent costs of development projects in the future.

4.16.2. Although there is said to be a system of co-ordination between the Finance Division of the Ministry of Finance and the Planning Commission on the revenue and development budgets, it appears that the interface does not work as well as might be expected. For example, demands to cover the recurrent costs of newly completed development projects need commonly to be funded from the Government's Unexpected Expenditure Head and the calculation of the total provision under this Head is based on previous year's experience. The inclusion of an Unexpected Expenditure Head in the Budget is in itself anomalous. It was initially established to meet the costs of natural disasters and has evolved into a form of "catch-all" solution to under provision in other Heads.

4.16.3. There is no informal discussion or feedback between the Finance Division and Sector Ministries during the formative stages of the revenue budget process. This results in inadequate and inconsistent justification of requested increases.

4.16.4. It is at this time neither desirable nor feasible to physically integrate the Revenue and Development Budgets. Their preparation is carried out by discrete departments and officers at sector ministry level and by the Ministry of Finance and the Planning Commission at the Centre. Scope does however exist for improvements in the co-ordination of the two budget processes in order that the impact of development projects on the revenue budget are properly considered, conveyed to the officers responsible for preparation of the revenue budget and include within the revenue budget provisions. There is also a need for the exchange of information in this regard between the Planning Commission and the Finance Division of the Ministry of Finance in order that a check can be instigated during the revenue budget examination process to ensure inclusion of correct provisions for additional staff and services.

4.16.5. To secure the interaction of the two budgets, a Joint Budget Committee should be formed, with representatives of the Ministry of Finance and the Planning Commission. (The strengthened National Resources Committee mentioned above could possibly also accept responsibility for this role). The Committee would be responsible for the issue of joint guidelines for the Revenue and Development Budgets, to be prepared at the same time, and for the review of submissions for both budgets from sector ministries, and sub offices. At the sector ministry level, budget committees would also need to be formed, who would be responsible for co-ordination of the preparation of the Revenue and Development estimates.

4.16.6. It should also be possible to merge the Annual Development Programme and the Development Budget with only one document prepared showing allocations to each development project. There is no legal requirement for both documents and they contain the same information in different formats. One of the reasons for the poor co-ordination between planning and budgeting is the separation of these two processes between the Planning Commission and the Ministry of Finance. The Planning Commission should be responsible for the preparation of the Development Budget, based on the same information currently used in the ADP, which would then be integrated into one document in collaboration with the Ministry of Finance. Thus the Planning Commission would have joint responsibility for the budget with the Ministry of Finance, rather than the existing situation where the Ministry of Finance is solely responsible for the final preparation of the whole of

document. This will require the Planning Commission and Ministry of Finance to work more closely together.

4.16.7. A pilot exercise should be carried out in a selected Ministry whereby staff working on both revenue and development budgets are combined into one operational unit within that Ministry, so that all budgetary matters relating to a particular division are dealt with in the same place.

4.16.8. Problems are caused by development projects being completed, without provision for the running costs being made in time in the revenue budget. This often results in the Unexpected Expenditure budget head being used, until the project is formally transferred. If, as suggested earlier, longer term budget forecasts are made, project completions and their impacts will be identified and can be built into revenue budgets as and when they are projected to occur. This would eliminate the need for the process of waiting to formally declare a development project complete, before provision for its revenue consequences can be made within the revenue budget.

4.16.9. As a wider issue there appear to be too many separate departments for dealing with budgeting as a whole with the inevitable result that the necessary co-ordination between the revenue and development budgets breaks down.

Recommendations

7 Improvements should be introduced in the co-ordination of the Development and Revenue Budgets. A Joint Budget Committee should be formed, with representatives of the Ministry of Finance and the Planning Commission.

8 At the sector ministry level, budget committees would also need to be formed, who would be responsible for co-ordination of the preparation of the Revenue and Development estimates.

