Public Financial Management Review

A Journal of FIMA

December 2022

Volume-1 Issue-1

Financial Management Academy(FIMA)

(The Training Wing of the Office of the Comptroller and Auditor General of Bangladesh)

Editorial Board

Abul Kalam Azad, *Director General, FIMA*

Ranjit Kumar Chakraborty, *Former Additional Secretary*

Md. Ali Akkas, *Professor, Department of Management, Dhaka University*

Dr. Mohammad Yunus, *Senior Research Fellow, BIDS*

Md. Mahamud Hosain FCA, *Council Member, ICAB*

Md. Saifur Rahman ACCA, *Additional CGA (Administration)*

Mohammad Jamil Ahmad, *CAFO, Ministry of Foreign Affairs*

Mamun Ul Mannan, *CAFO, Pension and Fund Management*

Md Arifur Rahman, PhD, *Director, Civil Audit Directorate*

Md Firoz Khan, *Director (Administration), FIMA*

Hia Paul, *Director (Training), FIMA*

The views and interpretations in the articles published are those of the authors and do not necessarily represent the views and policies of FIMA.

Copyright: Financial Management Academy (FIMA)

Published by FIMA

A/7, Lalasarai, Mirpur-14, Dhaka-1206

www.fima.gov.bd

e-mail: fimaocag.bd@gmail.com

On Behalf of the Editorial Board

I am extremely delighted to be able to resume the publication of FIMA Journal, previously known as Public Money and Management, with a different title Public Financial Management Review. It was long overdue for FIMA to publish the journal since its last issue had been published in 2007.

FIMA, being the training wing of Supreme Audit Institution (SAI) of Bangladesh, endeavors to create a congenial environment for disseminating knowledge by providing not only inclusive training opportunities but also a platform for articulating diverse range of views on public financial management. More importantly, it aims to nurture the creative faculty of young officers by encouraging them to take to writing to communicate their thoughts and ideas with the wider audience. The journal lays emphasis on publishing original and authentic articles covering wide-ranging aspects of public financial management system.

Resumption of the publication of this journal represents a significant milestone that marks FIMA's growth and its eminence as an academy dedicated to promote professionalism among the broad range of practitioners including the civil servants.

Let me place on record my deep appreciation for the outstanding efforts put in by all the members of the editorial board to publish this issue of the journal. I also take this opportunity to express my heartfelt thanks to all the members of the FIMA faculty who lent extraordinary support to the editorial board which at times went beyond the call of duty.

FIMA welcomes any views and suggestions for further improvement of the journal.

Abul Kalam Azad
Director General

Table of Contents

i — THE PUBLIC FINANCIAL MANAGEMENT OF BANGLADESH - AN OVERVIEW — 1
Mohammad Muslim Chowdhury

ii — SUKUK, AN ANSWER TO THE INHERENT PROBLEMS OF ISLAMIC FIS AND CAPITAL MOBILISATION IN BANGLADESH — 19
Arastoo Khan
Md. Yousuf Ali

iii — THE NEED FOR A PARADIGM SHIFT IN SAI BANGLADESH: ISSUES AND CONCERNS — 32
Md. Abul Kashem

iv — IPSAS CASH AND OUR CURRENT ACCOUNTING PRACTICES — 41
Tanveer Akther Hossain Khan

v — AN ASSESSMENT OF PUBLIC EXPENDITURE MANAGEMENT IN BANGLADESH — 59
Md Abul Kalam Azad

vi — THE WEB OF ACCOUNTABILITY INSTITUTIONS IN BANGLADESH — 74
Md. Arifur Rahman

vii — AN ANATOMY OF MONEY BILL — 88
Hia Paul

viii — UNDERSTANDING PUBLIC SECTOR AND ITS JURISDICTION: BANGLADESH PERSPECTIVE — 102
Shobrata Debnath

ix — REFORMS IN PUBLIC FINANCIAL MANAGEMENT: A CRITICAL NEED TO AUGMENT REVENUE MOBILISATION FOR SUSTAINED ECONOMIC GROWTH — 114
Sharlina Sharmin Richi

The Public Financial Management of Bangladesh - An Overview

Mohammad Muslim Chowdhury*

Abstract

Despite the continuous developments and reforms in the Public Financial Management (PFM) happening throughout the world, the distinctive features of PFM as well as those of the government accounting system remain unnoticed by the academic pedagogy in Bangladesh. As a result, the intellectual and analytical intervention by the academia in PFM of Bangladesh continues to be minimum while a healthy engagement between academics and policymakers is essential for informed, evidence-based, and world-class policy making. With respect to corporate finance and corporate accounting, the extent of study and research has reached the state-of-art level, whereas academia remains disconnected from studying PFM. The failure of PFM to emerge as a discipline in academia is one of the probable causes for this disengagement. Hence the objective of this paper is to elucidate the concept of PFM and its dynamics in the wake of current technological advancement, so that it can sensitize the readers on the fundamental issues of PFM which should be developed as a discipline in the academic curriculum and as an important area of further research.

1. Introduction

The Public Financial Management (PFM) of Bangladesh has a long-standing historical legacy of British India, which has given it a well-structured system of management since the end of the 19th century. As major historical events emerged during the 20th century such as the independence of India, Pakistan, and Bangladesh, the PFM has witnessed many developments and reforms over time although, the

* Comptroller and Auditor General of Bangladesh

basic structure of PFM inherited from the British colonial administration still exists with its robustness.

In the developed world the academics are intimately involved in the discourse of PFM reforms and making contribution to the development of PFM systems and processes. However, the academics in Bangladesh have never been connected with these processes. As a result, the academic flair is patently missing in our efforts to develop the PFM systems to stay relevant in the fast-evolving context. While the studies of corporate finance and corporate accounting have flourished in many of their branches, the PFM has failed to emerge as a discipline in the academic pedagogy in Bangladesh. The detachment of the academics of Bangladesh, however, could not stop the reproduction of prolific pieces of literature on PFM as the international development organisations are playing their parts.

Nonetheless, the country-specific characteristics of PFM need to be studied which are often ignored by international organisations. Moreover, the stark differences between PFM and corporate finance and accounting should be taught to the students, who are the future policymakers of the country. Keeping this object in mind, this paper briefly introduces the fundamental features of the PFM of Bangladesh in the context of both global and country-specific architecture.

PFM refers to the legal framework of a sovereign nation along with the processes of mobilising revenue, allocating public funds, undertaking public spending, accounting for funds, and finally, auditing the results of the spending (Simson, Sharma, & Aziz, 2011). While understanding the functional structure of PFM namely policy priority, budget formulation, budget approval, budget execution, accounting, and external audit is important, it is equally important to comprehend its legal framework.

It is to be noted that, the legal framework of Bangladesh, the structure of government, and the functional structure of PFM help categorise the actors of PFM. This categorisation can effectively be linked with the historical legacy of PFM in British India. In the context of Bangladesh, we may put the actors of PFM into four panels. This will be further elaborated in the relevant section of this paper.

There are six sections in this paper. The rest of the paper is organised as follows: the second section explains the framework and processes of PFM, which is followed by the section where interrelationships of the PFM actors are discussed. Then the fourth section briefly explains Government Accounting. In the fifth section of the paper, the IFMIS of Bangladesh is briefly discussed. Finally, the paper is concluded in the sixth section.

2. Framework and Processes of PFM

This section briefly discusses the legal framework, the structure of the Government, its budget preparation process, the budget execution process, the cash management of the government, the payment and accounting system, and the audit of the budget execution for public services.

2.1 Legal Framework

The legal framework of a country not only includes a set of laws and rules but also encompasses the structures of the governments and their organisations. In Bangladesh, the Constitution—the mother law of the country stays at the highest peak of the legal framework. Other laws and rules occupy their relevant position according to the hierarchy in the framework such as 1) the Public Money and Budget Management Act, 2009; 2) the Comptroller and Auditor General (additional functions) Act, 1974; 3) the Public Procurement Act, 2006; 4) the Account Code; 5) the Audit Code; 6) the General Financial Rules; 7) the Treasury Rules; 8) the Rules of Business, 1996 and the Allocation of Business; 9) the Rules of Procedures of the Parliament; 10) the Public Procurement Rules, 2008; 11) the Delegation of Financial Powers and other executive orders of the Government. However, these are a few examples of laws and rules related to public financial management which are not exhaustive.

2.2 Government Structure

The public sector is broadly segregated into two levels: General Government and Public Corporations. Below these two levels, the General Government is further divided into Central Government and Local Governments, whereas the central government could be either a budgetary central government or an extra-budgetary central government (International Monetary Fund, 2014).

It is to be noted here that in the context of the PFM of Bangladesh, emphasis in this paper is given particularly on the budgetary central government, which comprises ministries/divisions, and attached departments. The financial management of autonomous/semi-autonomous bodies (such as public universities), local governments as well as public corporations will be kept outside the remit of this paper to keep the discussion within manageable limit.

All the executive and financial powers of the state lie with the President (Chowdhury, 2023). Although the executive powers of the republic shall be exercised by the cabinet under the leadership of the Prime Minister (Article 55 of the Constitution), all executive actions are taken in the name of the President. The President by making rules (which is known as the *'Rules of Business'*) shall allocate the business of the Government among various ministries/divisions (Article 55(6) of the Constitution) for the purpose of designated public service delivery.

The financial powers of the President are also delegated to different ministries/divisions and government departments by the authority of 'Delegation of Financial Powers' issued by the Finance Division of the Ministry of Finance (MOF). The ministries/divisions spend the fund or execute the budget to provide the public services specified for them. However, for the execution of the budget or utilisation of funds the ministries/divisions are to be accountable to the Parliament. On behalf of the entire ministry/division the Principal Accounting Officer (PAO), who is the Secretary of the Ministry/ Division (Section 18 (2) of the Public Money and Budget Management Act, 2009) is accountable to the legislature. This paper often refers to the executives of PFM as the PAOs.

2.3 Budget Preparation

The budget setting process starts well ahead of the start of a fiscal year. Under MTBF, it passes through three phases namely Strategic, Estimate and Approval. The strategic phase starts with the development of Medium-Term Macroeconomic Framework (MTMF) followed by the issuance of budget circular which provides strategic guidance to the ministries/divisions on the steps and procedures to be followed while preparing the Ministry Budget Framework (MBF). The MBFs are finalised at the tripartite meeting held between the line ministry, Planning Commission and Finance Division.

The budget, which is also referred to as the 'Annual Financial Statement (AFS)' in the constitution (Article 87 (1) of the Constitution to be read with Rule 111 of the Rules of Procedure of the Parliament), is a statement of estimated receipts and expenditure. Every year according to the Rules of Business, the Ministry of Finance prepares the AFS and it is placed before the Parliament by the Finance Minister by exercising the authority of Section 10 of the Public Money and Budget Management Act, 2009.

After the budget (AFS) is placed before the Parliament it is dealt with by the House in two stages: first, a discussion on the budget as a whole takes place; and second discussion on every particular demand for grant and appropriation is held followed by a vote on the demand for grant. However, no voting is allowed for the appropriations (Article 89 (1) of the Constitution). After the discussions and votes on the demands for grants are over, an Appropriation Bill is introduced in the Parliament which includes all the demands for grants and appropriations and passed into an Appropriation Act. It is to be noted here that the Appropriation Act only deals with the expenditures not the revenue earnings of the Government. However, for revenue mobilisation a separate piece of legislation (the Finance Act) is enacted every year which encompasses all the revenue-related acts or laws.

2.4 Budget Execution

Once the budget is passed by the Parliament, the spending ministries/divisions and the departments execute the budget within the ambit of laid down financial rules and regulations which includes the General Financial Rules (GFR), the Public Procurement Rules (PPR), 2008 and the executive orders issued by the government from time to time. The budget holders utilise the fund or execute the budget to deliver public services in line with the purposes determined by the Parliament. The budget holders have only the budget (or fund) but they neither have any cash nor any payment authority (Chowdhury, 2023). Therefore, to incur expenditure they have to send a sanction of expenditure to the accounts office and submit a bill in a prescribed form prepared (and signed) by the Drawing and Disbursing Officers (DDOs) for payments.

The Compilation of the GFRs is the key document for the budget holders for securing and spending the funds necessary for the discharge

of their functions. This compilation used to be the only document to guide any government procurement since British India until the enactment of the PPA, in 2006. Though the promulgation of the PPA, 2006 and PPR, 2008 have caused some of the rules in the GFR to be redundant, for any budget holder, the GFR still remains to be the central document for incurring expenditure.

2.5 Cash Management

Cash management in Bangladesh is now steered through the Treasury Single Account (TSA) which is an essential mechanism to accumulate all the cash resources of the government and to maintain in a consolidated way to a single bank account to minimise the opportunity cost of cash resources (Pattanayak & Fainboim, 2010). This requires ensuring that all cash received by the government should be available in a single bank account for carrying out any government expenditure and making payments in a timely manner (Pattanayak & Fainboim, 2011).

However, this key feature is a comparatively recent development for Bangladesh but not the legacy that we inherited from the colonial era of British India. In earlier times, the government treasuries were fragmented into district treasuries throughout the country and the fiscal administration was highly decentralised (Auditor General of Pakistan, 1954). From the highly decentralised fiscal system, we are gradually transforming it to a centralised system because of the wide banking network as well as the extensive use of innovative technologies. In spite of all these developments, there are some pockets in the budgetary central government such as Special Accounts, Departmental Treasuries (or Cash Chests) which are still operating outside the TSA.

TSA is maintained in Bangladesh Bank which is the central bank of the country. Since the branches of the central bank are not available throughout the country, Sonali Bank acts as an agent of the central bank for the purpose of the transactions in TSA. The processes of depositing or withdrawing money into or from the TSA are guided by the Treasury Rules (TR) and the Subsidiary Rules made thereunder. However, it is to be noted that, the Treasury Rules were framed in 1944 and amended in 1957, before the revised version was published in 1998. Since then, with the penetration of information technology, the operation of treasury system has witnessed significant changes which are not

reflected in the compilation of the existing Treasury Rules as these rules were framed following the decentralised fiscal system along with the operation of non-banking treasuries.

As part of recent reforms to streamline cash management, the government has introduced Magnetic Ink Character Recognition (MICR) cheque and Automated Challan System (ACS). These two systems have already made pronounced impact on cash management of the government. With the introduction of MICR cheques the payment system has been centralised which was largely in disarray as Sonali Bank as the agent of Bangladesh Bank used to make payment first and then raise claim with Bangladesh Bank. Which at times took longer than expected to settle those claims and this used to create a hindrance to the exercise of working out actual cash balance of the government. On the other hand, the introduction of ACS has revolutionised the system capturing revenue receipts on real-time basis. This is also making a discernable positive impact on cash management of the government. Prior to the introduction of the ACS, the taxpayers and the citizens at large could make payment into the treasuries only through Sonali Bank and Bangladesh Bank branches. Now, they can make payment into any branch of any bank which has relieved them from many hassles arising from the services rendered by extremely limited outlets.

2.6 Payment and Accounting

The budget holders do not have any cash and no access to treasury as well. This implies that a central authority is responsible for issuing the payment orders. In Bangladesh, the Controller General of Accounts (CGA) is the central authority to issue a payment order on the treasury after scrutinising the bills submitted by the DDOs on behalf of the budget holders. As the payment orders are made for the incurred expenditure and the treasury has to pay accordingly, the Office of the CGA or the accounts offices under it are responsible for keeping accounts for the expenditure incurred by the budget holders.

Under the Controller General of Accounts, there is a huge network of accounting outfits across the country which include Chief Accounts and Finance Officer (CAFO) for each ministry/division, a Divisional Controller of Accounts (DCA) for each administrative division, a District Accounts and Finance Officer (DAFO) for each district, and an

Upazila Accounts Officer (UAO) for each Upazila. However, the accounts offices outside Dhaka are a part of the recent development, not a part of the system inherited from the past. In other words, when we move towards a centralised treasury (or fiscal system) the payment and accounting functions of the district treasuries were devolved on the District Accounts Offices (now called DAFO). In addition, the function of 'precheck' or 'pre-scrutiny' of bills and claims moved from district treasuries to accounts offices.

The CGA and all these accounts offices (CAFO, DCA, DAFO, UAO) constitute the civil accounts circle which is the major one among the three accounting circles. The other two circles are defence accounts circle and the railway accounts circle. It should be mentioned here that the civil accounts circle captures a major part of all transactions of the Government. In addition, within the civil circle, there are some departmental accounts offices, which are called Self Accounting Entities (SAE) such as Postal Department, Forest Department, Public Works Department, Roads and Highways Department, Department of Public Health Engineering, and Foreign Missions Abroad.

Moreover, the Controller General of Accounts is the Paymaster General of the Government who is responsible for managing the fund and cash position of the Government (Chowdhury, 2023). The head of the other accounting circles is not entrusted with such responsibilities, not even any other authority. In the UK, the profile of the Paymaster General is high, who enjoys the position and status of a minister.

Among several functions of PFM, the accounting function plays a key role for all the actors of PFM. The method of account keeping in government, which is popularly known as 'Government Accounting' is more likely to be misunderstood by academia. Instead of being a simple, cash-based, single-entry system of accounting, there are inherent intricacies in Government Accounting. In addition, there is a critical difference between the purposes of financial statements of the Government and those of corporate entities. In the corporate world, the objective of financial statements is to provide the financial position and performance of the corporation, whereas, for the Government, the financial statements not only provide the financial position and performance but also make the spender accountable to the Parliament.

For the accountability factor attached to it, the Government has to prepare two types of accounts, one is budgetary accounts and the other is financial accounts. Moreover, these two types of accounts are more effective if they are integrated into each other. This integration can be made through a software system which is generically known as Integrated Financial Management Information System (IFMIS). In Bangladesh, the Government has developed the Integrated Budget and Accounting System (iBAS) ++ to fulfill the integration.

2.7 Audit Process

The Comptroller and Auditor General (CAG) of Bangladesh who is the head of the Supreme Audit Institution (SAI) enjoys the status and privileges of a constitutional position. An independent and effective external audit mechanism is a prerequisite to efficient and transparent public financial management (PFM). The independence of the Auditor General is guaranteed by the Constitution (Article 128), which is more extensive than the independence of his counterparts in India and Pakistan (Chowdhury, 2023). He fulfills his constitutional mandates with support from seventeen audit directorates. In addition, there is a training wing of his office called Financial Management Academy (FIMA) for human resource development.

The auditing mandate of the CAG is not confined only to the budgetary central government, rather it covers all the public sector entities, which include extra-budgetary central government, local governments, and public corporations (financial and non-financial). The mandate of auditing conferred by Article 128 (1) of the Constitution is further elaborated by the Comptroller and Auditor General (Additional Functions) Act, 1974.

SAI Bangladesh pursues three streams of audit, namely, compliance, financial and performance audit. However, compliance audit is the mainstay of the audit exercise. Financial audit is mainly carried out for budgetary central government financial statements (Finance Accounts and Appropriation Accounts). Of late, financial audit for some of the Statutory Public Authorities (SPAs) has been taken up on a pilot basis which will be rolled out to other SPAs once the pilot phase is over. Performance audit is still not being widely practised but lately all audit directorates have started performance audit with their existing audit resources.

The results and findings of the audits are compiled in audit reports which are submitted to the President who causes them to be laid before Parliament according to Article 132 of the Constitution. The reports, once tabled before the House, stand referred to the standing committee on Public Accounts (PAC) which is responsible for examining the CAG's audit reports (Rule - 233 of the Rules of Procedure), and delivering appropriate recommendations. The PAC is empowered to summon the Principal Accounting Officers (PAOs) to the committee meetings and hold them accountable for their actions.

3. The Interrelationship among the PFM Actors

From the above discussion, we understand that there are four types of predominant actors in the PFM framework. They may be grouped into four panels, namely: executive panel, pay and accounts panel, treasury panel, and external audit panel. The executive panel in the PFM does not necessarily mean the executive organ of the state, rather the executive in PFM means the budget holders, who can be from the executive, legislative, and judiciary. The executive panel is headed by the Principal Accounting Officer (PAO) who is supported by several Controlling Officers under him/her.

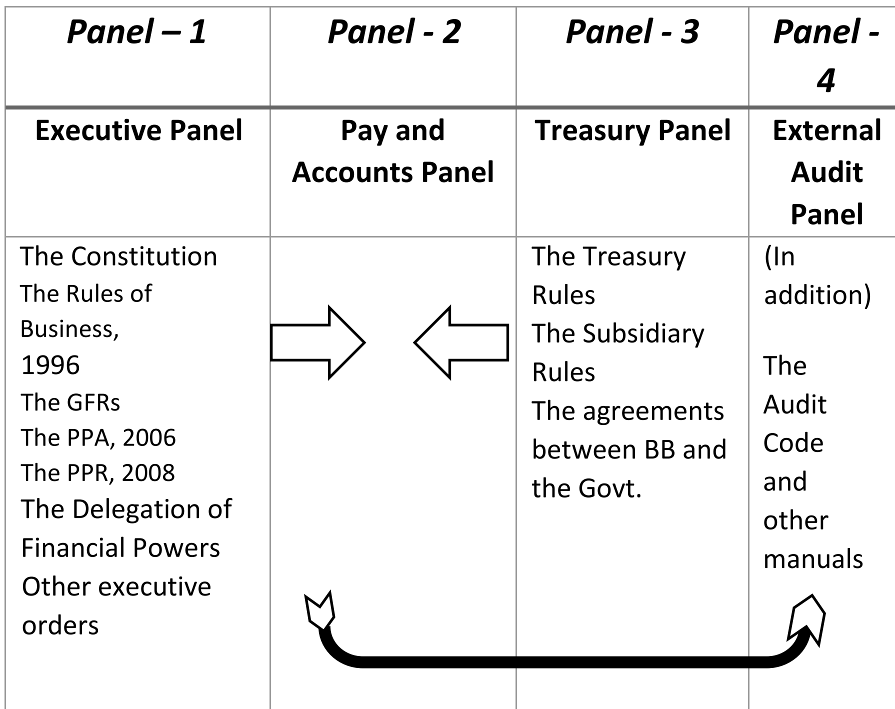
To render the public services, the executive panel utilises the fund at its disposal in compliance with relevant financial rules and regulations. Before incurring expenditure, the Controlling Officer accords the sanction of expenditure and the DDO under him/her prepares and submits the claims to the second panel. The first panel does not possess any cash to make payments for the expenditure it incurs.

Actors of PFM			
Parliament			
Ministry of Finance (Segment - 1)			The Comptroller and Auditor General (Segment-2)
Panel-1	*Panel-2*	*Panel-3*	*Panel-4*
Executive Panel	**Pay and Accounts Panel**	**Treasury Panel**	**External Audit Panel**
Principal Accounting Officer (PAO) Controlling Officer (CO_1) Controlling Officer (CO_2) Controlling Officer (CO_3) Drawing and Disbursing Officer (DDO)	Controller General of Accounts (CGA) Accounts Offices (Civil) Accounts Offices (Defence) Accounts Offices (Rail)	Bangladesh Bank Sonali Bank Ltd. (Agent bank)	Office of the CAG Subordinate Directors General
Note: The figure been taken from (Chowdhury, 2023)			

Table 1: Four panels of Public Financial Management

On the other hand, the third panel (or the treasury panel) possesses the cash but has no authority to spend the budget. It can only make payments upon the instruction of the second (or pay and accounts) panel. The Treasury Rules (TR) are mandatory requirements for the treasury to perform its functions. However, the second panel should know every detail of the financial rules and regulations while scrutinising bills submitted by Panel-1 and issuing the payment orders. ln addition, it should also know the relevant articles of the Account Code and other statutes for the purpose of account keeping. This implies that, the second panel should be ever vigilant while admitting any claims. It has to shoulder more responsibility than the other two panels in terms of protecting public funds. And the external audit panel should know and understand the implication of all these statutes along

with the Audit Code and other auditing guidelines and manuals of the CAG.