9 The Annual Development Programme and the Development Budget should be amalgamated.

4.17. Sector Ministry Responsibility for Budget Preparation

4.17.1. The Secretary in Sector Ministries is also Principal Accounting Officer for the Ministry with responsibility for financial management and control. It is his responsibility to ensure that the ministry budgets are prepared to correctly reflect government and ministry policies and to liaise with the Minister in order that the budget also meets its political objectives. However, in practice, neither the Secretary nor the Minister are involved in the preparatory stages of the budget with the result that top level control and monitoring is lacking. The lack of involvement of the Minister and his Secretary in the budgeting process are noted in the CORBEC report. Their lack of involvement in the estimates process not only denies them the opportunity to ensure that the budget complies with the policies of the Ministry but also creates serious difficulties throughout the budget process, from the Budget discussions with the Finance Division where the Ministry's case is presented, through to the period immediately prior to the presentation of the Appropriation Bill to Parliament and where changes are often requested by the Minister in order to accommodate omissions made by his staff.

4.17.2. Directorates within Sector Ministries submit their budgets direct to the Finance Division of the Ministry of Finance. The Sector Ministries are therefore not always informed of all budget submissions under their overall control until the budget exercise is advanced and when amendments to the submissions either cause delays to the total exercise or are too late to accommodate.

4.17.3. A structure should be established at Sector Ministries, which includes the setting up of a ministerial budget committee, to be chaired by the Secretary in his role as the Principal Accounting Officer, the budget officers and staff of Planning Cells, with the CAO playing a strong role as adviser on all financial matters. This committee should consider all departmental and divisional submissions for the Revenue and Development Budgets, ensure the inclusion in the Revenue Budget of the effects of the Development Budget and submit them to the Finance Division in the Ministry of Finance and to the Planning Commission. This would increase the links between the two budgets and remove the current practice of direct submission by divisions to the Finance Division. The Secretary should be directly responsible for presenting the Ministry's case in discussions with the Finance Division and the establishment of the Sector Ministry budget committee will ensure that he is adequately informed.

Recommendations

10 A ministerial budget committee should be established and chaired by the Secretary as the Principal Accounting Officer. The PAO should be directly responsible for presenting the Ministry's case in discussions with the Finance Division budget committee

4.18. Budget Basis

4.18.1. As stated earlier, the lack of a resource envelope early in the budget process precludes the issue of budget ceilings in advance of the budget preparation process. With the exception of manpower costs (for which no manpower planning exercise exists) and which are seldom reduced, there is no certainty of funding within which the sector ministries can plan. In addition no guidelines as to growth or inflation are issued.

4.18.2. The revenue budget is prepared on an incremental basis and the lack of accurate financial statements for previous years means that the incremental increases are predicated on a flawed base. At best previous years actual figures are incomplete and inaccurate.

4.18.3. The system does not take into account the objectives of the ministries and shows no narrative description of their targets. Incremental budgeting does not encourage economy but provides a base for growth and inflation. Within incremental budgeting it is rare to find financial provisions that are static or that have decreased between budget years.

4.18.4. There is little attempt made to identify ministerial objectives and to provide funds on that basis. Programmes are rarely viewed as a whole but seen as a collection of projects quite distinct from ongoing Revenue expenditure related to the programme. The lack of involvement of the Secretary or the Minister in budget formulation, the lack of defined objectives and adherence to the principles of incremental budgeting deny the Ministry the opportunity to develop a budget based on their priorities or service requirements or to measure their physical and financial performance.

4.18.5. The predetermination of establishment numbers and payroll costs on an incremental basis commits 60-70% of the budget and allows little room for reallocation or growth within service provisions.

4.18.6. Resource estimates for the year should be available at the beginning of the budget cycle so that the Finance Division and the Planning Commission can issue a comprehensive budget request circular to initiate the budget process.

4.18.7. The budget request circular should include details of ceilings of allocations available to individual ministries based on macroeconomic forecasts of resource availability, growth factors, the treatment of inflation, manpower budgets including notice of increases incorporated in the ceilings, budget pro formas, classification guidelines, deadlines for the preparation of requests for centrally procured equipment, budget submission deadlines, budget meeting schedules and the name and telephone number of contact personnel in the Ministry of Finance, the Planning Commission and the Ministry of the Establishment. The budget guidelines would carry far more authority if they receive the approval of cabinet prior to their dissemination to the ministries.