Panel – 1	*Panel - 2*	*Panel - 3*	*Panel - 4*
Executive Panel	**Pay and Accounts Panel**	**Treasury Panel**	**External Audit Panel**
The Constitution The Rules of Business, 1996 The GFRs The PPA, 2006 The PPR, 2008 The Delegation of Financial Powers Other executive orders		The Treasury Rules The Subsidiary Rules The agreements between BB and the Govt.	(In addition) The Audit Code and other manuals

Table 2: Interactions among the four panels

These four panels may be broadly categorised into two segments: the Government and the Comptroller and Auditor General. In the first segment, the Ministry of Finance works as the coordinating agency of the first three panels, and in the other segment, the Auditor General functions within his constitutional mandate to provide audit services. The actions of all these four panels under two segments ensure accountability and transparency.

4. Government Accounting

Government accounting in Bangladesh has two important characteristics: first, it is cash-based (Article 17 of the Account Code) with some exceptions and second, it is fund-based (Article 84 of the Constitution). The basis of government accounting is not fully cash-based, there are some modifications to it (Chowdhury, 2023). For example, it recognises the financial assets and liabilities, the balances

of which are carried forward to the next accounting period. Moreover, the fund-based concept for accounting implies that the accounts are grouped into two funds: the Consolidated Fund (CF) and the Public Account (PA) of the Republic. Initially, the fund-based concept was not in the legal framework (Government of India Act, 1935) which was developed in later periods to ensure a more effective accountability framework.

Another popularly known feature of government accounting is that it is a single-entry system. However, the single-entry system is not always true in the current practices of government accounting in Bangladesh. Since all the transactions of government activities always have a debit entry and a credit entry in the backend, the concept of a single-entry system does not exist in current practices.

Initially, the accounts were segregated into four divisions: 1) Revenue, 2) Capital, 3) Debt, and 4) Remittances. However, because of the later developments, one more division was recognized along with the original four divisions, which is the Deposits section. All these divisions may be presented in the following table:

Funds	Budget (Ex - ante)	Accounts (Ex - post)
Consolidated Fund (CF)	Revenue	Revenue
	Capital	Capital
	Debt	Debt
Public Account (PA) of the Republic	Deposit	Deposit
	Remittance	Remittance
	Cash*	Cash Movement*
Note: **The divisions are sourced from the Account Code Volume — IV (Article - 131) and (Chowdhury, 2023)**		
***The cash is always recognized.**		

Table 3: Divisions of accounts and funds

Revenue earnings of the government are classified as either tax revenues or non-tax revenues, whereas revenue expenditure is defined as the expenditure which is not a capital expenditure. On the other hand, expenditure of a capital nature is broadly defined as expenditure incurred with the object of either increasing concrete assets of a

material and permanent character or of reducing recurring liabilities. Expenditure on a temporary asset cannot ordinarily be considered an expenditure of a capital nature (Rule - 292 of the GFRs).

Debts, which constitute a part of the Consolidated Fund can be named 'Planned borrowing' (Chowdhury, 2023) since the sole purpose of incurring such debts is to finance the budget deficit. On the other hand, the debts that constitute a part of Public Account (PA) are included in the Deposit section, which are 'Unplanned borrowing', and the underlying purpose of these borrowings is different from the planned borrowing for financing deficit (Chowdhury, 2023). The Deposit section also includes some assets that the government (or state) holds as a custodian.

Revenue Earnings	*(Tax and Non - tax)*
Revenue Expenditure *(minus)*	*(for day to day operations)*
= Revenue Surplus	
Capital Expenditure *(minus)*	*(for asset increase/liability decrease)*
= Budget Deficit	
Deficit Financing	
Planned Borrowing (Debt)	*(Consolidated Fund)*
Unplanned Borrowing (Deposit)	*(Public Account)*
Cash Use	

Note: This table has been taken from (Chowdhury, 2023)

Table 4: Divisions of accounts and funds

Remittances are adjusting heads, not the remittances of the wage earners. It is a temporary or a transitional account, therefore at the end of each accounting period (or at the end of the accounting year), the balance of these accounts should cancel to zero. If the accounts under the 'Remittance' division carry either positive or negative balances at the end of the accounting year, an auditor should raise observations regarding the correctness of the accounts (Chowdhury, 2023).

As per our legal framework, the government is required to prepare two sets of accounts (financial statements) namely the Appropriation Accounts and the Finance Accounts. The Appropriation Accounts is a

special purpose account, while the Finance Accounts is a general-purpose financial statement for the budgetary central government.

The ***'Appropriation Accounts'*** means accounts relating to expenditure brought into accounts during a fiscal year to the several items specified in the Appropriation Act (Article 1(k) of the Audit Code). It shows the difference between total grants (or appropriations) and actual expenditure for every specified item where the total grants consist of original grant and supplementary grant.

On the other hand, the ***'Finance Accounts'*** is the comprehensive accounts of receipts and disbursements of the government classifying the transactions under respective heads (as shown in Table - 3), together with the financial results disclosed by the Revenue and Capital accounts, the accounts of the public debt and financial assets of the government worked out from the balances recorded in the accounts.

Apart from the divisions of funds and accounts, the other important attribute of government accounting is the classifications of accounts or heads. From the colonial time of British India until the middle of the 1990s there existed a simplified classification of accounts that were not digitised. After the mid-nineties, the Comptroller and Auditor General in collaboration with the Government of Bangladesh introduced a 13-digit classification system, which existed for around two decades. Since the fiscal year, 2018 - 19 a new classification of 56 - digits has been introduced which is more detailed, flexible, and comprehensive.

The new Budget and Account Classification System (BACS) which has a roll-up table can now meet the current and future demands of the PFM system of Bangladesh as it can derive financial statements that meet IPSAS format and IMF's GFSM, 2014.

The new classification structure overcomes the weaknesses of the earlier structure/framework, enables the classification structure to accommodate district-centric budget estimates, allows for possible adoption of the program - budgeting, and above all permits the Government of Bangladesh to meet international reporting standards and practices.

5. Integrated Financial Management Information System (IFMIS)

The Financial Management Information System (FMIS) or often termed Integrated Financial Management Information System (IFMIS) is defined as the set of automated solutions that enable the government to plan, execute and monitor the budget. The IFMIS assists the government in the prioritisation, execution, and reporting the expenditures, as well as the custodianships and reporting of revenues (Dener, Watkins, & Dorotinsky, 2011). In other words, the IFMIS is an automated solution to several problems of the government relating to budgeting, expenditures, revenues, and accounting. A robust IFMIS will ensure decentralised public service delivery with centralised record keeping, which will provide real-time information for decision-making.

In the core of the IFMIS of Bangladesh, there is a homegrown computer software named Integrated Budget and Accounting System (iBAS)++. It is a centralised, internet and Oracle-based software that allows budget preparation, budget distribution to the field offices, fund release, re-appropriation, automated bill submission, processing of payment orders (through EFT or cheques), accounting of all payments and receipts, automated bank reconciliations and other reconciliations. The system generates the fiscal accounts, and other financial statements of the government.

The IFMIS covers only the budgetary central government. A large portion of the general government is still beyond the purview of the IFMIS. The government has a plan to extend the coverage of the IFMIS up to extra-budgetary organizations such as public universities and other statutory/autonomous bodies. In the long run, the local governments as well as the state-owned enterprises will come under the purview of the IFMIS.

6. Conclusion

A robust, sound, and effective PFM is a *sine qua non* for ensuring better public service delivery. For an effective PFM system, it is important to raise the level of awareness and understanding of the relevant stakeholders. In the wake of the fourth industrial revolution, the penetration of technology in the PFM systems and processes has become critical, and the policymakers as well as the academicians should focus on the use of technology to make the process faster and

credible. In a fast-evolving context, continuous research and innovation will be required to raise its profile. This calls for engagement of academics who can contribute to the process of strengthening the PFM system further through research.

References

Auditor General of Pakistan. (1954). *An Introduction to Accounts and Audit of the Government of Pakistan*. Lahore: Department of the Auditor General of Pakistan.

Chowdhury, M. M. (2023). *The evolution of Public Financial Management of Bangladesh (in the press to be printed and published soon)*. 77/7 Kakrail, Dhaka: Office of the Comptroller & Auditor General of Bangladesh.

Cooper, J., & Pattanayak, S. (2011). *Chart of Accounts: A critical element of the Public Financial Management Framework.* Washington D. C.: International Monetary Fund (Fiscal Affairs Department).

Dener, C., Watkins, J. A., & Dorotinsky, W. L. (2011). *Financial Management Information System: 25 years of World Bank experience on what works and what doesn't*. Washington D. C.: The World Bank.

Government of India Act. (1935). *The Government of India Act*. London, England: Government of India Gazette.

International Monetary Fund. (2014). *Government Finance Statistics Manual*. Washington D. C.: Publication Services, International Monetary Fund.

Jacobs, D., Helis, J.-L., & Bouley, D. (2009). *Budget Classification*. Washington D. C.: International Monetary Fund (Fiscal Affairs Department).

Jason, H., Richard, H., Gosta, L., & Carla, S. (2013). *Medium Term Budgetary Framework in Advanced Economies: Objectives, Design and Preformance in the Book - Public Financial Management and its emerging architecture.* Washington D. C.: International Monetary Fund.

Pattanayak, S., & Fainboim, I. (2010). *Treasury Single Account: Concept, Design and Implementation Issues*. Washington D. C.: International Monetary Fund (Fiscal Affairs Department).

Pattanayak, S., & Fainboim, l. (2011). *Treasury Single Account: An essential tool for Government Cash Management.* Washington D. C.: International Monetary Fund (Fiscal Affairs Department).

Simson, R., Sharma, N., & Aziz, l. (2011). *A guide to public financial management literature.* 111 Westminster Bridge Road, London: Overseas Development Institute.

Sukuk, an Answer to the Inherent Problems of Islamic FIs and Capital Mobilisation in Bangladesh

Author
Arastoo Khan*
Co-author:
Md. Yousuf Ali**

Abstract

As incumbent Chairman of Islami Bank Bangladesh Limited, the author experienced that shariah-based Islamic banks are inherently in a disadvantageous position in terms of liquidity management. All businesses, including banks, must maintain adequate liquidity to withstand any kind of potential stress. Islamic Banks are often seen swimming in excess liquidity and sometimes they are cash-strapped when the investment-to-deposit ratio spikes, with complications arising from maturity mismatch. By investing in T-Bills and T-Bonds, conventional banks auto-build an asset base that is inherently liquid and ensures good returns. They also park these bonds to fulfil CRR, and SLR requirements. On the other hand, Islamic Banks, as Shariah principles forbid, are not allowed access to these interest-bearing instruments. Until recently, the profit offered by BGIIBs, skirted around 60-70 basis points, making the investment in Islamic bonds look somewhat lackluster. The fundamental cause identified through recent research is the absence of Islamic Bonds or 'Sukuk'. Not having a proper secondary market for bonds further adds to the woes.

Introduction

The financial system of a country glides through an interplay of its banking system, capital market, and insurance industry, one complementing the other. In Bangladesh, the lopsided growth of the

---

*Managing Director & CEO, Impress Capital Limited
Former Secretary to the Government, and former Chairman, Islami Bank Bangladesh Ltd.
**Senior Investment Analyst, Impress Capital Limited

banking industry led to a consequent 'rickety' and stunted growth of both the capital market and the insurance industry. Banks continue to dominate in financing trade, infrastructure, construction, capital machinery, and housing. Capital Market and Insurance are still in the back seat.

For long-term capital mobilisation from savers to entrepreneurs, the capital market can play an unrivalled role. We often tend to forget that the first global multinational corporation, the East India Company, was formed as early as December 1600 by raising funds from businesses and shop owners in England. After four centuries, where do we stand in terms of our private sector infrastructure financing?

This article elaborates on the previous discussion. The writing will evolve around the idea of shariah-compliant securities, especially Sukuk. The usefulness of Sukuk as a mode of longer-term financing for the holistic development of Islamic finance in Bangladesh will be discussed.

Sukuk: Concept, Definition and Narrative

Sukuk is a shariah-compliant alternative to traditional bonds. Sukuks mobilise capital through the securitisation of assets that can be real assets or financial. Payment to the Sukuk holders is linked to the income-generating capability of underlying assets.

AAOIFI (Accounting and Auditing Organisation for Islamic Financial Institutions) defines Sukuk as "Certificates of equal value representing undivided shares in ownership of tangible assets, usufruct, and services or (in the ownership of) the assets of particular projects or special investment activity…."

The history of Sukuk can be traced back to the Umayyad government in the 7th century. The soldiers and public servants in the government used to receive payments in-kind along with cash. The in-kind payments were considered Sukuk. At maturity, they could get food against those Sukuks or sell them before maturity at discount. The Jordanian government allowed Muqaradah bonds in 1978. In the 1980s, considerable efforts were taken in Pakistan and Malaysia regarding the issuance of Islamic bonds.

During the 2001-2020 period, more than USD1.4 trillion worth of Sukuks were issued globally. 68% of this amount was issued by the Asia and Far East region. Malaysia alone has issued USD800 billion (Sukuk Report, 2021) worth of Sukuk. During the mentioned period, the GCC and Middle East region issued USD362 billion worth of Sukuk globally, of which Saudi Arabia alone issued USD175 billion. Other countries that follow Malaysia and Saudi Arabia in global Sukuk issuance are Indonesia (USD125 billion), UAE (USD98 billion), Bahrain (USD39 billion), Pakistan (USD23 billion), etc.

Liquidity Challenges of Islamic Banks and Potential Remedies

Conventional banks can manage their reserves by using treasury bills and bonds, repo operations, interbank deposits, etc. This usually allows them to earn good returns while maintaining the required liquidity. Islamic banks cannot avail the majority of the traditional investment options and thus face challenges in liquidity management. An Islamic money market can be the desired alternative for them. In Bangladesh, the following issues cause liquidity management problems for Islamic banks and Islamic insurance (Summary of the Discussion at the Technical Workshop on Liquidity Management Tools for Islamic Financial Institutions, 2018).

- Considering the size of the Islamic Banking Industry (more than a quarter) shariah-compliant instruments for liquidity management are insufficient.
- The return on the existing Islamic bonds is usually very low compared to that enjoyed by conventional banks from T-bills and T-bonds.
- There is a significant maturity mismatch issue when it comes to existing Islamic bond alternatives.
- The majority of the existing instruments are not traded in a secondary market. Thus, the investors are forced to hold the instruments until maturity. This is capping the possibility of resource mobilisation because of inherent illiquidity.
- A central bank acts as the lender of the last resort for a conventional bank. Unfortunately, the Islamic banks of Bangladesh do not have such a level of support.

- There is a lacking in terms of regulatory cooperation from key Islamic markets such as Malaysia, Saudi Arabia, Bahrain, etc.
- The development of the Sukuk to enable the growth of the Islamic money market needs a different set of legal frameworks. The initiatives taken in this regard are scant and not visible.
- Complex documentation and due diligence process make an Islamic instrument less attractive than a conventional one to both issuers and investors.
- There is a dearth in the supply of qualified professionals having a grasp of both Shariah and its commercial aspects.

As of June 2022, Islamic banks' excess reserve balance with Bangladesh Bank (BB) (local currency) was 108% above their CRR requirements (Major Economic Indicators: Monthly Update, 2022). On the other hand, it was only 13% for the private commercial banks (excluding the Islamic banks).

Due to the unavailability of proper shariah-compliant instruments, Islamic banks had to keep about Tk 157.8 billion with BB in excess of CRR as of June 2022. Islamic banks do not get any return on this amount. If mobilised properly, this huge amount of money could play a big role in the improvement of Islamic banks' profitability and the overall national economic welfare. The absence of a strong Islamic money market is making Islamic banks struggle in various aspects. Needless to say, Islamic banks do not add to their profit, the penal charges for delay and default. Hundreds of crores taka collected as penalties are diverted to CSR and charities.

In sharp contrast, the Islamic money market is vibrant in Malaysia, Bahrain, Saudi Arabia, etc. Mudaraba, Murabaha, Wakala, etc. contracts can be used in Islamic interbank money market transactions. A discussion regarding the important Islamic money market instruments that could be used in Bangladesh is presented below.

Commodity Murabaha

Bank Negara Malaysia (BNM) uses the Commodity Murabaha Program (CMP) based on Tawarruq al-Munazzam (organised

tawarruq) as a liquidity management instrument for the banks. Here, the buyer of the commodity has the option to keep it or appoint an agent to sell it (Rahman and Manan, 2014). This instrument is designed based on Crude Palm Oil contracts. Generally, a commodity Murabaha contract pays a fixed return as the asset is purchased by BNM adding a pre-agreed 'markup'. The CMPs can also be traded bilaterally among Islamic institutions. This can be utilised in Bangladesh to facilitate the Islamic money market.

Sukuk al-Wakalah

Wakalah contract can be a potential alternative to repo operations for Islamic banks in Bangladesh. This is based on the provision of service. The Central Bank of Bahrain (CBB) uses Unrestricted Wakalah having a 1-week period as a liquidity management tool for Islamic retail banks. This would absorb the excess cash that the Islamic banks keep at zero profit (Study Report on Liquidity Management Instruments for the Islamic Banks in Bangladesh, 2019).

Sukuk al-Salam

In this type of Sukuk structure, an SPV (Special Purpose Vehicle) is formed that collects investments from investors issuing Sukuk certificates. Under a Salam contract with the borrower, the SPV makes immediate payment to the borrower for deferred delivery of an asset (commodity). Concurrently, the SPV employs the borrower as the agent to sell the asset on its behalf.

The quantity of the underlying commodity is set up in such a way that it is sufficient to make systematic delivery to make periodic payments and make single delivery at maturity or in case of early redemption. This Sukuk is non-tradeable because they represent the future delivery of assets (debt).

The Bahrain government through the Central Bank of Bahrain raises financing using Sukuk al-Salam. The Bahrain government takes the responsibility to market the aluminium (underlying commodity) at a price that will provide the investors a return equivalent to the return of conventional short-term money market instruments (Sukuk: An Introduction to the Underlying Principles and Structure, 2006).

Sukuk al-Ijarah

In this kind of Sukuk structure, an SPV (Special Purpose Vehicle) is formed that collects investments from investors in a similar manner to Sukuk al-Salam. The SPV makes immediate payment to the borrower for spot delivery of the underlying asset. Then, the SPV leases the asset to the borrower for a term that reflects the maturity of the Sukuk. The borrower makes periodic rental payments to the SPV against the usage of the asset which are then distributed to the Sukuk investors.

Bank Negara Malaysia (BNM) issued 'Sukuk BNM Ijarah' in 2006 through an SPV 'BNM Sukuk Berhad'. The tenors of the Sukuk ranged between 1 to 3 years. The existing land and buildings of BNM as of the issue date were the underlying assets. The Sukuk was tradable in the secondary market (Scripless Securities Trading System).

Long-term Financing and the Prospect of Sukuk

The domestic credit growth in Bangladesh is heavily dependent on banks. There are 61 scheduled banks and 35 non-banking financial institutions operating in the country (Bangladesh Bank, 2022). In India, there are only 12 scheduled public banks and 21 scheduled private banks excluding small finance banks, regional rural banks, and foreign banks. Studies have shown that market-based financing is better than bank-based financing for sustainable long-term economic growth. According to Bats and Houben (2017), bank-based financing creates higher systematic risk due to asset-liability mismatch, high leverage, etc. The need for debt servicing haunts fledgling companies. Data shows that, after the 2008 financial crisis, the systematic risk was reduced at a quicker pace in market-based financial systems compared to bank-based financial systems. Also, the systematic risk posed by banks tends to decrease as an economy leans more toward market-based financing.

Banks are financial intermediaries that collect money from the supply side and allocate them to the demand side. The nature of the loan portfolio of a bank is likely to be driven by the nature of deposits it receives. Generally, banks prefer CASA (Current Account Savings Account) deposit as it is cheaper than term loans. On the other hand, when CASA deposits are high, banks can't provide longer-term financing which generally may have maturities of 5-10 years or even higher because of resultant maturity mismatch. However, it can't be

denied that long-term financing is essential for an economy to grow faster and have greater welfare and prosperity. The projects entirely financed by bank loans are always under pressure to service debts within a short period of time. Equity-financed projects enjoy a longer period of time to grow due to the inherent nature of equity financing.

The capital market is the best option to avail of longer-term financing. Apart from being an alternative financing mechanism, the capital market provides higher benefits to both the demand and supply sides of the capital. Borrowers can collect funding at lower rates. Investors can also get higher returns on their investments. The capital market matches the maturity and risk appetite of both parties and also ensures strong regulatory surveillance. The counterparty risk reduces significantly.

Bangladesh's capital market has a significantly low market capitalisation ratio of 13.02% of GDP as of June 2022 (Capital Market Development in Bangladesh, 2022). However, in India, the market capitalisation ratio is 102% as of July 2022 (Sethuraman, 2022). The ratio is 110% and 48.3% in Malaysia and Indonesia respectively. In Vietnam, the market capitalisation in 2021 was about 92.8% of the GDP. Bangladesh’s capital market is trailing way behind because of heavy reliance on its banking system for almost all sorts of financing needs. It is high time Bangladesh focused extensively on the development of its capital market.

Currently, equity securities dominate our capital market whereas the debt market size remains insignificant accentuated by the absence of a proper secondary bond market. Ministry of Finance, Bangladesh Bank, Bangladesh Securities and Exchange Commission, Dhaka Stock Exchange, and other related parties have been working to facilitate a robust secondary market for bond trading. Sukuks issued by the government and the private sector will get the much-needed shot in the arm if the bond market comes to fruition. Secondary trading of Sukuks will strongly contribute to increasing our market capitalisation ratio.

Sukuk can be a very attractive Shariah-compliant alternative for both public and private sectors to raise longer-term financing. Pressure on banks in asset liability management and maturity matching will be eased, thus creating a healthy banking sector. Also, long-term financing

will be ensured to support productive expansions thus reducing the dependency on any particular lender.

Examples - Benefits to the Public Sector

The public sector can effectively use Sukuk to finance its infrastructure projects. For example, the Government of Dubai completed the issuance of USD1 billion Sukuk al-Ijarah with a tenor of 10 years in September 2020. Because of the huge demand, the Sukuk received the lower ever profit rate of 2.763% compared to other comparable contemporaneous securities. The emirate would operate crucial infrastructure projects with the funds collected by the Sukuk. In 2019, the Government of Sharjah raised USD1 billion through hybrid Sukuk (Ijarah and Commodity Murabaha). The 7-year tenor Sukuk has a profit rate of 3.854%. The Sukuk is focused on infrastructure financing in Sharjah.

Examples - Benefits to the Private Sector

The private sector business organisations would be able to receive long-term capital by issuing Sukuk at a competitive cost. In 2021, Beximco Group issued Tk 3,000 crore green Sukuk. The base rate of the Sukuk is 9% (Beximco.com, 2021). If more and more companies issue Sukuk to finance their capital requirements, the Sukuk market will become bigger, and as a result, the cost of financing for the issuers will potentially go down. In 2020, the Saudi Electricity Company (SEC), the largest utility service provider in the MENA (Middle East and North Africa) and GCC (Gulf Cooperation Council) region raised USD1.3 billion through green Sukuk. The Sukuk, structured as Sukuk al-Ijarah, has 2 tranches (5-year, and 10-year). The 10-year tranche was priced at 2.413%.

Business organisations don't have to be listed in the capital market to issue Sukuk. This offers a great benefit to companies who may need long-term capital but isn't preferring to go public right now. Companies may meet their growth stage funding requirement through Sukuk issuance. Sukuk will also help to attain diversification benefits in Bangladesh. Banks generally don't want to lend to risky ventures and industries. But during the transition period, Bangladesh needs to achieve export diversification. To do that, long-term capital injection in potential industries apart from RMG is a must. Sukuk can facilitate that.

Benefits from the Market Perspective

Sukuk allows people to invest in shariah-compliant investment products while generating a return. People desiring to follow the Islamic lifestyle are averse to putting their money in conventional banks or investing in traditional interest-bearing investment schemes. Earlier, many people simply put their money in conventional banks but did not take any interest income. Sukuk will open new investment avenues for these people which will mobilise capital faster in scale and dimension that witnessed a meteoric growth of Islamic banking services when launched in Bangladesh in 1983.

In 2015, the Islamic banking system attracted 20.4% of total deposits collected by all the banks in Bangladesh. The ratio increased to 22.6% in 2020 (Annual Report 2020-2021 Bangladesh Bank, 2021). This shows the increased enthusiasm for the Shariah-compliant investment mechanism in the country. With more and more Sukuk issuance, a large corpus of idle money could be mobilised to productive sectors generating long-term benefits for the country.