4.18.8. Government accounts must be brought up to date to provide adequate data for use in the budgeting process. Although it is understood that unaudited accounts are available for recent years, full and proper reconciliations have not been completed for a number years. A task force should be formed within the CGA department, with high level support including from the C & AG, with the objective of producing completely reconciled and up to date annual government accounts within a specified period. Because of the inevitable problems in reconciling accounts that have not been finalised for several years, it may be necessary to "draw a line" in some cases at a point in time. It will be necessary to augment this task force, which should comprise CGA staff as far as possible, with consultants from the private sector, to achieve results within the required time scale. Both local and international expertise is required for this task, and a local company with an international association should be sought. At the same time procedures must be introduced to maintain current records on an up to date basis. Because of the problems of consolidating expenditure returns for the whole country manually, up to date in this context may mean three months in arrears. A firm date for the production of unaudited final accounts for a financial year should also be set, which may be in the range of three to six months after the year end.

4.18.9. Computerisation of both the maintenance and production of accounting information within the CGA's department is seen as an initial step towards speeding up the budget process. For the full benefits to flow into the budgeting process, computerisation of the accounting functions carried out by CAOs, RAOs, DAOs and TAOs needs to be investigated, as the maintenance of manual records by its nature tends to be slower, inflexible and inaccurate.

4.18.10. Manpower planning should form part of the budget exercise and manpower numbers should be reconciled with approved establishments. This could be achieved simply through the allocation of groupings to categories of staff within the establishment and the requirement for a reconciliation to be included with the budget working papers submitted by the sector ministries. An example of such a reconciliation document is shown below.

Table 5: manpower planning example

MINISTRY					
	Grade 1	Grade 2	Grade 3	Grade 4	Total
Filled Posts	57	213	563	1,436	2,269
Vacant posts	11	43	22	138	214
Approved Establishment 1991/92	68	256	585	1,574	2,483
New Posts 1992/93	17	101	83	212	413
Sub Total	85	357	668	1,786	2,896
less Forfeited Posts	22	87	54	198	361
Approved Establishment 1992/93	63	270	614	1,588	2,535
	Tk 000s	Tk 000s	Tk 000s	Tk 000s	Tk 000s
Financial Provision	7,560	29,160	58,944	114,336	210,000

For this example it is assumed that posts are divided into four categories. An average annual cost for each category would be included in the budget guidelines.

4.18.11. The revenue budget meetings that take place during February/March between the Finance Division Budget Wing and Sector Ministries are too large and include lengthy discussions on items that could have been resolved through discussion at the examination stage. This could be largely overcome by more informal discussion and feedback between budget examiners in the Finance Division and the corresponding staff preparing budgets within sector ministries. The advance availability of resource estimates will substantially reduce the need for detailed discussion at the Budget meetings at the Ministry of Finance and will allow the opportunity for the review of issues of policy and ministry objectives. By scheduling the meetings so that set times are allocated for the discussion of each Minor Head it should be possible to avoid attendance of large numbers of Ministry staff for discussions in which they have no concern. It would be far more productive if attendance was limited to the Secretary supported by his finance advisers and the relevant department heads for the section of the budget under review.

4.18.12. The current incremental base for budgeting should be revised with the emphasis placed on budgeting by objective and predicated on a zero base. As most of the existing process is largely based on incremental budgeting procedures, there is a need to review the actual requirements of ministries and local governments and to base resource allocations on the identified needs and priorities. Sector Ministries should be required to provide a brief summary of their objectives and priorities which would then be used to justify their requests for funds. Initially these objectives could be obtained from the five year plan but the Budget Guidelines would need to include instructions for preparing these policy statements.