Apart from being a shariah-compliant investment mechanism, Sukuk may create a better platform for all Islamic financial institutions to work collaboratively and make the best use of the underutilised funds. Though the Islamic banking industry constitutes the major portion of the Islamic finance market, the market of shariah-compliant investment funds, insurance (Takaful), micro-finance, leasing, etc. in Bangladesh is gaining momentum. These shariah-compliant businesses are increasingly facing the challenge of making investments following the shariah guidelines. Thus, Sukuk can pave the avenues for these entities to have leapfrogging growth.

The Scenario in Bangladesh

At the behest of the author, in March 2018, General Council for Islamic Banks and Financial Institutions (CIBAFI) along with IBBL (Islami Bank Bangladesh Limited) jointly hosted a technical workshop on liquidity management tools for Islamic financial institutions. Islamic scholars and market participants from 17 countries attended the workshop. The participants discussed the challenges faced by Islamic financial institutions regarding liquidity management. The discussions also included some existing and potential shariah-compliant liquidity instruments. The finance division, BB, BSEC, and all Islamic banks

participated. Papers on Sukuk were also presented by all regulators. The government along with the regulators in Bangladesh have been actively working towards developing the Sukuk market that would benefit both the Islamic banking industry and the overall economic growth of the country.

Bangladesh is gradually building up the ecosystem for Sukuk. In 2020, USD731 million worth of Sukuk was issued in the country. However, this is very low compared to domestic issuance in Malaysia (USD53.7 billion), Indonesia (USD23.6 billion), and Pakistan (USD5.2 billion) in the year.

Currently, there are 3-month and 6-month BGIIB (Bangladesh Government Islamic Investment Bond) in Bangladesh. As of June 2021, the sale of BGIIB was Tk 170 billion. The return of the bond depends on the Islamic Shariah-based savings rate and other related factors.

In October 2020, the government issued BGIS (Bangladesh Government Investment Sukuk) with a tenor of 5 years. Tk 80 billion was raised in two auctions for the project ‘Safe Water Supply for the Whole Country. It was oversubscribed amounting to Tk 508.79 billion (6.5 times). The Ministry of Finance is the originator of the Sukuk, whereas Bangladesh Bank is acting as the SPV. The profit rate is 4.69%.

Last year, the Bangladesh government took another initiative to raise Tk 50 billion to finance the purchase of the assets for ‘The Need Based Infrastructure Development of Government Primary Schools Project (1st Phase). This Ijarah-based Sukuk has a rental return of 4.65% per annum.

Conclusion

The authors confess that this write-up is not a scholarly research document, nor is it meant to be. The twists and turns of the author’s engagement in phases of his career, with fiscal issues of Government, the banking system in Bangladesh, and now, with the capital market, offered him a somewhat ‘experience prism’, which powered him to see the movement of money from all sides.

An ideal and balanced interplay between the Government, the financial intermediaries, and their regulators, offers conditions for the healthy growth of financial architecture. The case in Bangladesh is, unfortunately, different. Easy access to bank credit, and impunity to the culture of getting away without paying back loans, resulted in the mushrooming growth of banks. Almost all large businesses, with decisive voting rights along with crony shareholders, own banks and/or NBFIs. They scratch each other's back in securing loans, and in regularising each other's corpus of default loans. In such a relaxed governance regime, business houses need not look towards the capital market for funds. The sad saga of the NCBs, their inefficiency and corruption leading to large losses, and replenishing such losses by pouring cash from taxpayers' coffers, continues unabated. Loan defaults in State-Own Commercial, including Specialised Banks, and private Commercial Banks, of unacceptably high percentages, have become the order of the day.

Consequently, the capital market remains blighted with unfair doses of market manipulation, and the insurance industry experiencing stunted growth, with the vices of non-compliance seeping into the insurance industry with very high incidences of refusal of claims.

Terming Sukuk as Islamic Bond is somewhat oxymoronic. The word 'Bond', which means obligation, doesn't go well with the essence of Sukuk. As an innovative financial solution, Sukuk will allow borrowers their much-needed breathing space from the obligation of early payback of capital and thus enabling them to focus more on their regular business activities. Longer-term financing through Sukuk will take away the back-breaking load of long-term infrastructure financing from the banks. Consequently, banks will be able to engage more in trade financing, working capital financing, retail loan, etc. thus creating a better asset-liability match. Sukuk will also benefit shariah-compliant insurance companies, mutual funds, micro-finance agencies, etc. by providing significant diversification opportunities. Most importantly, the secondary market trading of Sukuk, soon to be launched in the secondary bond market, will greatly help to beef up the capital market of Bangladesh.

References

2006. *Sukuk An Introduction to the Underlying Principles and Structure*. [ebook] Dar Al Istithmar. Available at: <https://www.sukuk.com/wp-content/uploads/2014/03/Sukuk-Structures.pdf> [Accessed 30 August 2022].

2019. *Study Report on Liquidity Management Instruments for the Islamic Banks in Bangladesh*. [ebook] Bangladesh Bank. Available at: <https://www.bb.org.bd/pub/research/sp_research_work/srw1904.pdf> [Accessed 1 September 2022].

2021. *Annual Report 2020-2021 Bangladesh Bank*. [ebook] Bangladesh Bank. Available at: <https://www.bb.org.bd/pub/openpdf_new.php> [Accessed 30 August 2022].

2021. *Beximco Green-Sukuk Al Istisna'a of BDT 30.0 Billion*. [ebook] Beximco.com. Available at: <https://www.beximco.com/storage/app/media/Reports/Beximco_Fact_Sheet_Green_Sukuk_al-Istisna%27a.pdf> [Accessed 1 September 2022].

2021. *Sukuk Report*. 10th ed. [ebook] International Islamic Financial Market. Available at: <https://www.iifm.net/frontend/general-documents/bcd691cfb4233fb37d783550210103921635251580.pdf> [Accessed 30 August 2022].

2022. *Capital Market Development in Bangladesh*. [ebook] Research Department, Bangladesh Bank. Available at: <https://www.bb.org.bd//pub/monthly/capital_market/capital-july-2022.pdf> [Accessed 30 August 2022].

2022. *Major Economic Indicators: Monthly Update*. [ebook] Monetary Policy Department, Bangladesh Bank. Available at: <https://www.bb.org.bd//pub/monthly/selectedecooind/mejecoindjuly2022.pdf> [Accessed 30 August 2022].

Bats, J. and Houben, A., 2017. Bank-based versus market-based financing: Implications for systemic risk. *DNB Working Paper*, [online] Available at: <https://www.dnb.nl/media/igjp5crb/wp_577_tcm47-369482.pdf> [Accessed 29 August 2022].

Bb.org.bd. 2022. *Bangladesh Bank*. [online] Available at: <https://www.bb.org.bd/en/index.php/financialactivity/bankfi> [Accessed 30 August 2022].

In: *Technical Workshop on Liquidity Management Tools for Islamic Financial Institutions*. 2018. Summary of the Discussion at the Technical Workshop on Liquidity Management Tools for Islamic Financial Institutions. Dhaka: General Council for Islamic Banks and Financial Institutions and Islamic Bank Bangladesh Limited.

Rahman, Z. and Manan, S., 2014. Tawarruq as a Useful Instrument to Finance Retail the Halal Way. *Procedia - Social and Behavioral Sciences*, [online] 121, pp.281-290. Available at: <https://www.sciencedirect.com/science/article/pii/S187704281401146X>.

Sethuraman, S., 2022. *India's market capitalisation to GDP goes past 100% again, shows data*. [online] Business-standard.com. Available at: <https://www.business-standard.com/article/markets/india-s-market-capitalisation-to-gdp-goes-past-100-again-shows-data-122080700727_1.html> [Accessed 1 September 2022].

The Need for a Paradigm Shift in SAI Bangladesh: Issues and Concerns.

Md. Abul Kashem*

Abstract

The Supreme Audit Institution (SAI) has the responsibility to ensure transparency and accountability in the public financial management of a country. Bangladesh is no exception. Since the annual budget increases every year in Bangladesh to a considerable size with huge revenue and development expenditures and since the institutional framework of government is not robust enough, the role of oversight institutions becomes more important. In Bangladesh, the traditional statutory audit fails to demonstrate creativity in the design of audit approaches. Effective client performance is not a high priority on many audit engagements. As a result, audit "fails to provide constructive service to improve operations and performances" **.** *as noted by James* Moreson, publisher of "Professional Services Review". *This necessitates setting a tone in SAI for gradually shifting from the Oversight function to the Insight function and Foresight function for value-added audit. The Value-Added Audit is characterized by performing new or different procedures, with a proper mindset, to generate opportunities to add value for the client"* **.**

Introduction

The frontier of audit is being increasingly challenged in the context of the rapid digitalisation of public sector operations. The harsh reality is that our auditors are not well-equipped to unlock new opportunities being offered by digitalisation. This requires revisiting audit methodology and the training curriculum to match them with the emerging realities. It is time to look at quality audit management by studying contemporary best audit practices. A good start can make a big difference. This relates simply to value addition by SAI "Leadership and Direction" in the total audit and accounts processes.

---

* *Former Controller General of Accounts*

Since public audit has to give assurance to the stakeholders that public programs and activities are being managed by executives economically, efficiently, and effectively with sufficient emphasis on environmental issues, it is important that the “Leadership and Direction” of SAI is set by considering its mandate, vision, mission, core values, auditing standards, strategic direction and planning with strategic audit planning with portfolio and risk management. This is simply to “set a tone at the top”. Based on my experience of serving Bangladesh Audit and Accounts Department for quite a long time, I have penned down in this article the need for a PARADIGM SHIFT IN AUDITING AND TRAINING for unlocking the potential of organisational culture.

The first issue in “setting the tone at the top” as conceived is considering strategic issues. Here the important one is clearly linking strategy and risk management and the need to be able to identify and manage risk in a highly uncertain atmosphere in the present digital transformation era. So, SAI has to focus on risk management by creating and protecting values with a clear understanding of Strategic Risk Management. Gone are the days of manual audits, scrutinising bills/vouchers sitting in an auditee organisation on annual basis, and reporting annually. In the present-day world with the unprecedented spread of digital technology, a paradigm shift in SAI Bangladesh is a must to keep pace with the developments happening all around for our own existence as well as for creating and protecting the values of the institution itself. Here ‘SAI’s auditing standards, policies and procedures should be designed for establishing, operating, maintaining, and improving the quality management system to ensure that the SAI is competently organised to deliver high-quality work, irrespective of the type of SAI and the type of audit it performs”. It is also responsible for creating an environment conducive to consistent high quality and continuous improvement, requiring it to give high priority to managing human resources and managing institutional risks.”

Paradigm Shift: Visualising the Gradual Shift from Oversight Function to Insight Function and Foresight Function

There has been over-emphasis on oversight function in SAI Bangladesh for quite a long time with auditing a huge number of audit units throughout the year and audit inspection reports with an astronomical number of audit observations. Indeed, some of the observations having

serious financial irregularities eventually find a place in the audit reports of the Auditor General. But a huge number of general audit observations get piled up, unattended for years together. And there comes sometimes the bold decision of dropping all such audit paras of many years as reported in recent times. This is indeed a good decision taken to get rid of innumerable audit observations of limited importance. This gives a signal, unnecessary waste of man-hours, materials, resources, and energy with no effective result thereof. Here comes the question of oversight function and its limitations. It is, therefore, important to bring about a shift from the oversight function and give more importance to the insight function and foresight function.

Insight functions seem new but in reality, it is nothing new, but to some extent related to Performance Audit. Rather than issuing many audit observations, it is better to draw attention to the performance of the entity and its various programs and policies. This is simply reporting how well various government programs and policies are meeting their objectives, whether adding value in society or not and up to which level. Print and electronic media reports and individual experience reveal that in many of the development projects, faulty project feasibility studies, weak planning, and project execution results in cost over-run and time over-run. Also, the absence of post-implementation accountability is visible. Such drawbacks undermine desired outcome of many development projects, ultimately resulting in "misuse and waste of public funds". SAI Bangladesh, by applying the insight function can issue timely, fact-bound, non-partisan audit reports which are sure to improve executive responses.

The foresight function relates to identifying trends and challenges of Public Financial Management such as long-term fiscal challenges, cyber security issues, identifying the limit of the free flow of information, the impact of globalisation, and the like. Here trends affecting government and society may be looked into. By exploring such trends using the foresight function, key uncertainties, and their implications, SAI Bangladesh can better highlight national issues of greater concern to the policy planners.

Identifying Strategic Risks

Here comes the issue of identifying the SAI portfolio and risk management. Let us quote from the 7th ASOSAI Research project." Risk-based management approach involves managing the costs of achieving quality and making the level of investment to ensure quality throughout an engagement commensurate with risks. This approach would establish clear responsibility and accountability at all levels for ensuring quality... including designing an audit programme, staffing, stakeholder involvement, developing audit findings and finally reviews of the audit engagement process."

Separate Career Planning for Accounts and Audit

Frequent transfers of officials and staff between accounting circles and audit directorates is a big issue in strengthening professionalism. A clear line of demarcation needs to be established at least in lower-category recruitments. No transfer either from the Accounts Office to Audit Directorates or vice versa. Again, for officers of the BCS cadre, career planning either in Accounts or Audit may be considered in phases.

Paradigm Shift in Audit Execution

Officer-based audit program needs to be introduced, and lower-level staff to be engaged only in supporting areas, not in the audit execution phase. Here before starting the field audit, specific audit planning by each team is a must. Use of software like EAGLE (Electronic Audit Guide for Leading Engagement as practiced in GAO) may be thought of. These are called “One-stop shopping” guidelines. This is like filling out a form on the INTERNET for a specific purpose. One has to stop at every stage before going to the next step. Such electronic software guides every audit team to collect various information required for his/her assigned audit. Using this data/information, the audit team can fix its critical audit areas and can make field audits easy and useful.

The unprecedented advancement made in the accounting arena of government is worth mentioning. Digitalisation made tremendous impacts on the digital submission of bills/claims of government officials and staff members with monthly pensions processed electronically. Presently with support from iBAS++ the accounting system of government has gathered some pace.

Compared to such innovation, advancement in auditing does not seem to be up to the mark though several projects under CAG made available various codes, manuals, etc. These projects had limited impact in instilling sufficient professionalism.

US Fiscal Transparency Report 2022 published recently highlights this issue. The report says,

“The government’s supreme audit institution reviewed the government’s accounts, but its reports did not contain substantive findings and were not made publicly available within a reasonable period. The supreme audit institution did not meet international standards of independence.”

Recommendations

Some suggestions have been put forward to improve fiscal transparency in Bangladesh. Bangladesh’s fiscal transparency would be improved by:

- Preparing budget documents according to internationally accepted principles.
- Ensuring the supreme audit institution meets international standards of independence and has sufficient resources.
- Publishing timely audit reports that contain substantive findings, recommendations, and narratives.
- Making basic information about natural resource extraction awards publicly and consistently available. Here Auditor General Office has to initiate its own course of action as it considers best.

Quality Assurance issue is already established in the Audit Directorate. This needs to be strengthened using BCS officers trained at home and abroad. A separate checklist is prepared and used for each type of Audit. Examples, Roads, Bridges, Local Government Institutions, Ports, Power, Energy, the IT sector, Health, Education, Autonomous and semi-autonomous and State-Owned Enterprises (SOEs), and other fields where huge budget allocations were made. The success of the above-listed initiatives depends mainly on having available quality human resources.

The SAI should seek excellence in the people it employs, anticipate its future needs, and recruit staff to fill those needs. Here comes the question of providing effective –

- ✓ introductory training to help new recruits to adapt with the SAI work culture and environment
- ✓ technical training to equip officials/auditors with the skills to perform audit tasks
- ✓ managerial training to allow employees to acquire skills to direct the work of audit units, and
- ✓ continuing education to ensure that officials/auditors remain aware of the dynamics of changes with these, SAI needs also to give attention to the career development of its personnel through effective performance appraisal systems and individual development plans.

Audit is managed in SAI Bangladesh by two separate types of personnel. One set is recruited by Public Service Commission, known as cadre officials. The second group is recruited by a competent appointing authority, mostly heads of the various departments of audit and accounts. These are of various categories - auditors, junior auditors, typists, computer operators, and the like. These employees, after spending certain periods in service, can sit for Sub-ordinate Accounts Service (SAS) examinations, part one and part two. A separate syllabus is designed for such exams. Serving in Financial Management Academy (FIMA) for more than three years (as Director General), my experience is that FIMA as well as SAS examinees are more concerned with conducting SAS part one and part two training courses. They consider it more value-adding in passing the SAS exam which opens avenues of promotion for second-category staff. Such over-emphasis on the SAS exam bars FIMA from introductory training to help new recruits adapt to the SAI work environment, technical training to equip auditors with the skills to perform audit tasks, managerial training to allow employees to acquire skills to direct the work of audit units, and continuing education to ensure that auditors enhance their capabilities. In this situation, *a paradigm shift in training is vital***.** Training is viewed nowadays as a business. It needs to be reconsidered from a different perspective. Here a four-tier process is to be followed. These are:

- Diagnose: Training needs assessment, what improvements to be looking for to achieve the objectives of training, not enabling the candidates to pass the departmental examination and get promoted. That is individual self-development/improvement for promotion and career building be individual efforts, not FIMA's responsibility.

- Design: Based on needs assessment, course design should be completed. Gone are the days of lecture-based classroom training. Now training means business with value addition. Hence, it is better to understand the training concept itself. Training needs to be practical, operational, and problem-solving. And more emphasis should be laid on digitalisation. At the same time, experience sharing, role play, case study, etc. should be included in the methodology of training delivery to avoid monotonous lectures just sitting in a cozy classroom environment. ASOSAI/ TOT certified trainers may be engaged in this process

- Delivery: Carefree healthy environment with FUN and LEARN environment. Close interactions to make delivery enjoyable.

- Evaluation: This is very weak from our SAI perspective. Needs to be addressed to ensure that learning objectives are met, to what extent, etc.

SAS examination-related training for passing the departmental exam to get a promotion needs to be reconsidered. That age-old perception needs to be carefully and analytically reviewed. This takes us to the vital question, is SAS training compulsory in FIMA activities?

The answer is simply “No”. Let individual self-development/improvement for promotion and career building be individual’s efforts, this is not FIMA’s responsibility. ASOSAI Research guidelines indicate SAI should also give attention to the career development of its personnel through effective performance appraisal systems and individual development plans. Here no scope and no indication that such (an SAS) examination syllabus be inducted and ingrained in the human resource development functions of SAI. SAI Bangladesh can think over the issue. Again, that does not mean that

auditors do not require training. They require more. But the issue is the shift in paradigm. Here are some options.

On appointment as Junior Auditor and Auditor, rigorous foundation/orientation course full time residential at FIMA on accounting, auditing, and departmental issues can be thought of a longer period, maybe for a minimum of three to six months. And at the end, the final passing out from FIMA will set seniority on exam results. Here course modules are distinctively separate for civil, defense, and railway accounts with its distinct audit training module for all Junior Auditors and Auditors.

Course curriculum ought to be revisited and redrafted as per the new tone set in by SAI management. More emphasis should be given on ICT training in alignment with the pace of digitalisation in the public sector. Regular batch-wise orientation at the end of three/four/five years of service should be organized. Such regular orientation courses should also be arranged for cadre officials.

Conclusion

Digitalisation has brought in new opportunities which should be seized by our auditors. This requires revisiting the existing training curricula, especially the one for cadre officials. At the same time, IT training should be embedded in the regular orientation training programs to make the participants aware of the changes being triggered by digitalisation.

IBAS ++ in the accounting domain has opened up huge potential in the digital field. With huge digitalisation in the pay and pension process, its foolproof audit trails need to be reviewed and tested during post-audit. This requires an innovative mindset as well as IT skills of the highest level. FIMA can exert its influence over this area. Steps should be undertaken to create new posts in FIMA with higher IT knowledge and qualifications.

References and Notes.

1. *Value Added Audit. Article written by Mr. Mohammad Anwarul Karim, FCA, CPA, Executive Director, Financial Reporting Council, Bangladesh.*

2. *Financial Express (daily). Thursday, February,2017 issue*
3. *7th ASOSAI Research Project: Draft Guidelines on Audit Quality Management System. December,2004.*
4. *Government Accountability Office (literature)*
5. *US Fiscal Transparency Report 2022 as available in INTERNET.*

IPSAS Cash and Our Current Accounting Practices

Tanveer Akhter Hossain Khan*

1.0 Background and Context

Credible public sector accounting plays a vital role in establishing sound public financial management (PFM) system and accountability which essentially influence the efficient and effective delivery of public services (CIPFA Publications 2021). The fundamental importance of a sound PFM system cannot be over emphasised in the present-day context when the citizens are ever vigilant about the integrity of the state of public affairs and delivery of services using public resources. On the other hand, the development partners are also laying more emphasis on developing the PFM system of the countries, they operate in, with a view to reducing the fiduciary risks in using the resources they will provide so that these are not wasted. The public sector accounting which generates reports on the financial performance of the public sector entities are of immense importance to all kinds of stakeholders including the development partners because, it provides information to assist the users in assessing whether funds in public sector are well spent and cost effective.

In Bangladesh, the practice of cash- based government accounting can be traced back to the colonial era. It is mainly regulated by a set of codes called Account Code (Volume I-IV) issued by the Comptroller and Auditor General of Bangladesh as mandated by Article 131 of our Constitution. After the emergence of Bangladesh, different initiatives were taken to bring about changes in the accounting system and financial administration. Accounting functions, previously performed by the treasury under the district administration, were taken over by Accounts Offices under the administrative control of the Controller General of Accounts. This process actually started at the dictate of structural adjustment programs and governance reforms by donors and international organizations, mainly the World Bank, the IMF and the Asian Development Bank.

---

* Senior Consultant, SPFMS Programme

The Government set up an inter-ministerial committee called *Committee on Reforms in Budgeting and Expenditure Control* (CORBEC) which published a report in late 1990 where several weaknesses in the country's public financial management including: discrepancies in budget estimation, weak internal control, poor accounting and reporting of government transactions, a lack of mechanisms to assess the results and outcomes of public expenditures, and the omission of financial statements information of public enterprises were identified. Following the recommendations of CORBEC a reform project named "the Reform in Budgeting and Expenditure Control (RIBEC)", was taken up in 1995. The RIBEC brought about several technical reforms like revision of financial rules and regulations (GFR and Treasury Rules), revision of Account Code, introduction of all-numeric budget classification system, computerisation of government accounting. Since then, successive reforms took place to bring about improvement in the country's PFM system. The adoption of the Cash Basis IPSAS was part of an integrated approach to public financial management announced under the banner of the 'Strengthening Public Expenditure Management Program' (SPEMP) in 2007. There was a particular emphasis on extending the use of the iBAS++ across public sector entities, and opinions were made that the full enforcement of this would provide a sound foundation for the implementation of the Cash Basis IPSAS. The government's initial plan was to start implementing the Cash Basis IPSAS within central government entities from the financial year of 2007–2008 (Rajib, 2009). Thirteen years have passed since the adoption of the Cash Basis IPSAS was announced, but the implementation of the standard is far from the reality. Not only is there a lack of an implementation plan, the government is also still struggling to revise the accounting codes and classifications announced earlier with a view to incorporating the Cash Basis IPSAS.

2.0 Why IPSAS?

It has been seen in the Annual World Bank report 2010, the consolidated financial statements prepared by the Office of the Controller General of Accounts (CGA) have excluded several key elements that are crucial for maintaining transparency, including a

summary of the cash controlled by a reporting entity, the cash balances available for use and those that are subject to external restrictions, undrawn borrowings and comparative information of previous years (World Bank, 2010) . Decision makers in the government, need to plan for periods ahead to address the challenges. The quality of their decisions can be improved and made better only if they have access to a reliable source of performance reports, which give periodic comparisons and recognise all transactions in a transparent manner. So, the needs to achieve high standards of accountability through adoption of consistent accounting basis and user-friendly financial reporting format is vital. The answer to this challenge lies in adoption of the International Public Sector Accounting Standards (IPSAS). The following diagram shows how different characteristics of public sector influence to produce transparent and accurate accounting information.