Recommendations

- 11 Resource estimates for the year should be available at the beginning of the budget cycle.
- 12 The budget request circular should include indicative ceilings and comprehensive guidelines approved by cabinet.
- 13 Government accounts must be brought up to date to provide adequate data for use in the budgeting process.
- 14 Manpower planning should form part of the budget exercise and manpower numbers should be reconciled with approved establishments.
- 15 Current budget committee meetings at the Ministry of Finance should be rationalised.
- 16 The current incremental base for budgeting should be revised with the emphasis placed on budgeting by objective linked to programmes and predicated on a zero base.

4.19. Debt Management

4.19.1. The main emphasis of debt management is foreign debt, administered by the Economic Relations Division. However the impact of new loans on debt servicing is not assessed, as the existing debt burden as a percentage of exports is considered to be low. The Ministry of Finance does not have the expertise to make cash flow projections and short term borrowing requirements, nor the capacity to monitor repayment of loans by Autonomous Bodies and semi-autonomous public agencies. No profiling of debt related expenditure takes place. This has led to unnecessary borrowing on the part of Government, and substantial arrears and hidden subsidies to Autonomous Bodies.

4.20. Budget Format

4.20.1. The process of proofing and printing of the Budget Book is lengthy and manual and uses out of date technology. As a result, the budget is frequently published late, after the start of the year, resulting in a legal necessity to pass a Vote on Account Bill to enable expenditure to be incurred in the meantime.

4.20.2. The budget book is overcomplicated. The analyses contained within it are unstructured and involve much duplication. In terms of the constitution it is necessary to present the budget in the form of demands for grants and appropriations. This analysis would be far simpler to understand if the grants and appropriations followed the administrative organisation of government with a single grant representing each Ministry and with the total number of grants limited to the number of ministries. Due to the existing bulk of detail, it is frequently difficult to extract information that is really needed, e.g. the extraction of the total budget provision for a single ministry involves the addition and subtraction of provisions from a number of Heads of Account.

4.20.3. The budget book contains analyses that may be highly aggregated or highly disaggregated, depending on the service concerned. Given that a major reason for the production of such a document is to obtain Parliament's approval to the estimates contained within it, the amount of detail is excessive and virtually incomprehensible to the non-technical reader. Indeed it is confusing even to experienced financial managers. The inclusion with the documents for Parliament of the analysis prepared in accordance with IMF recommendations is not necessary.

4.20.4. The revenue and development budgets for a particular sector are physically separated. Additionally the sector classifications are not themselves always common.

4.20.5. The Development Budget is merely one of a series of overlapping documents in different formats: ADP in English, ADP in Bangla, Three Year Rolling Investment Programme, summary of Development Budget, detailed budget in English, detailed budget in Bangla. These documents are not integrated. There is a multiplicity of sections/bodies involved in production of the ADP.

4.20.6. There are inconsistencies between the ADP and the Development Budget that is produced from it, together with confusion over definition of revenue and capital costs under the Development Budget. Despite the ADP being sector based, and the Development Budget being Head based, these two documents are largely a duplication of effort. There is no direct input by the Planning Commission in production of the Development Budget.

4.20.7. The budget format needs to be improved so that it can act as a mechanism for control, allocation of resources and as a management tool, the three roles of a budget identified in the introduction. The format should enable politicians and senior management staff to use the budget as a management tool, to reallocate resources to priority areas and monitor progress in meeting sectoral objectives. The budget also has to be presented in such a way that it can be used for control purposes. There may need to be two levels of detail presented; one aggregated for use by Parliament and senior managers and a second showing greater detail for expenditure control at the Ministry level.

4.20.8. Thus the budget has to be simple, without repetition and the links between the various summaries and detailed statements need to be clear. There is also a need for transparency. The net flow of funds to particular institutions should be shown i.e. the receipts and payments shown in the same place.

4.20.9. The current system of classification of budgets in the budget books is unsatisfactory, and fails to meet current needs. A revised system of classification needs to be drawn up and implemented, and this is discussed further in a separate section of this report.