Figure 1: Characteristics of the Public Sector that influence Public Sector Accounting

The Cash Basis IPSAS was issued in January 2003 by the International Public Sector Accounting Standards Board (IPSASB) of the International Federation of Accountants (IFAC) with the permission of the International Financial Reporting Standards (IFRS) Foundation. It was updated with additional requirements and encouragements about the presentation of Budget information in 2006 and external assistance in 2007. It comprises two parts: Part-1 identifies the requirements that must be adopted by a reporting entity whose “General Purpose Financial Statements” comply with this Standard. Part-2 encouraged additional disclosures which provide additional information useful for accountability and decision-making purposes

and support those entities transitioning to the accrual basis of financial reporting and adoption of accrual IPSAS.

The adoption of IPSAS by the governments will improve both the quality and comparability of financial information reported by public sector entities. The IPSASB recognises the right of governments and national standard-setters to establish accounting standards and guidelines for financial reporting in their jurisdictions. The IPSASB considers that this Standard is an important step towards improving the consistency and comparability of financial reporting under the Cash Basis of accounting and encourages the adoption of this Standard.

The main purpose of IPSAS is to improve the quality of the general-purpose financial reports (GPFRs) of public sector entities for decision-making and allocation of resources. Compliant with IPSAS standards ensures a true and fair view of the financial position and transparency and accountability in the management of public resources in the financial reporting of public sector entities. It brought excellence in financial management and thereby increasing the confidence of investors and gaining public trust. So, the objectives of the adoption of this standard are as follows:

- Support the cash basis accounting system of public entities that maintain only the records of cash receipt and payment. This standard prescribes a manner of presentation of financial statements/annual reports;

- Comply with the requirements and enhance the accountability and transparency of cash payments and receipts, support decision making and legislation, and analyse financial performance in comparison with previous record or other entities;
- Encourage public entities to migrate to accrual basis accounting. This part involves the additional disclosure of non-cash items and cash flow statement.

3.0 Existing National Accounting Standards

Existing national standards mainly include Article 131 of the Constitution which empowers the Comptroller and Auditor General of Bangladesh to decide the forms and manner of the public accounts with the approval of the President. The second important document is the Account Code (1997) which is followed to ensure proper accounts keeping.

4.0 Objective of This Article

It is understandable that the current status of accounting practice is the result of different reforms initiatives. The financial reporting up to FY 2017-18 in many instances was not compliant with IPSAS cash. It was decided by the OCAG that financial reporting up to FY 2017-18 would be produced under old format and the new format (IPSAS Compliance) would be used from FY 2018-19 and so on. The main objectives of this paper are to identify the real status of current financial reporting system up to FY2017-18 in comparison with IPSAS Cash and existing national accounting Standards to contribute to the development of new financial reporting format which will take effect from FY 2018-19.

5.0 Gap Analysis

Comparison of Current Practices for Preparing Financial Reports with IPSAS Cash and Account Code

Sl. no.	IPSAS Requirements	National Accounting Standards Requirements	Status
Presentation and Disclosure Requirements			
1	As per IPSAS Cash Para 1.3.2 .... The final stage in the process of **aggregation** and **classification** is the presentation of **condensed** and classified data that form line items either on the face of the financial statements or in the notes. ....An item that is not **sufficiently material** to warrant separate presentation on the face of the financial statements may nevertheless be sufficiently material that it should be presented separately in the notes. As per IPSAS 30 Aggregation means the entity decides how much detail it provides to satisfy the requirements and how it aggregates information to display the overall picture without combining information with different characteristics, in the light of its circumstances. It is necessary to strike a balance between overburdening financial statements with excessive detail that may not assist users of financial statements and obscuring important information as a result of too much aggregation. As per IPSAS 1 Presentation means the faithful representation of the effects of	Regarding Aggregation and Classification of IPSAS requirements, Our Account Code addressed this by different articles like 'H' of Article 11, Volume-I where it is mentioned that- "The final stage of compilation is the preparation of the Abstract of Major Head totals showing the receipts and disbursements by major heads during and up to the end of the month." That apart, Article 99- 103 of Volume IV mention about Major head wise Consolidated Abstract. Article 21 of Volume-I mentioned about Legal, Functional and Economic Code wise detailed recording of transactions which actually addresses the classification requirements. In the case of presentation requirements, our national standards do not provide any directives for presentation of changes in net assets/equity, surplus or deficit and Cash flows from operating, investing and financing activities by major class. Even, our national standards do not provide any directives for presentation of the item which is not sufficiently material to warrant separate presentation on the face of the financial statements but that is sufficiently material for presenting separately in the	National standards are compliant with aggregation and classification requirements of IPSAS Cash 1.3.2, but regarding presentation requirements of IPSAS 1.3.2, national requirements are partially met, because there are no indications on presentation by considering materiality aspects. However, our newly approved finance account format incorporated presentation requirements.

	transactions, other events and conditions in accordance with the definitions and recognition criteria for assets, liabilities, revenue and expenses set out in the IPSASs. IPSAS 1 also mentioned that- The Standard requires the presentation, on the face of the statement of changes in net assets/equity, of the entity's total amount of revenue and expense for the period (including amounts recognized directly in net assets/equity), showing separately the amounts attributable to minority interest and owners of the controlling entity. It is to be noted that as par IPSAS 1.3.1 Materiality means: "information is material if its omission or misstatement could influence the discharge of accountability by the entity, or the decisions that users make on the basis of the entity's financial statements prepared for that reporting period. Materiality depends on both the nature and amount of the item judged in the particular circumstances of each entity."	notes by considering materiality aspects required by IPSAS 1.3.1 and 1.3.2.	
Timeliness			
2	1.4.4 The usefulness of the financial statements is impaired if they are not made available to users within a reasonable period after the reporting date. An entity should bein a position to issue its financial statements within six months of the reporting date, although a time frame of no more than three months is strongly encouraged.	**Article 104 of Account Code, Volume-IV** stipulates that the accounts for June prepared are only preliminary records, as the books remain open in the office of theController General of Accounts for adjustments and transfers until 31st October, when the supplementary adjustments are completed. Adjustments and correction to be	Regarding timeliness our national standards comply with IPSAS 1.4.4 though in practice, the terms of 3 months for preparing finance account is not ensured.

	Ongoing factors such as the complexity of an entity's operations are not sufficient reason for failing to report on a timely basis. Morespecific deadlines are dealt with by legislation and regulations in many jurisdictions.	incorporated in the June Final accounts should be dispatched by Chief Accounts and Finance Officers and Regional Accounts Officers to the office of the Controller General of Accounts so as to reach the latter by 10th September. The Controller General of Accounts should dispatch the progressive figures for June Final to the Comptroller and Auditor General in special forms prescribed by him so as to reach him by 30th September. As the June Final Accounts may be corrected by subsequent entries (Article 105), their dispatch should not be delayed merely by reason of their not being absolutely complete, but every endeavor should bemade to incorporate in them all adjustments and corrections that can possibly be made by the date of dispatch. It reveals that our national standards are at par with IPSAS requirements in case of timeliness.	
Comparative Information			
3	1.4.16 ..... comparative information shall be disclosed in respect of the previous period for all numerical information required by this Standard to be disclosed in the financial statements......... in narrative and descriptive information when it is relevant to an understanding of the current period's financial statements.	In the present format of Appropriation Accounts and Finance Accounts information in respect of previous year is not included.	In this case, our national standards and existing formats of Appropriation Accounts and Finance Accounts are not compliant with IPSAS Standards 1.4.16. However, it may be mentioned that the new format of finance accounts and appropriation accounts approved by Honorable President have the

			provision of prior year information.
Financial Statements			
4	IPSAS 1.3.4 requires a set of financial statements which include the following components: (i) Statement of cash receipts and payments (ii) Accounting policies and explanatory notes. (iii) Approved budget and acomparison of budget and actualamounts.	Article 131 of Account Code, Volume-IV states that the annual accounts to be submitted to the Government are the Appropriation Accounts and the Finance Accounts....	IPSAS 1.4.3 requirements regarding statement of cash receipt and payment is addressed in Finance Account and the comparison of budget and actual amount addressed in appropriation account of our national standards. Apart from that, regarding requirements of accounting policies and Explanatory Notes, our national standards are not compliant with IPSAS requirements 1.4.3, because there are no clear directives regarding disclosure of Accounting Policies and Explanatory Notes in our National standards and practices. It may be mentioned that new format of finance accounts and appropriation accounts approved by the Honorable President of the Republic have the provision of explanatory notes.

Information to be Presented in the Statement of Cash Receipts and Payments			
5	1.3.11 Part 2 of this Standard encourages inclusion of information about non-cash assets and liabilities and a comparison with budget in general purpose financial statements.	At present, the Government Accounts are preparedon cash basis. But our Account code does not provide any directives regarding inclusion of information about non-cash assets and liabilities as per IPSAS 1.3.11.	In this case, the national standards and Practices are not compliant with IPSAS 1.3.11 because balances of non-cash assets and liabilities are not maintained.
Treatment of Foreign Currency Cash Receipts, Payments and Balances			
6	**Basis for Conclusion 16 (BC16) in IPSAS Cash.** External assistance received in cash will continue to be **recognized** in the Statement of Cash Receipts and Payments. Paragraph 1.3.18... the amount of external assistance received as cash is likely to warrant separate disclosure in the statement of cash receipts and payments. In IPSAS 1.3.18 Separate disclosure encourages the disclosure of certain information about external assistance and other assistance received during the reporting period, and the balance of **undrawn external assistance** and other assistance available to the entity at reporting date. For many public sector reporting entities in developing economies, the classification of cash receipts and payments to identify the amount of external assistance and other assistance received as cash and the use of that assistance is likely to	Our national standards (Article 21, V-I, Account Code) have the provision for recognition of external assistance in the statement of cash receipts and payment required by BC 16. But there are no directives for the disclosure of undrawn external assistance (required by IPSAS 1.3.18). It is to be noted that, Statement 10 and schedule 9 of Finance Accounts show the figures that relates to external assistance in summary without mentioning details of the balance of undrawn external assistance.	Our national standards and practices are compliant with IPSAS BC 16. Detailed information of undrawn external assistance as required by IPSAS 1.3.18 are not addressed in our Finance and Appropriation Accounts

	be relevant for accountability and decision-making purposes.		
7	2.1.95 An entity may receive externalassistance for many purposes including assistance to support its: (a)...development assistance;(b) ...emergency assistance; c)...balance of payments assistance; d)...military assistance; and e)... trade finance.	In our Account Code, no clear directives have been provided regarding presentation of external assistance. Even, statement 10 and schedule 9 of Finance Accounts only show the figure relates to external assistance in summery.	In this case national standards and practices are not compliant with IPSAS 2.1.95 because detailed disclosure on purpose of foreign assistance are not available.
8	1.4.9 An entity shall disclose in the notes to the financial statements together with a commentary, the nature and amount of: (a) Significant cash balances that are not available for use by the entity; (b) Significant cash balances that are subject to **external restrictions**; and (c) Undrawn borrowing facilities that may be available for future operating activities and to settle capital commitments, indicating any restrictions on the use of these facilities. 2.1.98 The amount of external assistance and assistance from NGO's and other sources currently committed under a binding agreement but not yet drawn may be significant. In some cases, the amount of assistance loan(s) or grant(s) is specified in a binding agreement and the satisfaction of any substantial conditions that need to be satisfied to access that amount is highly likely. This may occur in respect of undrawn balances of project funding for projects currently	Our Account Code does not provide any directives about disclosure of restriction on cash balances and access to borrowings of external assistance.	In this case, national standards and practices are not compliant with IPSAS 1.4.9 and 2.1.98 because detailed disclosure about restrictions on cash balances and access to borrowings is absent.

	under development where conditions have been, and continue to be, satisfied and the project is anticipated to continue under the terms of the agreement. The disclosure of undrawn balances of external assistance and other assistance in these circumstances will provide information about the extent to which assistance made available to the entity has been drawn on during the reporting period and the amount of committed external and other assistance is available to support the ongoing development of particular projects.		
Administrated Transactions			
9	2.1.7 The cash flows ... administered by an entity acting as an agent on behalf of others may not pass through a bank account controlled by the reporting entity. ... therefore, are not included in the totals shown on the face of the statement of cash receipts and payments... However, ... encouraged because it providesuseful information on the scope of the entity's activities and it is relevant for an assessment of an entity's performance.	According to the codal provision, the Principal Department may, subject to such monetary limit as may be fixed by the Government in this behalf, be debited with the expenditure incurred on its behalf by the agent Department but the agent does not show such cash inflow in the notes of their Appropriation Account.	In this case, our national standards and practices are not compliant with IPSAS 2.1.7 because detailed break up of cash expended by an agent, is not included in the Notes of Appropriation Account.
Joint Arrangements			
10	2.1.62 An entity is encouraged to make disclosures about joint arrangements which are necessary for a fair presentation of the cash receipts and payments of the entity during the period and the balances of cash as at reporting date.	In our national standards there are no directives addressing Joint Arrangement [joint ventures and joint operations] /Service Concession Arrangements-Grantor.	National practices are not compliant with IPSAS requirements. However, "Public Private Partnership (PPP)" is being practised in

	2.1.63 joint arrangement is an arrangement of which two or more parties have joint control.... The terms of a joint arrangement are set out in a contract or other binding arrangement...Entities which report on a cash basis will generally report: (a) ... cash expended in the acquisition of an interest in a joint arrangement and in the ongoing operations of the joint arrangement; and (b) ...the cash received from the joint arrangement. ...Also need to be considered Service Concession Arrangement (IPSAS 32) and Joint Arrangement (IPSAS 37)		implementing different projects and activities.
Notes			
11	1.3.8 Notes to the financial statements include narrative descriptions or more detailed schedules or analyses of amounts shown on the face of the financial statements, as well as additional information. They include informationrequired and encouraged to be disclosed by this Standard, and can include other disclosures considered necessary to achieve a fair presentation and enhance accountability. 1.3.31 ... a specific accounting policy should be disclosed, ... would assist users in understanding the way in which transactions and events are reflected in the reported cash receipts, payments and balances.... Paragraph 1.3.4 specifies that general purpose financial statements include accounting policies and explanatory notes.	Notes and Accounting Policy are not included in Finance Accounts and Appropriation Accounts.	In this case, national standards and practices are not compliant with IPSAS 1.3.8, 1.3.31 and 1.3.4 because no disclosure is made on Accounting Policy and Explanatory Notes. It may be mentioned that new format of Finance Accounts and Appropriation Accounts have included the provision of notes.

Correction of Errors			
12	1.5.2 An entity shall disclose in the notes to the financial statements the following: **a) The nature of the error that relates to a prior period**; b) The amount of the correction; and c) The fact that comparative information has been restated or that it is impracticable to do so. On the hand IPSAS para 1.4.6 mentioned "… It is important for users to know when the financial statements were authorized for issue, because the financial statements do not reflect events after this date…. If changes are made, the amended financial statements are a new set of financial statements."	According to Article 105 of Account Code, Vol-IV after the dispatch of the June Final account ... no entries will ordinarily be permitted. The reason why the adjustment was not affected before the closing of the June Final account should be briefly stated against each. .... All correcting or additional entries should be recorded in a single statement, in which entries made under instruction from the Comptroller and Auditor General should also be included. Article 107 of Account Code, Vol-IV, stipulates "(a) ...When errors are discovered in the same year, involving a correction by transfer of amounts from one minor head to another under the same major head or from one major head to another, the necessary correction should be made by a formal transfer entry. If the corrections are made by Chief Accounts Office, the Controller General of Accounts must be informed immediately for giving effect to the correction in the final accounts. (b) If any error be detected after submission of June Final accounts, it should be adjusted only by a formal transfer entry of which should be submitted by the Chief Accounts Officer concerned to the Controller General of Accounts who will submit it to the Comptroller and Auditor General in the usual course after approval.	In this regard, our national standards and practices are not compliant with IPSAS 1.5.2 and 1.4.6 because disclosure on correction of errors of prior years is not provided in our Finance Account and Appropriation Account. It may be mentioned that detailed correction procedures are communicated before approving the finance accounts by CAG. But directions are absent regarding disclosure of correction of errors (if any), which have done in prior published finance accounts, in the notes of current finance accounts. Even National Standards are not properly followed in following cases – • Instructions given in Article 105 and 107 are not properly followed by CGA;

		Exception: If the amount involved does not exceed ten Taka, no formal transfer is necessary and it should be sufficient simply to make a note of the error against the original entry. Article 129 of Account Code, Volume-IV stipulates that ...... the balance shown under the head "Bangladesh Bank Deposits" has been checked and reconciled with the balance of the Government on the books of the Bank as shown in the statement of balance rendered by the latter. Any difference ......should be worked out and explained on the face of the Account.	• And it is also important to increase the limit (Martial Amount) regarding Correction of Errors from taka ten (regarding formal transfer) by considering current economic volume of transactions. • Article 129 of Account Code is not followed regarding certification of Bangladesh Bank Deposits.
Encouraged Additional Disclosures			
13	Going Concern: (IPSAS 2.1.3, 2.1.4, 2.1.5) When preparing the financial statements of an entity, those responsible for the preparation of the financial statements are encouraged to make an assessment of the entity's ability to continue as a going concern. When those responsible for the preparation of the financial statements are aware, in making their assessment, of material uncertainties related to events or conditions which may cast	There are no indications regarding going concern issues in our national Standards.	Our national standard and current practices are not compliant with IPSAS 2.1.3, 2.1.4, and 2.1.5 because no disclosure is made on going concern issues in our Finance and Appropriation Accounts.

	significant doubt upon the entity’s ability to continue as a going concern, the disclosure of those uncertainties is encouraged. The determination of whether an entity is a going concern is primarily relevant for individual entities rather than for the government as a whole…… There may be circumstances where the usual going concern tests of liquidity and solvency as applied to business enterprises appear unfavourable, but other factors suggest that the entity is nonetheless a going concern….		
14	Financial Reporting in Hyperinflationary Economies IPSAS (2.1.64 – 2.1.76) In a hyperinflationary economy, the presentation of the financial statements in the local currency without restatement is not useful. Money loses purchasing power at such a rate that comparison of amounts from transactions and other events that have occurred at different times, even within the same accounting period, is misleading. It is noted that para 2.1.64 mentioned about The Restatement of Financial Statements, para 2.1.72 described requirements of Comparative Information, para 2.1.73 narrates the presentation requirements of Consolidated Financial Statements and para 2.1.75 mentioned about Selection and Use of the General Price Index in case of hyperinflationary economies.	There are no indications regarding financial reporting in hyperinflationary economics in our national Standards.	Our national standard and current practices are not compliant with IPSAS 2.1.64- 2.1.76 because no comments have given on hyperinflationary economics in our Finance and Appropriation Accounts.

6.0 Conclusion and Recommendations

In the previous section, the gaps that exist between National Accounting Standards and IPSAS Cash have been presented. The gap analysis tells that the present Financial Reports can be made IPSAS compliant. However, some reforms are required before embarking on this task which may include-

- Creating awareness on IPSAS among the officials of Audit and Accounts Department. This will facilitate them to acquire a good understanding about its importance in financial management and financial reporting;

- Controller General of Accounts (CGA) office and Ministry of Finance (MoF) should carry out regular monitoring to make sure that the established standards are properly followed and met.

- Training on IPSAS should be imparted on a regular basis by FIMA;

It is also important to consider the following challenges while ensuring effective implementation of IPSAS Cash -

Technical Challenges

Effective implementation of Cash Basis IPSAS is dependent on the extended coverage of iBAS++ which includes Bangladesh Railways, Controller General Defense Finance and other public sector entities. In most of the cases, the changes brought for implementation of IPSAS Cash in iBAS++ are not documented properly.

Organisational Challenges

- Lack of enough skilled personnel.
- Lack of regular training on IPSAS and National Accounting Standards.
- Weak reconciliation process, absence of balances of non-financial Assets etc.
- There is no full IT setup in CGA which could independently identify the problems and solve them.

While developing Accounting Policy and Standards, we should endeavor our best to eradicate existing gaps and make the national standards IPSAS compliant. In order to take this agenda forward, there is a need for organizational commitment, continuous reforms initiatives and a time bound plan to put our Accounting Standards on a solid footing.

References:

Account code, 1997, Issued by Comptroller and Auditor General of Bangladesh

CIPFA Publications. (2021). *Public Sector Financial Reporting (UK and international options).* London, UK: CIFPA. Retrieved from https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjp55TToY76AhXeG7cAHZxvAScQFnoECAUQAQ&url=https%3A%2F%2Fwww.bartleby.com%2Fessay%2FQuestions-On-Public-Financial-Management-System-PKM7HU5Z9CXQ&usg=AOvVaw0qCcPl1y1Tzz9

CIPFA Publications. (September 2021). *Public Sector Financial Reporting (UK and international options).* CIPFA.

Handbook of International Public Sector Accounting Pronouncements, 2022, Issued by IPSASB

Rajib, M. S. (2009). *Institutionalisation of the Cash Basis International Public Sector Accounting Standard* (Vol. 9). London, UK: Journal of Accounting in Emerging Economies. doi:10.1108/JAEE-10-2017-0096

World Bank. (2010). *Restructuring Public Financial Management.* Dhaka: SARFM. Retrieved from https://openknowledge.worldbank.org/bitstream/handle/10986/12833/703590PNT0P1080f0A0A00June029002010.pdf?sequence=1&isAllowed=y

An Assessment of Public Expenditure Management in Bangladesh

Md Abul Kalam Azad*

Abstract

Public Expenditure Management (PEM) is an important subject of public finance that should be extensively discussed to understand its technical nuances. This article has dealt with Bangladesh Public Expenditure Management (PEM) issues in combination with theory and empirical evidences. It has used Schick's (1999) three-dimensional PEM model, Public Expenditure and Financial Accountability (PEFA) framework, Bangladesh PEFA performance measurement report 2016 and other recent related and available sources to assess the PEM system in Bangladesh. Schick (1999) identified three core dimensions of PEM namely aggregate fiscal discipline, allocative efficiency and operational efficiency which are compatible with PEFA framework. Different studies and assessments reveal that aggregate fiscal discipline in Bangladesh is not satisfactory. Allocative efficiency and operational efficiency are not up to the mark as well. Political involvement from the beginning of the budget process, unification of dual budget system, deepening Medium Term Budgetary Framework (MTBF) at Line Ministries (LMs)/Agency levels and shifting towards performance auditing are some of the issues that are yet to be resolved to raise the profile of Bangladesh PEM system. Reforms initiatives taken so far in Bangladesh could not meet the requirements of a sound PEM system. A comprehensive reform is, therefore, necessary to address the issues identified in this article.

Introduction

Public Expenditure Management (PEM) system in Bangladesh is designed to achieve macroeconomic stability, macro-fiscal discipline, allocative efficiency and operational efficiency in public service delivery (Public Expenditure Manual, 2005). In this article, I would apply Schick’s (1999) approach to understanding PEM which has three cardinal objectives: (1) aggregate fiscal discipline, (2) allocative efficiency and (3) operational efficiency. This approach will be linked with the core seven pillars (Budget reliability, Transparency of public finances, Management of assets and liabilities, Policy-based fiscal strategy and budgeting, Predictability and

*Chief Accounts and Finance Officer

control in budget execution, Accounting and reporting and External scrutiny and audit) of PEFA. I would use Bangladesh PEFA performance measurement report 2016 along with recent related sources and documents to assess the PEM system in Bangladesh and discuss in what ways the system should be reformed.

PEFA Framework for Assessing Public Financial Management and Bangladesh PEFA Report 2016

The Public Expenditure and Financial Accountability (PEFA) provides a comprehensive framework for assessing and reporting on the strengths and weaknesses of public financial management (PFM) using quantitative indicators to measure performance (Framework for assessing public financial management, 2016). It is a tool designed to help governments achieve sustainable improvements in PFM practices by providing a means to measure and monitor performance against a set of indicators across the range of important public financial management institutions, systems, and processes (ibid). PEFA 2016 framework is intended to assess three budgetary objectives of aggregate fiscal discipline, strategic allocation of resources and efficient service delivery. It is built on the foundations of earlier versions of 2005 and 2011. It has got 7 pillars, 31performance indicators and 94 dimensions.

Bangladesh government used the PEFA framework 2016 in Bangladesh PEFA performance measurement report 2016. The table below presents PEFA 2016 framework together with Bangladesh scores against each indicator.

PFM Performance Indicator		Scoring Method	Dimension Ratings				Rating 2015
			i.	ii.	iii.	iv.	
Pillar I. PFM-OUT-TURNS: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	B				B
PI-2	Expenditure composition outturn	M1	D	C	A		D+
PI-3	Revenue outturn	M1	D	B			C
Pillars II-III. KEY CROSS-CUTTING ISSUES:							
	II. Transparency of public finances						
PI-4	Budget classification	M1	C				C

PI-5	Budget documentation	M1	B				B
PI-6	Central government operations outside financial reports	M2	D*	D*	D*		D
PI-7	Transfers to subnational governments	M2	C	D			B+
PI-8	Performance information for service delivery	M2	C	B	D	D	B+
PI-9	Public access to fiscal information	M1	D				D
	III. Management of Assets and Liabilities						
PI-10	Fiscal risk reporting	M2	D	D	C		B+
PI-11	Public investment management	M2	D	B	D	B	C
PI-12	Public asset management	M2	C	D	D		D+
PI-13	Debt management	M2	B	D	A		B
Pillars IV-VII. BUDGET CYCLE							
	IV. Policy-based fiscal strategy and budgeting						
PI-14	Macroeconomic and fiscal forecasting	M2	C	C	D		D+
PI-15	Fiscal strategy	M2	D	A	B		B
PI-16	Medium-term Perspective in expenditure Budgeting	M2	A	A	D	B	C+
PI-17	Budget preparation process	M2	A	B	D		D
PI-18	Legislative	M2	A	C	A	A	C+
	V. Predictability and Control in Budget Execution						

PI-19	Revenue administration	M2	B	D	D	D	D+
PI-20	Accounting for revenue	M1	A	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	C	A	B	A	B+
PI-22	Expenditure arrears	M1	D*	D*			D
PI-23	Payroll controls	M1	B	B	C	C	C+
PI-24	Procurement management	M2	B	B	B	B	B
PI-25	Internal control on non-salary expenditure	M2	A	D	D		C
PI-26	Internal audit	M1	D	NA	NA	NA	D
	VI. Accounting and Reporting						
PI-27	Financial data integrity	M2	D	A	D	A	C+
PI-28	In-year budget reports	M1	A	C	C		C+
PI-29	Annual financial report	M1	D	D	C		D+
	VII. External Scrutiny and Audit						
PI-30	External audit	M1	D	B	D	C	D+
PI-31	Legislative scrutiny of audit report	M1	D	**A**	**A**	**B**	**B**

Source: Government of Bangladesh, PEFA PFM-PR, 2016

Table 1: Overview of the scores of the PEFA indicators

Comparative Analysis in Bangladesh PEFA Report 2016

The comparative scenario of PEFA scores 2010 and 2015 (2011 framework) depicts those 14 indicators remained the same, 7 deteriorated and 7 improved.

PI 6, 11, 12, 14, 16, 18 and 23 improved and PI 1, 3, 5, 7, 8, 15 and 22 deteriorated. But deterioration of aggregate budget credibility (which Schick described as one of the key components of PEM) was dismal in 2016. The scores of aggregate expenditure outturn compared to original approved budget (excluding externally financed project expenditure) were B in 2011 and C in 2015**.** Aggregate revenue outturn compared to original approved budget scored D in 2015 which was B in 2011. In the case of key cross cutting issues (comprehensiveness and transparency) PI 6 scored A while PI 5 and 7 deteriorated and the rest remained same. In Budget Cycle, PI 11, 12,14,16,18 and 23 improved; PI 15 and 22 deteriorated and the rest maintained equal positions. It appears from the report that in terms of achieving two cardinal objectives of PEM, namely, allocative and operational efficiency Bangladesh is significantly behind. The table below juxtaposes the PEFA assessment scores of 2010 and 2015.

	2010	**2015**
A. PFM-OUT-TURNS: (1) Credibility of the Budget		
PI-1 Aggregate expenditure outturn compared to original approved budget (excluding externally financed project expenditure)	**B**	**C**
PI-2 Composition of expenditure outturn compared to original approved budget	**D+**	**D+**
PI-3 Aggregate revenue outturn compared to original approved budget	**B**	**D**
PI-4 Stock and monitoring of expenditure payment arrears	**NS**	**NR**
B. KEY CROSSCUTTING ISSUES: Comprehensiveness and Transparency		
PI-5 Classification of the budget	**B**	**C**
PI-6 Comprehensiveness of information included in budget documentation	**B**	**A**
PI-7 Extent of unreported government operations	**B**	**NR**
PI-8 Transparency of inter- government fiscal relations	**D**	**D+**
PI-9 Oversight of aggregate fiscal risk from other public sector entities.	**D+**	**D+**
PI-10 Public access to key fiscal information	**B**	**B**
C. BUDGET CYCLE		
C (i) Policy Based Budgeting		
PI-11 Orderliness and participation in the annual budget process	**B**	**A**

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	**B**	**B+**
C(ii) Predictability Control in Budget Execution		
PI-13 Transparency of taxpayer obligations and liabilities	**C**	**C**
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	**C**	**B**
PI-15 Effectiveness in collection of tax payments	**D+**	**NR**
PI-16 Predictability in the availability of funds for commitment of expenditures	**C+**	**B+**
PI-17 Recording and management of cash balances, debt and guarantees	**C+**	**C+**
PI-18 Effectiveness of payroll controls	**D+**	**C+**
PI-19 Competition, value for money and controls in procurement	**B**	**B**
PI-20 Effectiveness of internal controls for non-salary expenditure	**D+**	**D+**
PI-21 Effectiveness of internal audit	**D**	**D**
C(iii) Accounting, Recording and Reporting		
PI-22 Timeliness and regularity of accounts reconciliation	**B**	**D**
PI-23 Availability of information on resources received by service delivery units	**D**	**A**
PI-24 Quality and timeliness of in-year budget reports	**C+**	**C+**
PI-25 Quality and timeliness of annual financial statements	**D+**	**D+**
C(iv) External Scrutiny and Audit		
PI-26 Scope, nature and follow-up of external audit	**D+**	**D+**
PI-27 Legislative scrutiny of the annual budget law	**D+**	**D+**
PI-28 Legislative scrutiny of external audit reports	**D+**	**D+**

Source: Government of Bangladesh, PEFA PFM-PR, 2016 (A 1(A)

Table 2: Comparison of PEFA scores of 2010 and 2015 (2011 framework)

Aggregate Fiscal Discipline

Schick mentions four fiscal aggregates to achieve aggregate fiscal discipline: 1) total revenue, 2) total spending, 3) the deficit (borrowing requirement) and 4) the public debt (Schick, 1999 p-58). PEFA Pillar-1 (Budget reliability) is commensurate with aggregate fiscal discipline. Of course, there are crosscutting issues in PEFA framework related to the three dimensions of Schick's approach.

In order to maintain aggregate fiscal discipline, Bangladesh has introduced a multi-year budgetary framework i.e. Medium Term Budget Framework (MTBF). Budget setting under MTBF is deeply rooted in macro-economic considerations. That is why under the MTBF an important exercise of developing a Medium-Term Macroeconomic Framework (MTMF) is carried out. MTBF is a multi-year budgeting exercise and it rolls forward in the following manner:

Budget year	Projection year	Projection Year		
xx	xx	xx		
	Budget year	Projection year	Projection year	
	xxx	xxx	xxx	
		Budget year	Projection year	Projection year
		xxxx	xxxx	xxxx

Figure 1: Constructed by the author following the PEM Manual, 2005; published by the Finance Division.

Ministries are given a 3 years' budget ceiling. Every ministry plans its 3 years' budget within the negotiated ceiling and the first year's plan and amount is granted as budget and the two others are projected only first of which is counted as next years' budget while preparing MTBF in the second year and thus an extra year is added to this plan again in the 3 years' framework. Thus, in every fiscal year three individual years' budget envelop is given to the individual ministries/divisions. Revenue is forecasted on the basis of previous experiences, trends, considering the present macro - economic conditions and of course before the total expenditure is estimated.

It appears from the Government of Bangladesh (PEFA) Public Financial Management Performance Report (PFM-PR) 2016 that the expenditure deviations from originally approved budget of FY 2011-2012 and 2012-2013 are within 10 percent (6.8% and 8.7% respectively). But the expenditure deviation in FY2013-2014 exceeded 10 percent. The table below shows the recent deviations of expenditure.

	2019-2020		2020-2021		2021-2022	
Expenditure	Original budget (Taka in Crore)	Actual expenditure (Taka in Crore)	Original budget (Taka in Crore)	Actual expenditure (Taka in Crore)	Original budget (Taka in Crore)	Actual expenditure (Taka in Crore)
Total public expenditure	523190	501577	568000	538983	603681	593501
Deviation	4.13%		5.19 %		1.69%	

Source: Bangladesh Economic Review 2022 and Budget in Brief, FD, MoF, BD

Table 3: Summary of primary aggregate expenditure deviations

It appears from the above table that aggregate expenditure deviations during the period from 2019-20 to 2021-22 was less than what was reported in 2016 PEFA Report but expenditure was always less than the approved budget amounts during this period indicating that there was a lack of spending capacity.

If budget is not allocated bearing in mind the capacity of spending, budget remains unutilised which certainly undermines the expenditure plan of the government. This may happen due to lack of plan, efficiency of spending authorities, internal control and monitoring. At times, donors do not release the agreed fund for which budget remains unspent contributing to under spending of budget. There are some other causes which are responsible for expenditure deviations.

As development budget is processed by Planning Commission (PC) and non-development budget by Finance Division (FD), ceilings are determined by two authorities. This duality has serious implications. The expenditures under operating and development budget are not streamlined. It is found that development budgets remain mostly underspent and in the case of non–development, expenditure exceeds the budget allocation.

Revenue forecasts and the actual revenue in FY 2017-18, 2018-19 and 2019-20 varied significantly. Both tax and non-tax revenue realisations were always less than the mobilisation targets except for non- tax revenue realisation in FY

2019-2020. The following table illustrates the recent status of actual revenue returns with original mobilisation targets.

	2017-2018			**2018-2019**			**2019-2020**		
Revenue	Target	Actual	Deviation	Target	Actual	Deviation	Target	Actual	Deviation
Tax	232202	208923.94	10%	289599	227390.62	21.48%	313068	221771.77	29.16%
Non Tax	27252	22229	18.43%	27000	25921	4%	35002	44765	+27.89%
Total	259454	231152.94	10.91%	316599	253311.62	19.99%	348069	266536.77	23.42%

Source: Bangladesh Economic Review 2022 and Annual Report 2020-2021, NBR, Bangladesh

Table 4: Picture of estimated and actual revenues received (crore taka)

Allocative Efficiency

Schick mentions allocative efficiency as priority to policy objectives and programmes, old to new programmes and less effective to more effective programs in term of allocation of public resources. It is basically reallocating resources strategically to achieve policy objectives (Schick, 1999, p-89). PEFA Pillar-4 deals with allocative efficiency.

Budget in Bangladesh begins with the issuance of Budget Circular-1 (BC-1) in October/November and ends with passing the budget in parliament normally by 30th June. More than 8 months are required to pass the budget of next fiscal year starting on 1st July. Following the strategic guidance provided in BC-1, MTBF ministries and divisions prepare their Ministry Budget Framework (MBF) along with preliminary estimates and projections on the basis of indicative ceilings fixed on BC-1 within 7/8 weeks (PEFA report, 2010, p-28). In every ministry there is a Budget Management Committee (BMC) headed by the Secretaries of Line Ministries/Divisions who prepare the ministry budget and submit it to FD. After all the MBFs are submitted to Ministry of Finance (MOF) and Planning Commission (PC), the MBFs are reviewed by the MOF and PC which takes 3 months to complete the process. Then the Budget Circular-2 (BC-2) is issued in April for submission of detailed budget proposal against indicative expenditure ceilings for which Ministries/Divisions get about 4 weeks. In June the Budget is placed before the National Parliament (NP) for approval. It appears that much more

time is taken for preparing the budget (23/24 weeks) than soliciting the final approval (only 4 weeks).

PEFA report 2016 indicates that budget is basically allocated in traditional manner with some procedural changes. Because, it is difficult to align national priority with sectoral priority and policy without involving political authority to the process from the beginning. The Line Ministries (LMs) are in principal–agent relationship with FD and PC. The Line Ministries try to maximise their allocations. Only the political authority can solve this problem of determining priorities and budget ceilings to the LMs/ Divisions.

Operational Efficiency

According to Schick, operational efficiency is an input output ratio (Schick, 1999, p-111) which may be qualitative or quantitative. It is the downstream activities of PFM which deals with resource management, internal control, internal audit and monitoring; accounting and reporting; external audit; and legislative analysis of audit reports (RONSHOLT, http://www.pefa.org/sites/pefa.org/files/attachments/Are PFM...). PEFA pillars- 3, 5, 6 and 7 deal with operational efficiency.

The monitoring report on ADP shows that actual spending is always less than originally approved budget. It is because of either overestimating the total cost in the budget or of weakness in spending capacity of the line ministries and managers. The following table illustrates the situation: -

Year	Original Allocation (In Crore Taka)	Revised Allocation (In Crore Taka)	Actual Expenditure (In Crore Taka)	Expenditure as %of Original Allocation	Expenditure as % of Revised Allocation
2016-2017	123345.80	119295.97	107084.55	86.82	89.76
2017-2018	164084.83	157594.39	148305.78	90.38	94.11
2018-2019	180869.17	176619.71	167186.08	92.43	94.66
2019-2020	215113.73	201198.56	161740.61	75.19	80.39
2020-2021	214611.09	209271.94	171835.77	80.07	82.11

Source: ADP Implementation Progress Review Report 2020-2021, IMED, Ministry of Planning

Table 5: Implementation of annual development programme (ADP)

It appears that the ADP performance in all these years are far less than satisfactory if the actual expenditure is compared with the original budget. As noted earlier, this mainly stems from the lack of absorptive capacity of the spending Ministries/Divisions. This may also happen due to political interference and the principal-agent gap during budget estimate and allocation. When the budget is estimated there is always an upward bias and the Line Ministries/Divisions think that their allocations in the future years will remain low if they ask for less.

Transparency and financial result are needed to be measured for which accounting, recording and reporting are most necessary. But it is found that reports are not generated timely, it takes longer than expected, at times more than 2/3 years in preparing finance and appropriation accounts.

Ways in Which the PEM System in Bangladesh Should be Reformed

Bangladesh PEM system has passed through successive phases of reforms since the mid-1990s. The Government formed an inter-ministerial committee called Committee on Reforms in Budgeting and Expenditure Control (CORBEC) in 1989 which delivered in its report a set of recommendations for reforms. On the basis of this report, the Government launched a project called Reforms in Budgeting and Expenditure Control (RIBEC) in 1995. RIBEC basically brought in reforms at the technical level like penetration of IT in budgeting and accounting, revision of financial rules and regulations, and introduction of an all-numeric new budget and accounting system which laid the foundation for strategic reforms which were effected by Financial Management Reform Programme (FMRP), Strengthening Public Expenditure Management Program (SPEMP) and subsequent and ongoing reform initiatives as well.

It is to be noted that the ongoing PEM reforms are being driven by a comprehensive Public Financial Management (PFM) Reform Strategy 2016-2021 adopted by the Government in 2016. It incorporates previous reform experiences and adopts a relatively advanced approach of reform strategy. Since the adoption of 2007-2012 PFM Reform Strategy, the policy regime and business processes of the PFM system have undergone changes including widespread digitisation, new budget and accounting classification of international standard i.e. BACS, iBAS++, annual performance agreement (APA), national integrity strategy (NIS) etc. which posed continuous challenges in PFM arena. As a result, adoption of new reform strategy in PFM

became necessary. 'The strategy is therefore intended to be: (a) more focused and sequenced; and (b) grounded in a realistic assessment of buy-in, champions and capacity. The strategy also incorporates a change management strategy to support change in the behaviours and practices of thousands of civil servants; and identifies and manages risks to successful implementation (Public Financial Management (PFM) Reform Strategy, 2016). The goals of 2016-2021 PFM reform strategy are:

Goal 1: Maintain aggregate fiscal discipline compatible with macro-economic stability and pro-poor growth;

Goal 2: Allocate resources consistent with Government priorities as reflected in National Plan;

Goal 3: Promote the efficient use of public resources and delivery of services through better budget execution;

Goal 4: Promote accountability through external scrutiny and transparency of the budget;

Goal 5: Enhance the enabling environment for improved PFM outcomes (ibid) These goals are compatible with Schick's (1999) model of PEM.

Though many initiatives were undertaken in PFM reform strategies, there are still many weaknesses which may be addressed in reform initiatives to be taken.

Due to lack of performance management system, budget allocation is still traditional. Line Ministries (LMs)/managers have limited power to manage their business. There are delegations but control is imposed from the top to the bottom. Managers do not have incentives for their performance. As a result, performance has not improved to provide better service delivery to people. Lack of transparency and accountability remains an issue. It is because of weak information system and lack of incentives.

There is a principal-agent relationship in the existing organisational culture and practices. MoF and PC play the role of principal and LMs/ managers are like agents. As a result, there is an information gap between the principal and the agents. This gap exists between MoF and PC as well that undermines the allocative efficiency. Unification of the dual budget system and changing practices and behaviours at the centre – the political and Finance Division and the Planning Commission – and throughout LMs and Agencies to support

policy and performance-based budgeting may solve these problems to a greater extent. (The MTBF in Bangladesh: Concept and Roadmap 2012-13 to 2016-17)

For a performance based, policy oriented and target driven budget system, political involvement should be strengthened. A strong political commitment and culture would help improve aggregate fiscal discipline as the foundation of PEM. So, the involvement of legislature should be intensified from the beginning of the budgeting process. A high-level political authority should determine the priority programs and control the aggregate expenditure limit to tighten the budgetary control.

There is clearly weakness in accountability process which is ensured by producing financial reports on time and auditing those reports in a timely manner to give opinion as to whether they present fairly the state of affairs. But it takes longer than expected to produce Finance and Appropriation Accounts and audit those reports. On the other hand, there is huge backlog of audit reports to be scrutinised by the Public Accounts Committee (PAC) which weakens the accountability process. One of the causes of this backlog is that there was no PAC and other parliamentary committees when there was no political government in office.

Audit is still done in a traditional manner. Among the three streams of audit, namely, compliance, financial and performance audits, compliance auditing is predominant which is not sufficient to meet the growing expectations of the stakeholders. Performance audit is yet to gain ground as there is an obvious lack of skills and capacity to conduct such audit. As the government is laying increasing emphasis on performance-based management, auditing should be shifted to performance evaluation to assess whether the public money used by the spending Ministries/Divisions has achieved the best value for money.

Conclusion

PEM is a managerial approach of managing public money. For a better PEM, aggregate fiscal discipline, allocative efficiency and operational efficiency are essential. It appears from the analyses presented in this article that aggregate fiscal discipline in Bangladesh is far less than satisfactory. There are also many problems and weaknesses in allocative efficiency and operational efficiency. A comprehensive reform is, therefore, necessary to address these problems with support from the change agents who are willing to take forward reform agenda. Political involvement from the beginning of the budget process, unification of dual budget system, deepening MTBF at LMs/Agency levels,

and shifting towards performance auditing may be some of the priorities which should be considered while reforming the existing PEM system in Bangladesh.

References

(2016, June). *Public Financial Management (PFM) Reform Strategy*. Dhaka, Bangladesh: Government of Peoples' Republic of Bangladesh.

(2012). *A Review of the Medium Term Budget Framework in Bangladesh February, 2012*. Dhaka: SPEMP.

(2021). *ADP Implementation Progress Review Report 2020-2021.* Dhaka: IMED, Ministry of Planning.

(n.d.). *Bangladesh Economic Review 2022.* Dhaka: Ministry of Finance. Retrieved from https://mof.portal.gov.bd/site/page/28ba57f5-59ff-4426-970a-bf014242179e/Bangladesh-Economic-Review-2022

(2011). *Bangladesh Economic Update Volume 2.* Dhaka: Unnayan Onneshan.

(2010). *Bangladesh Public Expenditure and Institutional Review, Towards a Better Quality of Public Expenditure (In Two Volumes) Volume II: Sectoral Analysis (in two volumes).* Washington D.C.: World Bank. Retrieved from https://openknowledge.worldbank.org/entities/publication/9228a927-b39a-562b-baa3-6ceca2f56592

(2021). *Budget in Brief.* Dhaka: Ministry of Finance. Retrieved from https://mof.gov.bd/site/view/budget_mof/%E0%A7%A8%E0%A7%A6%E0%A7%A8%E0%A7%A7%E0%A7%A8%E0%A7%A8/%E0%A6%AC%E0%A6%BE%E0%A6%9C%E0%A7%87%E0%A6%9F%E0%A7%87%E0%A6%B0%20%E0%A6%B8%E0%A6%82%E0%A6%95%E0%A7%8D%E0%A6%B7%E0%A6%BF%E0%A6%AA%E0%A7%8D%E0%A6%A4%E0%A6%B8%E0%

Framework for assessing public financial management. (2016). Washington D.C., USA: PEFA Secretariat.

Government of the Peoples' Republic of Bangladesh. (2016, June). Public Financial Management (PFM) Reform Strategy. Dhaka, Bangladesh.

Holme, M. (n.d.). *The MTBF in Bangladesh: Concept and Roadmap 2012-13 to 2016-17*. Dhaka, Bangladesh: Ministry of Finance.

NBR. (2020). Annual Report 2019-2020. Dhaka, Bangladesh. Retrieved from https://nbr.gov.bd/uploads/publications/5._NATIONAL_.pdf

(2010). *Outline of Modernization Plan (2011-2016).* Dhaka: National Board of Revenue. Retrieved from http://www.cptu.gov.bd/(Outline of Modernization Plan (2011-2016),2010)

(2010). *Public Expenditure and Financial Accountability (PEFA) Assessment.* Washington D.C.: World Bank.

Public Expenditure Manual. (2005). Dhaka, Bangladesh: Ministry of Finance.

(2016). *Public Financial Management Performance Report (PFM-PR).* Dhaka: Govt. of the Peoples' Republic of Bangladesh. Retrieved from https://mof.portal.gov.bd/sites/default/files/files/mof.portal.gov.bd/page/2cb25ee7_d82c_4a1f_81ae_bacc4a03374e/Bangladesh%20-%20PEFA%20Report%202016.pdf

Public Money and Budget Management Act . (2009). Dhaka, Bangladesh: Ministry of Finance.

Publications. (n.d.). Retrieved from National Board of Revenue: https://nbr.gov.bd/

Reports. (n.d.). Retrieved from Office of the Controller General of accounts: http://www.cga.gov.bd/index.php?option=com_content&task=view&id=383&Itemid=450

Ronsholt, F. E. (2011). Are Public Financial Management Systems Improving in Low and Middle Income Countries? Washinton D.C., USA: PEFA.

Schick, A. (1999). *A Contemporary Approach to Public Expenditure Management.* Washington D.C.: World Bank

The Web of Accountability Institutions in Bangladesh

Md. Arifur Rahman*

Abstract

World Bank's WGI scores do not speak highly about the state institutions in Bangladesh. Government of Bangladesh, in its 8th Five Year Plan (FYP), pledges to strengthen institutions and enhance good governance, which is a precondition to fulfil the targets of Perspective Plan (2021 – 2041) to become a developed nation by 2041. It is worthy of note that Bangladesh could not achieve a similar target of strengthening institutions set out in its 7th FYP. Effective accountability institutions are prerequisites for strengthening institutions and good governance. This paper identifies the state institutions and works out their interrelationships which are related with the accountability mechanisms internal to the state. The identification may help to formulate effective policies to strengthen accountability mechanisms and thus strengthening the institutions.