4.20.10. The current budget book should be simplified to remove overlapping tables and unnecessary duplication. A new structured budget document, highly aggregated, and that can be clearly understood should be produced for the Parliamentary approval process. In addition other level(s) of budget book with varying detail will be required for use by top management, and also by line managers who are initially accountable for spending budgets. An example of a summary statement showing Development Budget and Revenue Budget proposals by Ministry is shown below.

Table 6: Example of expenditure analysed by major head

	Ministry	Total Budget 1992/93	Revenue			Development		
			Budget 1992/93	Revised 1991/92	Budget 1991/92	Budget 1992/93	Revised 1991/92	Budget 1991/92
1	Finance							
2	Planning							
3	Law, Justice and Parliament							
4	Land							
5	Agriculture							
6	Forest and Environment							
7	Fisheries and Livestock							
8	Irrigation, Water Development and Flood Control							
9	Food							
10	Relief and Rehabilitation							
11	Works							
12	Labour and Manpower							
13	Youth and Sports							
14	Communication							
15	Post and Telecommunication							
16	Ports, Shipping and I.W.T.							
17	Information							
18	Education							
19	Cultural Affairs							
20	Religious Affairs							
21	Foreign Affairs							
22	Defence							
23	Civil Aviation and Tourism							
24	Energy and Mineral Resources							
25	Commerce							
26	Industries							
27	Jute							
28	Textiles							
29	Establishment							
30	Prime Minister's Office							
31	President's Office							
32	Social Welfare							
33	Womens' Affairs							
34	Home Affairs							
35	Health and Family Welfare							
36	Local Government, Rural Development and Co-operatives							
37	Special Affairs Division							
	Total							
	Funded by							
	Revenue Budget							
	- Tax Revenue							
	- Non-Tax Revenue							
	Deficit/ Surplus							
	Development Budget							
	- Foreign Grants							
	- Foreign Loans							
	- Domestic Funds							
	Funds to be identified							

4.20.11. The numerous documents produced in differing formats covering development project estimates should be reviewed and rationalised. As suggested above for example, it should not be necessary to continue with both the development budget and the ADP which could be replaced by a single document. It should also be possible to publish the Revenue and Development Budgets in one document for Parliament. As a later strategy and bearing in mind the need for a three year perspective it should be possible to produce one document, project based for the development budget and including the revenue budget, which would have a summary of the three year period aggregated to the level of department. The Annual Budget estimates will require to be shown in more detail for legal approval purposes.

4.20.12. The rationalisation proposed above is necessary to achieve greater simplicity and transparency and could be achieved under the present manual system. It would however be achieved more practically and effectively by computerisation. As a minimum, the input into a computer system of final budget data will enable faster and easier proofing and printing of the budget book, and in addition its production at varying levels of detail.

Recommendations

17 The budget format needs to be improved to become a mechanism for control, allocation of resources and as a management tool. It should be simplified, documents reduced, and capable of aggregation to levels commensurate with user requirements.

18 The Revenue and Development budgets should be prepared and produced showing a three year perspective.

4.21. Budget Presentation - Specific Items

4.21.1. As well as the overall format of the Budget documents, the presentation of specific items of income and expenditure in the Budget are not always clear. These are discussed below.

Links between Objectives and Resource Allocation

4.21.2. The Working Paper on Planning and Budgeting emphasises that the existing Budget presentation does not show the link between Government objectives and priorities with resource allocations through the Budget. There are no measures of outputs as related to inputs incorporated within the budget.

Classification

4.21.3. The current system of classification of budgets in the budget books is unsatisfactory, complex and fails to meet current needs. The issue of classification and the need for change which will be generated by computerisation is discussed in detail in the sections on computerisation and classification.

Autonomous Bodies

4.21.4. The presentation of the flow of funds to and from Autonomous Bodies and its net effect on the Government's Budget is unclear, although on-lending of funds to Autonomous Bodies for projects comprises a substantial portion of the development budget. The existing computerised monitoring system (SABRE) does not link with the revenue budget. The treatment of certain Autonomous Bodies Budgets, which are regarded as government departments, is anomalous and confused.