1. Introduction

Ensuring accountability largely depends on understanding of accountability, whereas understanding accountability means to have a good command on the complex process of the accountability mechanisms as well as the convoluted interrelationships among the accountability institutions within a territory. The lexicographic definition of accountability is far from what it really is. Moreover, the constantly evolving multifarious dimensions of accountability in an ever-changing environment has made the common sense of accountability uncommon. Bangladesh has secured remarkable achievements in a number of socio-economic indicators that the nation can really be proud of (Varadarajan, 2021). However, the voice and accountability index for Bangladesh is one of the contradictory performances that is unmatched with its upward trends in other socio-economic indicators (see Figure – 1). The gradual decline in accountability over the decades has already become a matter of concern for the policy makers within and outside the government. The declining inclination of accountability must be arrested by putting in place effective policies. Furthermore, effective policies can only be formulated if the accountability institutions are effectively identified and their expected roles are mapped succinctly. The foremost object of this paper is to pinpoint the status and position of the accountability institutions in the legal framework of Bangladesh.

---

*Director, Civil Audit Directorate

The paper also discusses the typological definitions of accountability which is not a byproduct of the core discussion rather it provides a strong ground where the discourse is based on.

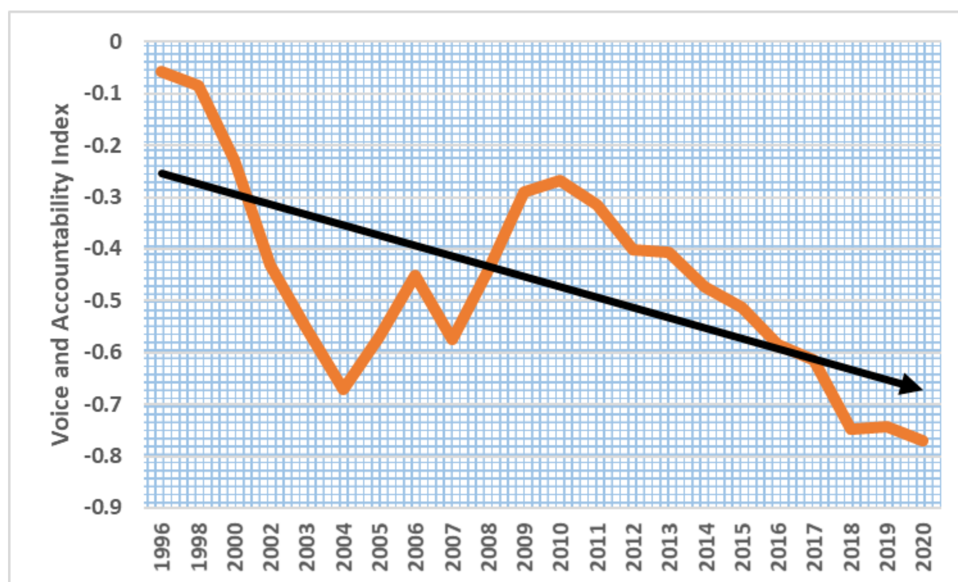


Figure – 1: Voice and accountability index of Bangladesh has declined over the decades.
(*Source:* World Governance Index (WGI) data of World Bank)

The first and second Poverty Reduction Strategy Papers identify corruption as a major impediment for economic development. Good governance and fighting corruption are given due importance in the seventh Five Year Plan (FYP: 2016 – 2020). The seventh FYP continued the efforts initiated by the sixth FYP (2011 – 2015) to strengthen institutions and encourage practices of good governance (General Economics Division, 2015). The government has adopted a policy of zero tolerance to corruption. To implement this policy a National Integrity Strategy (NIS) has been formulated and approved by the cabinet which identifies the context and challenges being faced by the state and non-state institutions in Bangladesh (General Economics Division, 2020). The NIS brings to focus a strategy on promotion of integrity based on the constitutional spirit and UN convention against corruption (Cabinet Division, 2012). Notwithstanding the progress in the FYPs and NIS, Figure – 1 shows Bangladesh has a huge room for improvements as far as they relate to institutional development. The 8th FYP also recognizes that institutional strengthening and governance improvement are important factors to achieve the targets of Perspective Plan (2021 – 2041). Institutional strengthening implies effective accountability mechanisms. Therefore, successful

identification of the accountability institutions and clearly charting their expected roles are preconditions for institutional strengthening. This paper presents a structure where the accountability institutions are mapped along with their interrelationships.

Society as a political institution often comprises of both state and non-state (formal and informal) institutions. People or citizens are individual units that comprise of a society. A nation state is also formed of its citizens or people. The people or the citizens are ultimate source of powers that govern a society or a nation state. Effective governance requires a set of formal institutions, which derive powers from the people to run and govern the society or state and thus act as agents for the people. The mechanisms of modern-day accountability are based on the principal-agent relationships between the people and the government institutions.

The non-state institutions are gradually becoming prominent in exerting accountability of the government institutions as they are gaining more attentions in recent years. Along with the non-state institutions, some extra-parliamentary statutory institutions e.g. National Human Rights Commission, Information Commission are also playing important roles in the domain of accountability. The earlier accountability mechanisms are thus by the interventions of these new actors becoming more complicated. Effective policy formulation is an absurdity within an obscure environment. This paper puts together all the institutions in Bangladesh by charting their roles and responsibilities that helps policy makers to identify effective interventions. The following section discusses on various types of accountabilities. Section 3 sheds lights on horizontal or internal accountability, which deals with most of the accountability institutions. Section 4 discusses how the existing laws and regulations in Bangladesh allocate spaces for these institutions within the legal framework. Evolution of extra-parliamentary institutions and their relationships with the parliament are discussed in section 5 and finally section 6 concludes the paper.

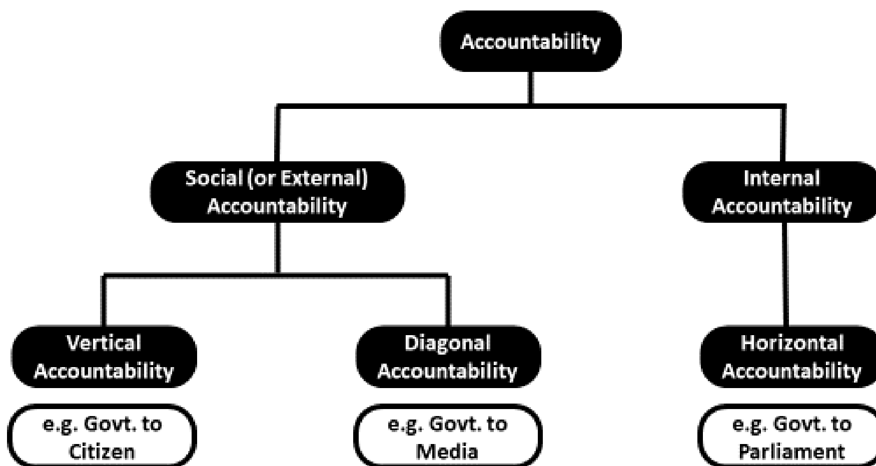


Figure – 2: Diagram showing types of accountabilities.

2. Types of accountabilities

Accountability arrangements, defined as relationships between rulers and ruled, are considered to be fundamental for the democratic quality of a polity (Olsen, November, 2017). The World Development Report of 2004, identifies lack of accountability as a key reason for failures of public services, and suggests direct accountability relationships between service providers and citizens (World Bank, 2004). Effective accountability relationships between the decision makers and the citizens not only enhances democratic quality but also helps to ensure the value for money (VFM) of the public purse (Demirag & Khadaroo, 2011). Internal accountability coupled with social accountability formulates a democratic norm that ensures the decision makers are made accountable to the citizens who are the ultimate source of powers and bestowed their powers to the decision makers (Malena, Forster, & Singh, 2004).

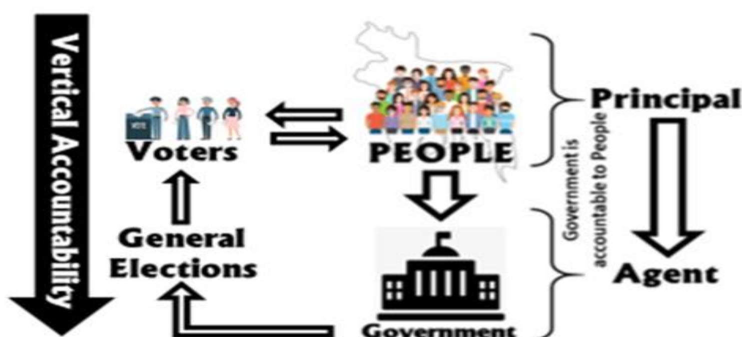


Figure – 3: the flowchart of Vertical Accountability of the Government.

Social accountability can be defined as an approach towards building accountability that relies on civic engagement. In other words, these mechanisms are the citizens' efforts at ongoing meaningful collective engagement with public institutions for accountability in the provision of public goods (Boydell, McMullen, Cordero, Steyn, & Kiare, 2019; Joshi, 2017). The ordinary citizens and/or civil society organisations, e.g. non-government organisations and think tanks, take part directly or indirectly in the process of ensuring social accountability (Malena, Forster, & Singh, 2004). The processes of social accountability can be initiated and supported by the state, citizens or both, but very often they are demand-driven and operate from the bottom. Activities such as social audits, participatory budgeting, citizen report cards, and community score cards etc. involve general public in the answerability of decision makers and can therefore be taken as social accountability initiatives (World Bank Institute, 2005). Social accountability mechanisms are often called external accountability in contrast to more familiar or conventional internal or horizontal mechanisms of accountability (Malena, Forster, & Singh, 2004). In some literature social accountability is comprised of both vertical and diagonal accountabilities: the extent to which governments are accountable to citizens is called vertical accountability and to media and civil society is called diagonal accountability (Luhrmann, Marquardt, & Mechkova, 2020).

Figure – 4: Diagonal Accountability of the Government.

Government officials and bureaucrats are held accountable for their conducts and performance, i.e. for their use of powers and services rendered towards public interests. The accountability for the conduct of government officials are essentially process oriented where rules are set in the first place, and then steps are taken to make sure rules are followed (Behn, 2001). All the states around the world have developed some mechanisms to ensure accountability of public servants. These accountability mechanisms which are internal to the states are

often termed as internal or horizontal mechanisms of accountability (Plattner, Diamond, & Schedler, 1999).

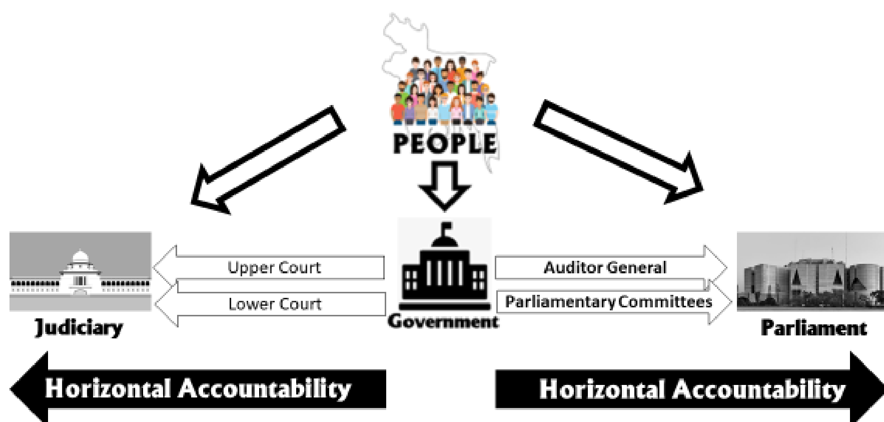


Figure – 5: Horizontal Accountability of the Government.

In a nutshell, when the public servants or officials are accountable to non-state institutions (formal or informal) then it is called **social accountability**. Social accountability is of two types: (a) vertical accountability – means the political government is accountable to the voters through general elections; and (b) diagonal accountability – means the political or bureaucratic government is accountable to civil society organisations, media and so on. On the other hand, **internal accountability** means government officials or public servants are accountable to other state institutions e.g. the Comptroller and Auditor General, Parliament, Anti-Corruption Commission etc. internal accountability is also known as horizontal accountability. The state institutions within the horizontal accountability mechanisms are of two types: (a) Constitutional bodies or institutions and (b) statutory bodies or institutions.

3. Decaying Effectiveness of Horizontal Accountability

There is an ever-growing body of research work centering the social accountability and it is gaining rapid acceptance among the global community (Boydell, McMullen, Cordero, Steyn, & Kiare, 2019). It has been observed that the internal or horizontal accountability based on the horizontal accountability mechanisms exercised through a network of institutions is often overlooked by the academia and other stakeholders. The presence of vertical accountability alone is not enough to make governments accountable, a robust civil society (i.e. diagonal accountability) and horizontal oversight are also required to make the accountability mechanisms functional (Mechkova, Luhrmann, & Lundberg, 2019; Hegre, Bernhard, & Teorell, 2019). Many of

the accountability institutions, which are internal to the state, have experienced a decline in their effectiveness as the institutions of accountability and oversight. A study on Indian Parliament finds that the instruments that Parliament can use for accountability are increasingly being rendered dysfunctional (Kapur & Mehta, 2006).

Several factors, both from within and outside the institutions, are contributing to their continual decline in the effectiveness as the institutions of accountability and oversight. The challenges to overcome the institutional weaknesses are manifold. However, researchers have documented that self – relinquishment of accountability functions and indifference to core oversight responsibilities are among the major sources of ineffective institutions (Kapur & Mehta, 2006). These weaknesses are overburdened with complexities within the institutions, since they exist in a very complex modern governance framework (Schneider, 2012; Osborne, 2006). Therefore, it is necessary to illustrate the network of accountability institutions and document their interactive roles to help the actors identify effective and timely actions towards meaningful accountability mechanisms. The legal framework and the accountability institutions in Bangladesh are taken as a matter of discourse for our study. This paper documents the interrelationships among the accountability institutions and maps their interactions as stipulated in the existing laws of Bangladesh.

4. Legal Framework and Horizontal Accountability

As the doctrine of separation of powers laid down by Locke and Montesquien, separation of judicial, legislative and executive branches of state is deemed to be essential to ensure political accountability (Ratnapala, 1993). In democracies, elections are primary mechanism for political (or social) accountability, though they alone are not sufficient to discipline the public officials. Separation of powers among the three organs of the state also helps preventing the abuse of power, and the usurpation and tyranny of holders of these powers (Persson, Roland, & Tabellini, 1997). The constitution of Bangladesh which is designed on the architectonic principles of separation of powers, conspicuously sets out the boundaries of powers and functions of the three organs of the state. With this separation, the balances of power among these three branches (Montesquien trinity) are expected to create social equilibria. The underlying construct of such a design makes the executive branch accountable horizontally to legislature and to judiciary (see Figure – 5).

In addition to the three organs of the state, a number of constitutional bodies are formed by the constitution to make the horizontal accountability more

meaningful. The constitutional bodies are vested with unique powers, functions and status to accomplish some specific task on behalf of the state. The objective of creating these positions is to ensure the highest quality of fair and impartial actions in the discharge of state functions (Husain, 2014). Moreover, a number of statutory bodies are created by the parliament to make the government more responsive and responsible (Saunders, 2020). These creatures of parliament further extend the network of accountability institutions as set out within the constitutional framework.

Within the constitutional scheme of Bangladesh, three organs of the state along with three constitutional bodies primarily constitute the web of accountability institutions. The executive organ, comprised of political incumbents (elected or not) and the bureaucrats (civil or military), is answerable to the judiciary in legal matters. On the other hand, the legislative serves as a locus of accountability and oversight in a democracy in at least two ways. First, Parliament is the agency through which the executive is held accountable. Second, elections are the mechanism through which parliamentarians are held accountable to the people (Kapur & Mehta, 2006).

The parliamentarians as agents of the people are vertically accountable to their principals, the people, through elections. The Election Commission (EC), one of the constitutional bodies, takes part in the accountability mechanisms directly by making politically accountable the parliamentarians as well as the political government by facilitating the general elections. For the appointment of the civil bureaucrats, the matters relating to qualifications and methods of appointment to the services of the Republic need to be consulted with the Public Service Commission (PSC)[1]. Since, prior to the appointments of the bureaucrats, the role of PSC is to recommend the list of eligible candidates to be appointed, it does not resemble with any accountability mechanism, rather it places some additional prior controls over the recruitment process independent of the government. The PSC being one of the constitutional bodies remains outside the network of accountability institutions as set out in our constitution.

The other constitutional body, the Comptroller and Auditor General (CAG) is the most important and most relevant institution within the horizontal

[1] Article 140 (2) of the Constitution of the Peoples Republic of Bangladesh requires the President shall consult PSC with respect to matters relating to appointment, promotions, transfers, service qualifications, methods of recruitment, terms and conditions of service and other matter for the services of the Republic.

accountability framework. According to B R Ambedkar[2], CAG shall be the most important officer under the Constitution of India (Singh, 2011) and is the guardian of the public purse. Considering the basic structures of the constitutions of both Bangladesh and India, the CAG assumes the same role in Bangladesh's parliamentary democracy. The CAG after auditing all the government transactions submits the report to the President who causes them to be laid before the Parliament. Once tabled before the House, CAG's reports stand referred to the Public Accounts Committee (PAC) of the Parliament.

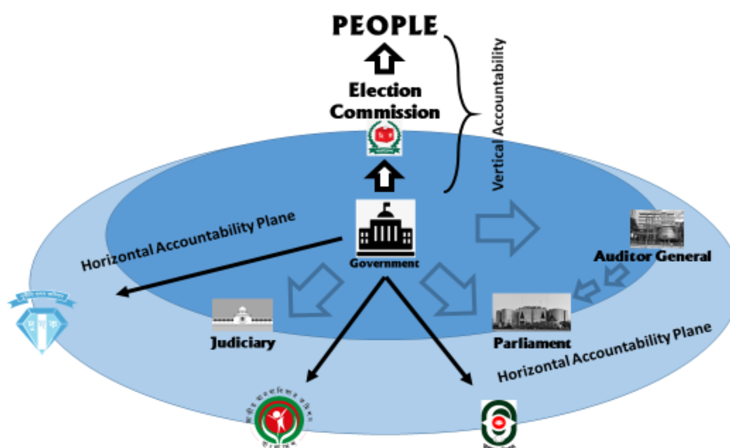


Figure – 6: the constitutional and statutory bodies within the accountability framework. (The dark plane represents constitutional framework and the lighter plane represents statutory framework).

The PAC is one of the two committees which are mentioned in the constitution considering its overarching role on the financial accountability of the government (Saleh, 2021). Several studies on parliamentary committees of Bangladesh find that, in spite of a structurally well-designed political system in Bangladesh, it is lacking the application of separation of powers in practice. The dominance of the executive branch headed by the Prime Minister often overlaps with and overshadows the other branches (Saleh, 2021). Therefore, a well-structured and essentially empowered PAC remains in the center-stage of the web of accountability institutions in Bangladesh. A persistent shyness of PAC exacting its powers and functions may often indicate its oblivious role as a useful accountability institution.

[2] Bhimrao Ramji Ambedkar (14 April 1891 – 6 December 1956) was an Indian jurist, economist, social reformer and political leader who headed the committee drafting the Constitution of India from the Constituent Assembly.

Through the Public Money and Budget Management Act, 2009, the PAC has been provided with additional biting teeth. Nonetheless, the situation has hardly improved. Section 19 of the Act stipulates that the executive shall immediately act upon the decision of the PAC. Any negligence or any intentional delay to act upon such decision leads to non-compliance of section 19 and eventually leads to misconduct by the public servant concerned.
Three of the parliamentary standing committees namely the Public Accounts Committee (PAC), the Public Undertakings Committee (PUC) and the Estimates Committee (EC) are responsible for keeping the government accountable for its financial actions and policies (Mahiuddin, 2009). The Public Undertakings Committee (PUC) is responsible for scrutinising the activities of various government commercial undertakings and public enterprises, holding meetings and preparing reports thereon. Among the financial committees, the Estimates Committee (EC) has traditionally remained very inactive. However, this committee is supposed to have better potential than the other financial committees in ensuring financial discipline (Ahmed, 2006). Apart from these committees there are numerous standing committees which are formed to make the government ministries and departments accountable for their performances in relation to public service delivery.

Together with its standing committees and parliamentarians, the Parliament emerges as the epicenter of all accountability mechanisms in Bangladesh. To strengthen the hands of Parliament, the framers of the Constitution deliberately created the accountability institutions like the CAG and the Election Commission (EC). Analysing the schematic design of the constitution, an inquisitive mind can easily find that, within eleven parts (excluding part IXA for emergency provisions) of the constitution the first three parts are dedicated to the ideas of the republic, state principles and citizen's fundamental rights. Then the following three parts, based on the architectonic principles of separation of powers, delineates as well as delimits the powers and functions of three separate branches of the state. The following three parts, essentially crafted three constitutional bodies, the EC, CAG and PSC, to make the separation of powers within the three branches more effective and meaningful through appropriate accountability mechanisms. While the EC is involved to ensure vertical accountability, the CAG helps make horizontal accountability meaningful routing through the Parliament. The other parts of the constitution are necessary but do not create any institution.

In most of the democracies in the world, that is parliamentary democracies, institutional agents are only indirectly accountable to their political principals.

The essence of parliamentary democracy is the accountability of the government or the executive branch to the legislature. At the same time, the legislature is exposed to the discipline of the electoral system, and so there may well be a multilinked chain of accountability between executive government and the citizens (Laver & Shepsle, 2012). The Constitution of Bangladesh has firmly knit the fabric of a democracy by needling these institutions with the string of accountability.

5. **Extra-parliamentary Accountability**

At the end of the discourse, it is important to shed light on the statutory institutions which are also part of the network. Since these institutions are created by statutes i.e. acts of parliament, they are often called the creatures of parliament. Among these numerous statutory bodies Anti-Corruption Commission (ACC), National Human Rights Commission (NHRC), Information Commission and a few others are considered as accountability institutions. Though these institutions are creatures of parliament, they operate outside the parliamentary accountability mechanisms. The laws, which are enacted by the Parliament to set up such institutions do not require that these institutions report their findings to the Parliament. They are often obligated to report their findings, by law, to the President. There has been a significant expansion of these extra-parliamentary accountability institutions in recent decades (Evans, 1999).

These extra-parliamentary institutions, however, establish a feeble link with the parliament. For example, section 29 of the Anti-Corruption Commission Act, 2004 and section 30 of the Rights to Information Act, 2009 require the commissions to prepare annual reports and submit them to the President, who shall cause them to be laid before Parliament. However, in the case of National Human Rights Commission such a provision is absent in the relevant act. Which implies even the feeble link of the commission has been disassociated with the Parliament, denting further the effectiveness of parliamentary accountability.

Another extra-parliamentary accountability institution is the Ombudsman. Article 77 of the Constitution stipulates that the Parliament may by law establish the office of the Ombudsman. Accordingly, Parliament has enacted the Ombudsman Act, 1980 to establish the office of the Ombudsman, though it is yet to be materialised. Since the Ombudsman is established by a law, even though it is mentioned in the constitution, the institution is a creature of parliament not a creature of the constitution. In the 7th FYP the government has pledged to set up an office for the Ombudsman. Since the pledge was not

fulfilled yet, the government continues to uphold its commitment to establish the office in its 8th FYP.

The Ombudsman being a creature of the Parliament is notably different from the other statutory accountability institutions. Pursuant to their respective laws, the Anti-Corruption Commission and the Information Commission submit their annual report to the President. Whereas the Ombudsman is mandated to submit its report directly to the Parliament. In the case of the latter, parliamentary accountability is more effective when compared with the former two. Therefore, while setting up any extra-parliamentary accountability institution, the Parliament should carefully examine whether the relevant sections of the act undermine the parliamentary accountability or not.

6. Conclusion

The government being a very large and complex institution and the Parliament being so busy, the perception of inadequacy of Parliament as an accountability institution is gaining grounds. In the Westminster system, where the government i.e. ruling party largely control the Parliament may contribute further to an ineffective parliamentary accountability. The extra-parliamentary institutions are intended to fill the gap (Evans, 1999). To many, it is a paradox that the parliament establishes the extra-parliamentary institutions through legislation, which in turn undermine the capacity of parliament to hold the government accountable. In recent times, nonetheless, these extra-parliamentary creatures are the parts of the network that complete the web of accountability institutions.

To fulfil the government's pledge to strengthen institutions and to enhance good governance the identification of accountability institutions is indispensable (General Economics Division, 2020). It is evident that, government intervention to a great extent shapes up the institutions relating to horizontal and vertical accountability. Institutions relating to diagonal accountability are not subject to direct interventions of the government. However, government can support and facilitate these institutions by allocating grants of funds to strengthen the overall accountability mechanisms (Malena, Forster, & Singh, 2004).

Reference

Ahmed, N. (2006). *Limits of parliamentary control : public spending in Bangladesh.* Dhaka: Dhaka University Press.

Behn, R. D. (2001). *Rethinking Democratic Accountability.* Washington, DC: Brokings Institution.

Boydell, V., McMullen, H., Cordero, J., Steyn, P., & Kiare, J. (2019). Studying social accountability in the context of health system strengthening: Innovationas and considerations for future work. *Health Research Policy and Systems*, pp. 17 - 34.

Cabinet Division. (2012). *National Integrity Strategy of Bangladesh.* Dhaka, Bangladesh: Government of Bangladesh.

Demirag, I., & Khadaroo, I. (2011). Accountability and value for money: a theoritical framework for the relationship in public private partnership. *Journal of Management and Governance*, pp. 271 - 296.

Evans, H. (1999). Parliament and Extra - Parliamentary Accountability Institutions. *Australian Journal of Public Administration (Volume 58, Issue 1)*, pp. 87 - 89.

General Economics Division. (2015). *7th Five Year Plan: Accelerating Growth, Empowering Citizens.* Dhaka, Bangladesh: Government of Bangladesh.

General Economics Division. (2020). *8th Five Year Plan: Promoting Prosperity and Fostering Inclusiveness.* Dhaka, Bangladesh: Government of Bangladesh.

Hegre, H., Bernhard, M., & Teorell, J. (2019). Civil society and the democratic peace. *Journal of Conflict Resolution (Volume 64, Issue - 1)*, pp. 32 - 62.

Husain, S. (2014, March 12). Constitutional Bodies in a Democratic Polity. *The Daily Star*, pp. pp. 4 - 6.

Joshi, A. (2017). Legal empowerment and social accountability: Complementary strategies toward right-based development in health? *World Development (Vol - 99)*, pp. 160 - 172.

Kapur, D., & Mehta, P. B. (2006). *The Indian Parliament as an Institution of Accountability.* Geneva: UN Research Institute for Social Development.

Laver, M., & Shepsle, K. A. (2012). Government Accountability in Parliamentary Democracy. In A. Przeworski, S. C. Stokes, & B. Manin, *Democracy, Accountability, and Representation* (pp. pp. 279 - 296). Cambridge, UK: Cambridge University Press.

Luhrmann, A., Marquardt, K. L., & Mechkova, V. (2020). Constraining Governments: New Indices of Vertical, Horizontal and Diagonal Accountability. *American Political Science Review (Vol - 114, Issue - 3)*, pp. 811 - 820.

Mahiuddin, M. K. (2009). The Parliamentary Committee System in Bangladesh: An Analysis of its Functioning. *Heidelberg University Repository*, pp. 1 - 308.

Malena, C., Forster, R., & Singh, J. (2004). *Social Accountability: An Introduction to the Concepts and Emerging practice.* Washington, DC: World Bank.

Mechkova, V., Luhrmann, A., & Lundberg, S. I. (2019). The Accountability Sequence: From De-jure to De-facto Contraints on Governments. *Studies in Comparative International Development (Volume - 54, Issue - 1)*, pp. 40 - 70.

Olsen, J. P. (November, 2017). Democratic Accountability and the terms of Political Order. *European Political Science Review*, (Volume 9, Issue 4) pp. 519 - 537.

Osborne, S. (2006). The New Public Governance? *Public Management Review (Vol - 8, Issue - 3)*, pp. 377 - 387.

People's Republic of Bangladesh. (1972). *The Constitution of People's Republic of Bangladesh.* Dhaka: Ministry of Law and Parliamentary Affairs.

Persson, T., Roland, G., & Tabellini, G. (1997). Separation of Powers and Political Accountability. *The Quarterly Journal of Economics (Volume 112, Issue 4)*, pp. 1163-1202.

Plattner, M. F., Diamond, L., & Schedler, A. (1999). *The Self Restraining State: Power and Accountability in new Democracies.* Boulder, CO: Lynne Reinner.

Ratnapala, S. (1993). John Locke's Doctrine of the Separation of Powers: A Re-Evaluation. *The American Journal of Jurisprudence (Volume 38, Issue 1)*, pp. 189 - 220.

Saleh, M. A. (2021). Ensuring Government's Financial Accountability: Role of Public Accounts Committee (PAC) in 8th and 9th Parliament of Bangladesh. *Dhaka University Institutional Repository*, 1 - 104.

Saunders, B. B. (2020). Responsible Government, Statutory Authorities and the Australian Constitution. *Federal Law Reviewv (Volume 129 Issue 1)*, pp. 1 - 26.

Schneider, V. (2012). Governance and complexity. In D. L.-F. (Ed.), *The Oxford handbook of governance* (pp. pp. 129 - 142). Oxford, UK: Oxford University Press.

Singh, N. K. (2011, August 29). Of accounts and accountability. *The Indian Express*, p. pp. 4.

Varadarajan, T. (2021, March 25). Bangladesh Turns 50: Five decades after independence, it has much to be proud of. *Wall Street Journal*, pp. https://www.wsj.com/articles/bangladesh-turns-50-11616710420.

World Bank. (2004). *World Development Report 2004: Making services work for poor people.* Washington, DC: World Bank.

World Bank Institute. (2005). *Social Accountability in the Public Sector.* Washington DC, USA: World Bank.

An Anatomy of Money Bill

Hia Paul*

Abstract

Public purse implies peoples' money obtained from various sources of tax and non-tax revenues. As the withdrawal of money out of the public purse and its spending for public purposes entails a complex process, it should be managed prudently. The management of the entire process may be termed Public Purse Management. The inflow and outflow of public money are not permissible without the consent of the people. The responsibility of Public Purse Management lies with the parliament. All legal procedures concerning this management are known as financial measures with the Money Bill encompassing the most significant part of these measures. This article attempts to shed light on the attributes of the Money Bill from a constitutional perspective, its historical adaptation in Bangladesh, certain comparisons with other countries along with potential misapplication of this bill.

Introduction

A bill is essentially a statute, just in a draft version. It must go through a rigorous process of scrutiny, debate, recommendation, voting, and assent prior to being transformed into an act. In other words, legislation at the formulation stage is labelled as a bill, which turns into law at the promulgation stage. Bills are formulated by the Executives of the state. Several categories of bills are presented before parliament. The following figure explains the classification of bills:

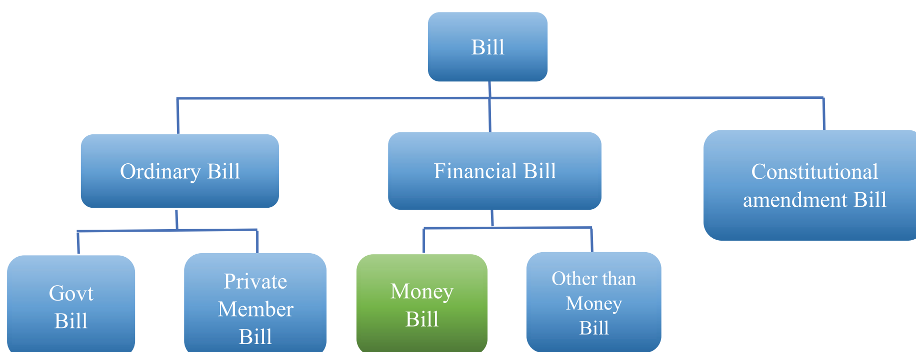


Figure 1: Classification of Bills

* Director, FIMA

It is to be noted that, neither our Constitution nor the Rules of Procedure of the Parliament uses the term “financial bill”. Instead, this has been labelled as “financial measures” as mentioned earlier. Although Article 82 contains an inference of this by stating— *“No money bill or any bill which involves expenditure from public moneys….”.* In contrast, the Indian Constitution is applying the term “financial bill” in Article 107(1) which reads as follows – *“subject to the provisions of article 109 and 117 with respect to money bill and other financial bills, a bill may originate in either house of parliament."*

What is Money Bill?

“*In the Westminster system (and, colloquially, in the United States), a Money Bill or supply bill is a bill that solely concerns taxation or government spending (also known as appropriation of money), as opposed to changes in public law*.” (Money Bill, n.d.)

According to the glossary of the UK Parliament, “*A Money Bill is a bill that in the opinion of the House of Commons Speaker is concerned only with national taxation, public money, or loans. A bill that is certified as a Money Bill and which has been passed by the Commons will become law after one month, with or without the approval of the House of Lords, under the terms of the Parliament Act, 1911.”*

Article 81 of the chapter “Legislative and Financial Procedures” of the Constitution of Bangladesh describes Money Bill as,

“(1) In this Part “Money Bill” means a Bill containing only provisions dealing with all or any of the following matters –

(a) the imposition, regulation, alteration, remission or repeal of any tax;

(b) the borrowing of money or the giving of any guarantee by the Government, or the amendment of any law relating to the financial obligations of the Government;

(c) the custody of the Consolidated Fund, the payment of money into, or the issue or appropriation of moneys from, that Fund;

(d) the imposition of a charge upon the Consolidated Fund or the alteration or abolition of any such charge;

(e) the receipt of moneys on account of the Consolidated Fund or the Public Account of the Republic, or the custody or issue of such moneys, or the audit of the accounts of the Government;

(f) any subordinate matter incidental to any of the matters specified in the foregoing sub clauses.”

To be precise, bills concerning the following matters are considered as Money Bill:

- Tax Measures
- Budget Appropriation
- Issuance of Money out of Consolidated Fund
- Receipt of moneys in CF and PAR
- Issuance of Money out of Public Account
- Audit and Account related bill
- Incidental issues

Money Bill has a substantial impact on state finance. While borrowing or spending, this is imperative for a state to take intergenerational equity into account. Such loans and expenses also have some time-bound effects. Delayed repayment of loans or inadequate provision for required public expenditures can be disconcerting for the state. In extreme cases, a government might collapse due to such failures. These highly sensitive financial issues have been covered by a single envelope, that is to say the Money Bill.

Money Bill directly relates to state matters. Declaring an ordinary bill a Money Bill amounts to a violation of the Constitution.

Historical Perspective of Money Bill

Money Bill was introduced in the UK Parliament over a hundred years ago, in 1911. Basically, it was the creation of the UK Parliament Act, 1911, and hence the Act may be called the guardian of the Money Bill.

As is known, British Parliament is bicameral. The upper chamber is called the House of Lords, where literally only the nobles could prevail once upon a time. The lower chamber is termed the House of Commons. Up until the early 20th century, the House of Lords had the power to veto legislation. But this arrangement came under criticism during the political crisis of 1909 when the House of Lords refused to pass David Lloyd-George's 'people's budget' of 1909. The implication of the rejection of a budget is highly detrimental to a government's function. This may even lead to the dissolution of Parliament. After many heated debates on the floor of the house, the Lords were eventually compelled to pass the budget with the intervention of the erstwhile Monarch George V, when the Commons' democratic mandate was ratified by holding a general election in January 1910. Following a second election held in December, the Parliament Act, of 1911 was passed with the royal assent.

The rejection of the Finance Bill i.e., Budget in 1909 by the Lords impelled the British government to take steps to curb the powers of the House of Lords

in this regard. The Preamble of the 1911 Act makes it evident by stating: "*An Act to make provision with respect to the powers of the House of Lords in relation to those of the House of Commons* ..." (Datta, Malhotra, & Tyagi, 2017)

“This act asserts that any bill certified by the Speaker as a Money Bill, unless passed by the Lords without amendment within one month of its receipt from the Commons, shall be presented for Royal Assent without the Lords’ agreement – unless the House of Commons direct to the contrary.” (Fieldman (Ed), 2013)

This act had a profound effect on the legislative process of the United Kingdom. By limiting the authority of the House of Lords, the 1911 Act heralded the process of democratization of the British Constitution.

Subsequently, the Government of India Act, 1935 (which was practically the constitution for British India) introduced ‘financial bill’ as a special provision. Although during that period there was no provision for certification by the Speaker, a ‘financial bill' could be placed in the Lower House only with the recommendation of the Governor-General.

However, the Constitution of India after independence and the Constitution of Bangladesh both incorporated the provision of the Speaker’s endorsement for distinguishing the Money Bill from other financial bills following the Parliament Act, 1911.

Money Bill in the Context of Bangladesh

In Article 81, the first item of the Money Bill is tax. Tax is an unrequited charge on people by the state, not a quid pro quo approach. Any Act regarding taxation will be considered Money Bill. For example, Income Tax Ordinance, 1984; Custom Act, 1969; VAT Act, 2012 etc. All sorts of amendments in any section of such Acts shall also be considered a Money Bill. (There is an umbrella act as known as Finance Act for this purpose.) On the other hand, requited charges like fines, fees, etc. will be part of an ordinary bill rather than a Money Bill.

In the case of the second sub-clause of the article, there can be separate enactment. For instance, a ceiling for fiscal borrowing through a debt management act.

The third one refers to another important piece of legislation called the Appropriation Act.

As for the fourth sub-clause, imposition of any new charged expenditure, or any kind of alteration thereof require to be presented as Money Bill. Although, altering Article 88 (Charges on Consolidated Fund) will essentially call for the amendment of the constitution.

Finance Act, some parts of the Public Money and Budget Management Act, 2009 fall under the fifth category. If Treasury Rule is transformed into Treasury Act, that will be counted as a Money bill according to this sub-clause 81(1) (e).

Regarding incidental matters as indicated in the sixth point, an example could be – if Treasury Rule related bill contains certain organisational issues, that part can be deemed as an incidental affair.

The term "incidental" in article 110(1) (g) of the Constitution has far-reaching implications. It is comprehensive enough to encompass not simply the rates, area, and field of tax, but also the whole apparatus for assessment, appeals, revisions, etc. On that account Finance Bills which, in addition to rates of taxation, contain provisions regarding the mechanism for collection, etc. are certified as Money Bills. Likewise, a bill in persuasion of the amendment or consolidation of the law relating to income tax is treated as a Money Bill. Since the primary aim of such bills is to impose, abolish, etc. of any tax, the mere presence of other incidental provisions does not necessarily rule them out from the category of Money Bills. Thus, there may be only one section in a Money Bill imposing a tax and there may be several other sections that may deal with the scope, method, manner, etc. of its imposition (Phadnis, 2016).

Nothing concerning administrative issues shall be included in Money Bill. If General Financial Rules is turned into an act, the bill shall be an ordinary one. Acts to establish an organisation involve public money expenditure, yet such bills will be "other than Money Bill'. Anti-Corruption Commission is a Statutory Public Authority (SPA). Anti-Corruption Commission Act (Bangladesh), 2004 includes charged expenditure. However, since this act is not "only" about charged expenditure, it shall not be regarded as Money Bill.

Article 81(3) provides that, every Money Bill shall bear a certificate under the hand of the Speaker that it is a Money Bill when it is presented to the President for his assent. That is to say, Money Bill involves endorsement from Speaker, which is not at all necessary for ordinary bills/other financial bills.

Furthermore, according to Article 82, no Money Bill or any bill involving expenditure from public moneys, shall be presented before Parliament except

on the recommendation of the President. It is to be mentioned that the President plays the role of Executive Head while making such recommendations. Later, when the parliament shall send the bill again to the President—this time for assent, the President acts as the Titular Head. So financial bill is directed to the President twice. This feature distinguishes financial bills from ordinary bills.

The table below shows in what ways the various categories of bills differ from each other:

	Ordinary Bills	Money Bill	Other Financial Bills	Constitutional Amendment Bill
President's recommendation before submission	no	yes	yes	no
Speaker's Certificate	no	yes	no	no
President's assent	15+7 days	15 days	15+7 days	15+7 days

It is evident from the above table that measures as regards Money Bill are distinct from other bills.

Two major Money Bills are:

- Finance Bill (for revenue)
- Appropriation Bill (for expenditure)

These two bills are presented before parliament each fiscal year. All the revenues, expenditures, and borrowings of the government are determined by these bills. They are indisputably well-fitted in the five items mentioned within the remit of the Money Bill.

Finance Bill/Act

Finance Bill is for raising necessary funds to finance the expenditure programme of the government as laid out in the approved budget by way of imposing new taxes or changing the existing tax rates. This is accomplished

through the Finance Act. As mentioned earlier, this is an umbrella act, an engulfing one. All kinds of taxation-related laws e.g., Income Tax Ordinances, Customs Act, etc. fall within the remit of the Finance Act. The laws provide authority to collect taxes. If any tax rate or any provision of relevant laws calls for any change, the changes are proposed through the Finance Act. This bill is initiated by the National Board of Revenue (NBR).

Prior to 1920, levying or altering tax required separate acts. Subsequently, for the sake of convenience, such acts were brought together under a single act. This provides the benefit of passing one Finance Bill to amend multiple acts in one go. Finance Act legalises the imposition of taxes as it represents peoples' assent.

The term "Finance Bill" has not been cited in our constitution. Although it has been implied by Article 83 which states that no tax shall be levied or collected except by or under the authority of an Act of Parliament. However, rule 127(1) of the Rules of Procedure of the Parliament clearly defines the Finance Bill as follows: *"Finance Bill" means the Bill ordinarily introduced each year to give effect to the financial proposals of the Government for the next following financial year and includes a Bill to give effect to supplementary financial proposals for any period."* The words "by or under the authority" used in Article 83 denote that if the act authorises NBR to make any changes in the tax rate by issuing SRO, it can do so. However, this authority should be applied judiciously and prudently.

An interesting feature of the Finance Bill is worth mentioning. A declared provision of tax in the Finance Bill shall come into effect from the date the bill is introduced before the house. For example, if the Finance Bill of a particular fiscal year with a provision of raising import duty having been placed before the parliament on 7th June is passed on 30th June with effect from 1st July of the next fiscal year, importers might refuse to pay duty at the latest rate for goods that already entered Bangladesh. In order to resolve such confusion, an act was passed during the crown regime known as the Provisional Collection of Taxes Act, 1931. Section 4(1) of this act stipulates that "*Subject to the provisions of sub-section (2), a declared provision shall have the force of law with immediate effect as if enacted on the day on which the Bill is introduced."* So, importers are bound to pay duty at the recent rate as per this provision. The import cost is related to market price and therefore, if the import duty is not imposed immediately, there might be an extraordinary inflow of goods, or the inflow of goods may get stalled. However, would the importers be compensated in case the import duty is reduced? The answer lies in section 5(1) of the aforementioned act, "*Where a declared provision comes*

into operation as an enactment in an amended form before the expiry of the sixtieth day after the day on which the Bill containing it was introduced, refunds shall be made of all duties or tax collected which would not have been collected if the provision adopted in the enactment had been the declared provision", meaning importers would be able to rightfully demand refund in such situation.

Such provisions shall not apply to Income Tax. Income tax cannot be collected at a new rate until the act comes into effect.

Considering the significance of the Finance Act, it is not wise to wait for the weekly gazette to publish this act. Therefore, it is crucial to publish Finance Act immediately through the extraordinary gazette.

The voting process for Finance Bill is straightforward. Every item of the bill is discussed in parliament. But the Finance Bill as a whole is put to vote. Afterward, it is sent to the President for assent. The assented bill is then turned into an act. The finance bill takes effect from 1st July. It shall not be referred to any parliamentary committee. The relevant acts under this bill continue to remain in force until further amendments. This means that Finance Act usually stretches over multiple fiscal years.

Finance Bill is a technical bill involving specialised language. While presenting before parliament—this bill should be accompanied by a ground paper/ memorandum containing an explanation of the provisions. Otherwise, our parliament members are left with inadequate information as to the purpose or objective of the proposed bill. Regrettably, no such ground paper is submitted with our Finance Bill at present. In India, more than a hundred pages of ground paper are attached to Finance Bill providing clause-by-clause explanations. It is high time; we should provide ground paper so that our public representatives remain more well-informed and involved with revenue planning.

Appropriation Bill/Act

An appropriation bill is a proposed law that authorises the executive to spend from the public funds. It sets money aside for specific spending (O'Sullivan & Sheffrin, 2007)

Article 90 of our constitution defines Appropriation Act as:

1) *"As soon as may be after the grants under article 89 have been made by Parliament there shall be introduced in Parliament a Bill to provide*

for appropriation out of the Consolidated Fund of all moneys required to meet–

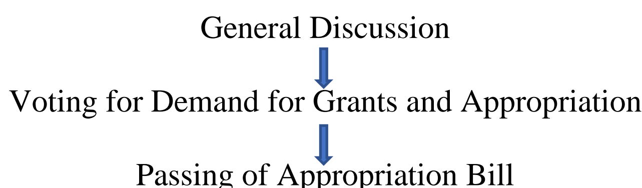
(a) the grants so made by Parliament; and

(b) the expenditure charged on the Consolidated Fund but not exceeding in any case the amount shown in the annual financial statement laid before Parliament."

The Appropriation Act remains in force for a fiscal year starting from July. At the year-end unspent fund or allocation lapses along with the expiration of the Appropriation Act. There is, however, a drawback of the single-year duration of the Appropriation Act for the Government Commercial Undertakings like BG Press, Bangladesh Ordnance Factory, and Bangladesh Railway. The commercial nature of these organizations requires 'carry over' of unspent allocation.

If we revisit our history, we will find that Appropriation Act is relatively a new idea in this sub-continent. During the British Rule, no Appropriation Act but only Demand for Grants was required for British India. According to Wattal, 1923, "*whereas in England the supplies voted were embodied in an Appropriation Act, in India no such legislation was required. The voting of the demands completed the process of granting supplies, and no statutory enactment was required to legalise the voting*."

Subject to the provisions of the Constitution, the procedure regarding an Appropriation Bill is the same as for Money Bills in general, with modifications as the Speaker may consider necessary. Three stages are involved in this process:



The overall responsibility for framing Appropriation Act lies with the Ministry of Finance. The total budget with the schedule of grants is placed before Parliament in the form of an Appropriation Bill. There is no scope for discussion on the Appropriation Bill once it is presented before Parliament as the constitution provides that the amount and purpose of any grant cannot be amended. Moreover, the Rules of Procedures of Parliament, 2007 stipulates

that the debate on an Appropriation Bill is restricted to matters of public importance or administrative policy implied in the grants covered by the Bill. That's why this bill is passed expeditiously.

The budget can only be spent when the Appropriation Bill is turned into an Act. The preamble of the Appropriation Bill states that the "President is authorised to spend Tk. …crore from the Consolidated Fund". With the passage of the Appropriation Act, the Parliament authorizes the President to spend from the Consolidated Fund who in turn delegates it to the PAOs through the Rules of Business.

In accordance with Article 92 of the constitution, if, for any reason, it is not possible to pass the Appropriation Bill within 30 June, a vote on the account bill must be placed before the parliament. Typically, this bill is used for sanctioning an amount equivalent to two months' expenditure.

The Appropriation Bill contains a single schedule including demands for grants and appropriation. There can be three types of Appropriation Acts: one is the regular Appropriation Act. The other two include the Supplementary Appropriation Act and the Excess Appropriation Act. Supplementary Appropriation Act is a common occurrence in our yearly financial procedure, whereas we are yet to observe any instance of an Excess Appropriation Act in Bangladesh.

To sum it up, Finance Bill provides for the authority of revenue income, whereas the Appropriation Bill sanctions the withdrawal of money from the consolidated fund. Just to reiterate, these bills or acts are the green signals from people through their representatives to transact money to and from the public purse.

Money Bill in Other Countries

India: The definition of a Money Bill as provided in Article 110 of the Constitution of India has a striking resemblance with the one described in our constitution. This is because of the fact that both Bangladesh and India have adopted the concept of Money Bill from the United Kingdom.

Article 107 of the Indian constitution uses the words Money Bill and other financial bills, whereas our constitution calls them Money Bill and any other bill.