4.21.5. A rationalisation of the treatment of Autonomous Bodies Budgets is required in the budget book so that consistency prevails, and the net flow of funds is easily demonstrated. In particular the substantial portion of the development budget that in practice represents on-lending from government to autonomous bodies for project expenditure should be made more transparent.

4.21.6. If Autonomous Bodies have to be treated within the budget process as government departments, then they should have a budget presentation similar to other government departments. If they are to be treated as commercial enterprises, then they should budget and account commercially, with any net subsidy taken, or profit made, shown as one net figure in the government budget supported if necessary by memorandum accounts.

4.21.7. Steps should be taken to integrate the existing computerised monitoring system operating in the Finance Division Autonomous Bodies Wing (SABRE) during the overall scheme for computerisation of budgeting and accounting.

Recommendations

19 A rationalisation of the treatment of Autonomous Bodies Budgets is required with any net subsidy taken, or profit made, shown as one net figure in the government budget supported if necessary by memorandum accounts.

20 Steps should be taken to integrate the existing computerised monitoring system operating in the Finance Division Autonomous Bodies Wing (SABRE) with the scheme for the computerisation of budgeting and accounting.

Food Budget

4.21.8. Details of the food budget are scattered throughout the budget book. As this area of concern involves transactions spanning more than one financial year, their treatment in the same way as conventional annual revenue budget allocations is inadequate and confusing and fails to reflect stocks in hand at the end of financial years.

Recommendations

21 The net impact of the food accounts should be shown in one budget head of account, together with volumes reflecting stock movements. The use of a memorandum analysis to detail all components of the food budget, including opening and closing stocks, would be more meaningful.

Suspense Accounts

4.21.9. Much of the current usage of suspense accounts is incorrect, and serves as a method of carrying forward unspent budget allocations for use in future years. Suspense accounts are also currently used with more validity to deal with situations where expenditure occurs that may effect more than a single year.

Recommendations

22 The practice of transferring unspent budget balances to suspense accounts for use in future years should be stopped forthwith by instruction from CGA. Budget provisions described as suspense have no place in a budget book.

Personal Ledger Accounts

4.21.10. Personal ledger accounts are generally deposit accounts, included under the heading of Public Accounts. They allow expenditure to be incurred without any regard to budget provision in a particular financial year. Many accounts were opened originally to attempt to overcome bureaucratic delays in making payments by the normal methods, for items such as land compensation payments, but the current structure of District and Thana offices removes this as a justification for such accounts.

Recommendations

23 The use of Personal ledger accounts should generally be restricted to accounts which are difficult to relate to a specific financial year. Serious consideration should be given as to whether such accounts have any place in a budget book at all.

Inclusion of Donor Funds

4.21.11. A lack of details exists of donor direct financing of project expenditure. This causes difficulties in attempting to monitor expenditure against development budgets and plans.

4.21.12. The continuance of the two distinct methods of dealing with project finance, i.e. some projects having their own bank accounts, is confusing.

4.21.13. Local resources are not always matched in a timely manner to donor resources. There is little flexibility in government accounting relating to income generated by projects.

4.21.14. Donors should be requested to provide full details of direct payments made by them relating to development projects. Where it is not possible to achieve this, consideration should be given to excluding such items from development budgets and plans as they are in practice subject to little real control, and their inclusion as a memorandum style note.

4.21.15. Whilst it is accepted that donors may present the need to shorten government bureaucratic time scales for getting projects operational as a major reason for insisting on the opening of separate project bank accounts, this should be resisted as it is merely an attempt to solve the symptom rather than tackling the root cause, and serves to perpetuate the basic problems. Procedures for dealing with project funds from the initial receipt from donors through to the allocation for use by individual project directors need to be streamlined.

4.21.16. Long term budget forecasts should enable more successful and timely matching of local resources to donor resources, and remove cases where donor funding cannot be used as the local element of a project is not provided for in a particular year. Where a project generates income, and is therefore partly self financing, the income should be directly attributed to the project concerned in plan and budget presentations.

Recommendations

24 Donors should be requested to provide full details of direct payments made by them relating to development projects.

25 Requests for the opening of separate bank accounts in order to overcome delays in project implementation should be resisted.

26 Where a project generates income, and is therefore partly self financing, the income should be directly attributed to the project concerned in plan and budget presentations.

C. STRATEGIES FOR CHANGE

4.22. Strategies

No	Strategy	Comment
1	A resource envelope should be produced describing projected funding for the forthcoming year.	Budget preparation requires the production of a resource framework prior to commencement of the budget preparation process. This would facilitate the inclusion in the Budget Request Circular of indicative ceilings including growth and inflation predictions and would allow the process to move away from its current incremental base.
2	Improvements should be introduced in the co-ordination of the Development and Revenue Budgets.	A Joint Budget Committee should be formed, with representatives of the Ministry of Finance and the Planning Commission, with responsibility for the issue of joint guidelines for the Revenue and Development Budgets. At the sector ministry level, budget committees would also need to be formed, who would be responsible for co-ordination of the preparation of the Revenue and Development estimates.
3	A ministerial budget committee should be established and be chaired by the Secretary in his role as the Principal Accounting Officer.	Secretary's in Sector Ministries are conferred with financial responsibilities through their appointment as Principal Accounts Officers. At present their role in budget preparation at the Ministries is minimal and there is therefore no guarantee that a Ministry's budget proposals correctly reflect its policies, objectives and priorities. To ensure PAO involvement it is recommended that a budget committee be established at each Ministry chaired by the Secretary in his role as the Principal Accounting Officer, and including the budget officers and staff of Planning Cells, with the CAO playing a strong role as adviser on all financial matters. This committee should be responsible for consideration and approval of the Ministry's overall objectives, plans for achieving them and should review all departmental and divisional submissions for the Revenue and Development Budgets. It should ensure the inclusion in the Revenue Budget of the effects of the Development Budget, collate departmental submissions and submit them to the Finance Division in the Ministry of Finance and to the Planning Commission.

No	Strategy	Comment
4	Manpower planning should form part of the budget exercise and manpower numbers should be reconciled with approved establishments.	Manpower costs currently constitute some 60% - 70% of the revenue budget and are seldom reduced or amended. This limits the scope for the considered allocation of funds to meet ministerial objectives and whilst outside the Terms of Reference for this study it is considered that a manpower planning review should be instigated as soon as possible in order that optimum staff numbers are identified for each ministerial objective. Within this exercise consideration should be given to the forfeit of posts which have remained vacant for extended periods.
5	The current incremental base for budgeting should be revised with the emphasis placed on budgeting by objective and predicated on a zero base and linked to programmes.	Budgets should be prepared to identify the cost of provision and maintenance of ministerial objectives. The current incremental budget basis does not facilitate provision for new objectives or revised priorities and constrains performance measurement. In addition, in view of the inaccuracy of expenditure records, the use of previous levels of expenditure as the base for the future is questionable. Each Ministry should be required to totally justify proposed expenditures annually.
6	The Revenue and Development budgets should be simplified and prepared and produced showing a three year perspective.	<p>The current budget document is too complex and should be simplified. It contains duplicated and confusing information and it is difficult to identify the total provisions for individual ministries. A document should be developed which is capable of aggregation to levels commensurate with user requirements and the number of existing separate documents should be reviewed and rationalised.</p> <p>There is a need to integrate the processes of planning and budgeting by introducing a forward perspective for the development and revenue budgets. This would involve producing resource projections for a three year period, (these are already produced for the TYRIP and the Policy Framework Paper), requesting Sector Ministries to submit estimates for three years for both the revenue and development budget and presentation of the three year estimates in the Budget. The resource framework revenues and expenditure projections would be updated and rolled over each year, in the same way as the TYRIP is rolled over at present.</p>