As in Bangladesh, Money Bill in India accompanies a certificate from the Speaker. It can be introduced in Lok Sabha only. The Speaker of Lok Sabha

has the absolute power to give the final decision on whether a bill is a Money Bill or not. She/He is under no obligation to consult anyone to arrive at her/his decision. The certificate of the Speaker to the effect that a bill is a Money Bill, is to be endorsed and signed by the Speaker when it is transmitted to Rajya Sabha and when it is presented to the President for assent (Passage of Legislative Proposals in Parliament, 2022)

Money Bill is sent to Rajya Sabha only for recommendations. If they put any proposal, Lok Sabha may accept or reject that and pass accordingly. Even if Rajya Sabha does not return the bill within the prescribed period of fourteen days, the bill is deemed to have been passed by both Houses of Parliament at the expiry of the said period. Thus, Rajya Sabha does not have any kind of influence over the Money Bill similar to the UK's House of Lords.

The President may either give or withhold his assent to a Money Bill. He has the privilege to put pocket veto. But Money Bill cannot be returned to the House by the President for reconsideration. This is where Bangladesh differs from India, our President cannot pocket Money Bill or any bill as a matter of fact.

United Kingdom: As stated previously, the United Kingdom is the homeland of Money Bill. Section 1(2) of Parliament Act 1911 describes Money Bill as a public bill containing provisions dealing with imposition, repeal, remission, alteration, or regulation of taxation; the imposition of charges on the Consolidated Fund, the National Loans Fund or on money provided by Parliament, or the variation or repeal of any such charges; supply; the appropriation, receipt, custody, issue or audit of accounts of public money; the raising or guarantee of any loan or the repayment thereof; or subordinate matters incidental to those subjects or any of them.

Understandably, our constitution has defined Money Bill in line with the United Kingdom legislation in this regard. The endorsement by Speaker for Money Bill is also present in the UK.

The features of Money Bill are almost similar in all the countries following Westminster System e.g., Pakistan, Australia, Canada, Ireland, etc. with minor differences.

United States of America: Though the USA is a presidential democracy rather than a parliamentary one, all revenue-related bills originate in the House of Representatives as per the Origination Clause of the U.S. Constitution which is consistent with British constitutional practice. Appropriation bills are

also initiated in the house conventionally. However, contrary to most Westminster systems, no boundaries have been put upon the Senate as to the extent of amendment of revenue bills or timeframe for the approval of said bills. Both appropriations and revenue bills are often referred to as Money Bills to contrast them with authorisation bills. (Datta, Malhotra, & Tyagi, 2017)

When Money Bill is an Instrument of Autocracy

The convention that the upper house does not have any influence on Money Bill can create rampant use of the Speaker's certificate over any kind of bill. This is not merely an apprehension. Such incidents, in fact, happened in various countries including our neighbouring country, India. Apart from the Rajyasabha not having any power regarding Money Bill, it has also been mentioned categorically in their constitution that, "*if any question arises whether a Bill is a Money Bill or not, the decision of the Speaker of the House of the People thereon shall be final.*" Such engulfing authority of the lower house resulted in Aadhaar Act, 2016 being certified as a Money Bill by the Speaker amid stiff resistance by the opposition. Immediately after its enactment, a writ petition was filed by the Congress Party in the Supreme Court, challenging the Speaker's decision to treat the Aadhaar Bill as a 'Money Bill'. While Majority gave the verdict that it was certainly a Money Bill, the dissenting judgment of Chandrachud J. held to the contrary. According to him, Aadhaar Act does not fall within the remit of Article 110 of the constitution. It totally ignores the effect of the most vital word "only" used at the beginning of the article. Justice Chandrachud had seen this as unconstitutional and violative of the basic structure of the constitution (Bindra, 2019). Subsequently, the Supreme Court referred the issue to a seven-judge bench for an authoritative ruling as the former bench had not extensively examined and substantially discussed the interpretation of Article 110 of the constitution defining Money Bill (The Times of India, 2019).

The tag of Money Bill paved way for several other bills like the Specified Bank Notes (Cessation of Liabilities) Bill, 2017 to fully implement the demonetisation scheme; Finance Bill, 2017 to bring about structural changes to certain institutions and sectors, etc. to be passed sans the intervention of Rajya Sabha.

Such a strategy of ruling parties to have their way by avoiding the scrutiny of the upper house via unrestrained use of the Money Bill is definitely a major concern. Taking recourse to categorise bills that are manifestly not Money Bills leads to distortion of parliamentary practice. There is a fine line between "procedural irregularity" and "procedural illegality". Using Speaker's

certificate on an ordinary bill should not be classified as merely an irregularity of procedure. The breach of any cardinal constitutional provision entails procedural illegitimacy and must be subject to "judicial review".

Interestingly enough, nowhere in the Indian constitution, it has been stated that Speaker's decision on Money Bill cannot be questioned. Whereas our constitution has explicitly included this provision as, "*Every Money Bill shall, when it is presented to the President for his assent, bear a certificate under the hand of the Speaker that it is a Money Bill, and such certificate shall be conclusive for all purposes and shall not be questioned in any court.*"

However, the requirement for bearing a certificate by Speaker was derived from the necessity to prevent undue influence of the Upper House. Being a unicameral state, does the endorsement by Speaker have any significance in Bangladesh? The answer is no. There is no implication of such procedures in a single-chamber parliament. Rather, the distinction between Money Bill and other bills is completely superfluous in such countries. More than hundreds of unicameral states do not have a concept of a Money Bill. Bangladesh has seemingly adopted this concept just for the sake of following the legislative path of the former British rulers.

Conclusion

Money Bill, with its unique characteristics, has profound implication as far as the state finance is concerned. This article attempted to bring to the fore relevant legal and constitutional provisions, measures and the rationale underlying the Money Bill to provide a clear picture of this distinct piece of legislation. Although Money Bill is an ornamental legislation in the context of a unicameral state like Bangladesh, it is important to remain cautious while distinguishing Money Bill from other financial bills. Failure to do so may lead to a violation of the constitution.

References

Bindra, J. (2019, November 14). Supreme Court to verify the correctness of the Aadhaar judgement. New Delhi, India: Mint. Retrieved from https://www.livemint.com/news/india/supreme-court-to-verify-the-correctness-of-the-aadhaar-judgment-11573735460259.html

Constitution of Bangladesh. (n.d.).

Constution of India. (n.d.).

Datta, P., Malhotra, S., & Tyagi, S. (2017). Judicial Review and Money Bills. *Working Paper No. 152*. New Delhi: National Institute of Public Finance and Policy.

Fieldman (Ed), D. (Ed.). (2013). *Law in Politics, Politics in Law.* London: Hart Publishing.

Lok Sabha. (2022, June 30). Retrieved from https://loksabha.nic.in/: http://164.100.47.194/Loksabha/Legislation/Legislation.aspx

Money Bill. (n.d.). *Money Bill*. Retrieved from Wikipedia: https://en.wikipedia.org/wiki/Money_bill

O'Sullivan, A., & Sheffrin, S. (2007). *Economics: Principles in Action.* New Jersey: Pearson/Prentice Hall.

Phadnis, A. (2016, June 17). Aadhaar cleared through Money Bill route: Why Modi cannot use this option every time. New Delhi, Uttar Pradesh, India: Business Standard. Retrieved June 30, 2022, from https://www.business-standard.com/article/politics/aadhaar-cleared-through-money-bill-route-why-modi-cannot-use-this-option-everytime-116031700214_1.html.

Rules of Procedures of Parliament of Bangladesh. (2007).

The Parliament Act, 1911.

The Times of India. (2019, November 20). What is money bill's scope, ambit? SC asks a 7-judge bench to decide. New Delhi, India. Retrieved from http://timesofindia.indiatimes.com/articleshow/72063622.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

Wattal, P. K. (1923). *The System of Financial Administration in British India.* Bombay: Times of India.

Understanding Public Sector and Its Jurisdiction: Bangladesh Perspective

Shobrata Debnath*

Abstract

Public sector in any country is a part of the economy that is managed, monitored and funded by the government. This sector is the main provider of services like health, electricity, roads, water, education, land etc. at a less cost. The ultimate development of a country largely depends on an effective and efficient public sector. In a word, public sector is the fuelling factor of economic growth and stability of a country. On the other hand, public financial management (PFM) is a central element of a functioning administration, underlying all government activities. It encompasses the mechanisms through which public resources are collected, allocated, spent, accounted for and audited. Sound, transparent and accountable public financial management is a key pillar of ensuring maximum value for money in the delivery of public services. This article is designed to give the readers an overview of public sector and its institutional jurisdiction in context of PFM system in Bangladesh along with the legal boundaries so that they can easily identify the institutions of public sector, their characteristics, functions and business processes.

Introduction

The term public sector refers to any sector or organisation that is owned, operated or controlled by the government. Its main purpose is to provide services to the people that are considered necessary for their well-being. Although, there had been a privatisation scheme of public sector entities in recent years in the backdrop of their dismal performance, the contribution these entities made towards the country's economic development should not be lost sight of. In fact, these entities create significant employment opportunities for the labor force that are entering into the job market every year and put in place the infrastructural facilities required for crowding in private sector which play an important role in inducing growth through their investment in the economy. Service and non-profit motive of the public sector differentiate it from the private sector factor which is mainly driven by profit

* Assistant Finance Controller (AFC)

motive. Even though the public sector is tax-funded, its orientation towards delivering services to the citizens at large amply justifies its operation in all countries regardless of their levels of development.

Why We Should Know about Public Sector

Article 87 of the constitution of Bangladesh states that there shall be a statement of estimated expenditure and receipts of the government for every financial year (July 1-June 30) which is known as Annual Financial Statement. If we do not know the boundaries of public sector, we will not be able to find out the areas where the public money goes. As civil servants we must have the idea of public sector to understand which policy is applicable for which entity, which sector needs more government support to ensure effective mobilisation of public resources for sustainable economic growth. As general citizens if we have a clear idea about public sector, it will be easier for us to get the right service in the right time. In addition, we will be more conscious about our rights and responsibilities.

Jurisdiction of Public Sector

Bangladesh is a sovereign country with no state or provincial system like India, the USA or Pakistan. That's why the business process of the institutions under the jurisdiction or boundary of public sector in Bangladesh will be slightly different in nature compared to India or Pakistan where there is provincial system of government. In broader sense, the jurisdiction of public sector in Bangladesh can be classified into two distinct areas or sectors. The first one is the General Government which is the sole controlling authority of the other sectors both public and private. This part of the public sector influences the other areas or sectors through legal instruments like act, rules, regulations, orders, gazette notifications etc. so that people can get better and smooth service from the institutional sectors. General Government can be Central Government and Local Government whereas Central Government is further divided into Budgetary Central Government (BCG) and Extra-budgetary Central Government.

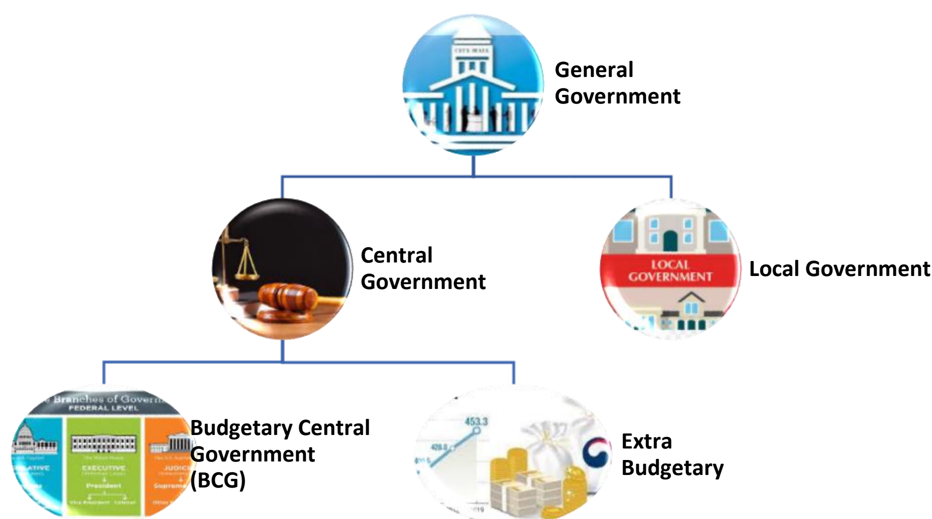


Figure 1: Components of General Government

Budgetary Central Government

Budgetary Central Government (BCG) refers to entities and units, whose revenue and expenditure are regulated by means of budget approved by the parliament. Government revenue is the money received by the government in the form of tax or non-tax to enable it to undertake government expenditures. Revenue refers to all the receipts of the government from taxes, custom duties and revenue from state-owned enterprises, capital revenues and foreign aid (Business Standard, n.d.). Government revenue and government spending are components of the government budget and important tools of the government's fiscal policy. The collection of revenue is the most basic task of Budgetary Central Government, as revenue is necessary for the operation of government and enforcement of its laws and this necessity of revenue was a major factor in the development of the modern bureaucratic state.

Institutionally BCG consists of secretariat, ministries, divisions and attached departments. The entities of BCG are covered by government rules and regulations. One of the main features of BCG is that they spend from their budget through pay and accounts office (CGA) by submitting bill under appropriation act. One exception is that departments like Roads and Highway, Public Works Department, forest department, postal, foreign missions etc. have the payment function authority on behalf of CGA.

Ministries are in the centre of financial and legal authority headed by a minister and a secretary who is the administrative head, responsible for his administrative and financial activities to parliament through Public Accounts (PA) committee. The Budgetary Central Government is often a single unit of

the central government that encompasses the fundamental activities of the national executive, legislative, and judiciary powers (IMF, 2014). This component of general government is usually covered by the main budget known as general budget that's why this is known as Budgetary Central Government. Normally the revenue and expense of the Budgetary Central Government are controlled and regulated by the Ministry of Finance by means of a budget approved by the legislature through the enactment of two pieces of legislation called Finance Act and Appropriation Act. An Appropriation Act is an act of the parliament that allows the treasury to incur expenditure from the Consolidated Fund of Bangladesh. According to the article 90 of the Constitution of People's Republic of Bangladesh-

"90. (1) as soon as may be after the grants under article 89 have been made by Parliament there shall be introduced in Parliament a Bill to provide for appropriation out of the Consolidated Fund of all moneys required to meet –

(a) The grants so made by Parliament; and

(b) The expenditure charged on the Consolidated Fund but not exceeding in any case the amount shown in the annual financial statement laid before Parliament.

(2) No amendment shall be proposed in Parliament to any such Bill which has the effect of varying the amount of any grant so made or altering the purpose to which it is to be applied, or of varying the amount of any expenditure charged on the Consolidated Fund.

(3) Subject to the provisions of this Constitution no money shall be withdrawn from the Consolidated Fund except under appropriation made by law passed in accordance with the provisions of this article" (bd laws, n.d.). The philosophy of this article is that appropriation act gives the authority to the executive to incur expenditure from the treasury.

On the other hand, Finance Act is a fiscal legislation promulgated by the parliament to give effect to the financial proposals of the Central Government proposed by the Minister for Finance. One notable thing about the Finance Act is that it is enacted once a year. It consists of provisions for income taxes, customs, excise and their exemptions rate or reliefs in different sector. As part of fiscal policy, finance bill is a part of government budget according to article 87 of the Constitution of Bangladesh. Being a segment of the Budgetary Central Government, most of the ministries, divisions, departments, legislative bodies and other entities are not separate institutional units because they generally do not have the authority to own assets or incur liabilities. One of the main functions of BCG is to maintain law and order. It also ensures the

efficient working of the social and economic system by putting in place appropriate pieces of legislations, rules, regulations, instructions etc. In addition, it is responsible for providing services like education, health, transportation, electricity etc. for the benefit of the community.

Extra-budgetary Central Government

Extra-budgetary Central Government consists of organizations which are established by special law or an instrument having the force of law. These are often known as Statutory Public Authorities other than public corporation which is stated below. Autonomous bodies established by the delegated administrative powers by the ministries are to be covered within the ambit of statutory public authorities. That means, Extra-budgetary Central Government has their respective jurisdiction and functional autonomy that is stated in their special law under which they are established. One notable thing about extra-budgetary organisations is that they are financed from the annual budgets of the government. These entities are known as extra-budgetary as they have their own individual budgets not fully covered by the main budget often called general budget. The budget support given to them is included in respective ministry's budget to which they are attached. They have the autonomy to spend from their allocated grant following financial rules and regulations and delegation of financial power. So extra-budgetary entities operate under the authority or control of BCG that means under the control of ministries or division. They may have their own source of revenues which may be supplemented by budget support from the general budget. In addition, their budgets may be subject to approval by the legislature, similar to that of BCG. They may have discretion over the nature, volume and composition of their expenditure. Government entities like Financial Reporting Council (FRC), Bangladesh Bridge authority (BBA), Micro-credit Regulatory Authority (MRA), Bangladesh Land Port Authority, Bangladesh Bridge Authority, BPATC, BARD, BRRI, BARI, BIWTA etc. are some of the Statutory Public Authorities (SPA) that come under the jurisdiction of Extra-budgetary Central Government.

Local Government

Local Government is part of the general government which performs its functions at the smallest geographic areas distinguished for administrative and political purposes. The scope and functional area of a Local Government (LG) institution is generally much less than that of the central one. Actually, in the context of Bangladesh LG act as agents of the central government. The LG institutions provide their service directly to the people living in their respective jurisdictions. So, the services are much more effective. According to the article 59 of the constitution of Bangladesh,

"Local government in every administrative unit of the republic shall be entrusted to bodies, composed of persons elected in accordance with law (bd laws, n.d.).''

This article also states that the main functions of the LG will be maintaining public order, preparation and implementation of plans relating to public services and economic development along with doing normal administrative work. In addition, article 60 of the constitution states that LG can impose taxes for local purpose, have the authority to prepare their budget and maintain funds. In this sense, the LG is similar to full-fledged government except they do not have legislative power. Though LG has different sources of revenue income including tax (holding tax, land development tax, municipality tax etc.), license fee, fines, leasing government property (land, building, market place etc.), they are often heavily dependent on grant from the central government. The reason of low revenue income in LG areas compared to huge expenditure is that the elected representatives think that if they impose more tax on people, their popularity will go down and people will not elect them for the next term. Actually, LG is the decentralised system of government to render better, efficient and effective service to the people living in remote corners of the country. Paurashava and city corporations are the two tiers of local government in city whereas union parishad, upazilla parishad and zilla parishad are the three local government bodies in rural areas. These LG institutions have some sort of autonomy; even they can appoint their own officers and staff, independently of external administrative control and authority. In addition, they can raise and spend some funds at their own initiative and own responsibility (IMF, 2014).

Public Corporations

The second part of public sector other than General Government is public corporations. Public corporations are body corporate established by a special act of parliament or an instrument having the force of act like President's Order (PO). Its powers, objects, limitations etc. are also decided by the act of the legislature under which it is formed. There are some distinct characteristics that make a Public Corporation (PC) different from the General Government.

First of all, a board of directors nominated by the government manages and operates such corporations.

Secondly, PC being a separate legal entity enjoys the financial autonomy such that even it has a right to enter into contracts and can undertake any kind of business under its own name. State only helps a PC by subscribing its capital.

Thirdly, corporations are accountable to the board of directors but parliament can discuss on policy matters and overall performance of the corporations. In this sense, corporations also have some sort of accountability to parliament but parliament has less interference in the working of such corporations.

Fourthly, the employees of the PCs are recruited, remunerated and governed (promotion, training and transfer) as per the rules laid down by the corporation itself.

Finally, PCs usually have profit motive but they follow the terms and conditions of the government.

Reason of Creating Public Corporations

Providing smooth and cost-effective service to the people is the main reason behind creating PCs. As operations and management of a statutory corporation is carried out independently, with less interference from government, they can provide better and smooth service to the people. Again, they are relatively free from red tapism and less file work. Moreover, less formality is required to be completed before taking any decision. On the other hand, a public corporation can be engaged by the government in specific transactions to carry out a government operation, like selling of their product to selected people at a reduced rate compared to the market rate as part of government fiscal policy and implementing government's political commitment to the people. More generally, a public corporation can carry out fiscal policy by employing more staff than required, purchasing extra inputs, paying above-market prices for inputs or selling a large share of its output for prices that are less than what the market price would be if only private producers were involved (IMF, 2014). Power and fertiliser sector are the best example of such initiative where electricity, fertiliser and insecticides are sold lower than its production cost and these sectors are controlled by corporations. In addition, public corporations can be a good source of government revenue as they are commercial in nature and generate profits. They also protect key resources, provide necessary competition where barriers to entry may be large and provide basic services where costs are prohibitive (IMF, 2014).

Entities under Public Corporations

Public corporation can be either public financial corporation or public non-financial corporation. The main difference between them is that public financial corporation produces only financial products whereas non-financial corporation produces either non-financial goods or services only, that means it only provides service to the people through non-financial goods or services. Corporations like Bangladesh Forest Industries Development Corporation (BFIDC), Bangladesh Textile Mills Corporation (BTMC), Petro Bangla,

Parjatan Corporation, Bangladesh Shipping Corporation (BSC), Bangladesh Inland Water Transport Corporation (BIWTC) etc. are some of the public non-financial corporation which only provide public service and implement government policy to take the state forward and fulfil the philosophy of the second part of the constitution of People's Republic of Bangladesh. Most of the non-financial corporations are service oriented and provide service with minimum cost and effort or produce goods lower than their production cost. Large portion of government expense on subsidy is implemented or incurred by these non-financial corporations.

Public financial corporation often known as public enterprise shows the ultimate corporate and profit motive nature. Public financial corporation can be classified as deposit taking financial corporation that takes deposit from the public and provide loans and advance to them. On the other hand, non-deposit taking financial corporations like Jibon Bima Corporation, Investment Corporation of Bangladesh (ICB), House Building Finance Corporation (HBFC) etc. do not take any deposit from the public. Actually, these types of corporations are financing corporations that provide loans (HBFC), equity support to the business (ICB), mortgage and security services (Jibon Bima Corporation) etc. In addition, these institutions have opened the floor of mobilising savings especially surplus savings or fund.

Bangladesh Bank: Bangladesh Bank is the central bank of Bangladesh and is a member of the Asian Clearing Union. It was set up on December 16, 1971 under President's Order-1972 (order number 127). Bangladesh Bank is a regulatory organization; actually, the bank of the banks of Bangladesh. It controls the banking sectors on behalf of the government. It is the key player for the financial sector of Bangladesh as well as for the economy. It formulates and implements monetary policy, manages foreign exchange reserve and is the authority to supervise and regulate other banks and non-bank financial institutions of our country. That's why Bangladesh Bank is called the banker to the government. The bank is active in developing green banking and financial inclusion policy and is an important member of the alliance for financial inclusion. Among the financial corporations Bangladesh Bank is the sole authority of monetary policy, monetary control, balance of payment, lender of the last resort and act as the treasury of the government. The vision of Bangladesh Bank is to develop continually as a forward-looking central bank with competent and committed professionals of high ethical standards, conducting monetary management and financial sector supervision to maintain price stability and financial system robustness, supporting rapid broad based inclusive economic growth, employment generation and poverty

eradication in Bangladesh (Bangladesh Bank, 2020). The major functional area includes:

- Formulation and implementation of monetary and credit policies
- Regulation and supervision of banks and non-bank financial institutions, promotion and development of domestic financial markets
- Management of the country's international reserves
- Issuance of currency notes
- Regulation and supervision of the payment system
- Acting as banker to the government that is it’s the treasurer of the government
- Money laundering prevention
- Collection and furnishing of credit information
- Implementation of the Foreign Exchange Regulation Act
- Managing a deposit insurance scheme
- Act as an automated clearing house

Public deposit taking corporations like Sonali Bank Limited (SBL), Agrani Bank Limited (ABL), Rupali Bank Limited (RBL) etc. are government company also known as state-controlled companies which have at least 50% government share. On the other hand, Basic Bank, Teletalk Bangladesh Ltd. etc. are government companies known as state owned companies as government has 100% share on these companies. All of these companies have the true commercial and profit motive. They have board of directors to control and administer the companies. They have financial autonomy that is they can expend according to their own way. All of these companies are registered under the Registrar of Joint Stock Company and Firms (RJSCF) and regulated by Bangladesh Bank. They have to follow all the stipulations made in the Bank Company Act, 1991. In addition, the Memorandum of Association and Articles of Association play a very vital role to govern the administrative functions of these corporations often known as State Owned Enterprises (SOEs). What we have discussed can be pictorially represented as:

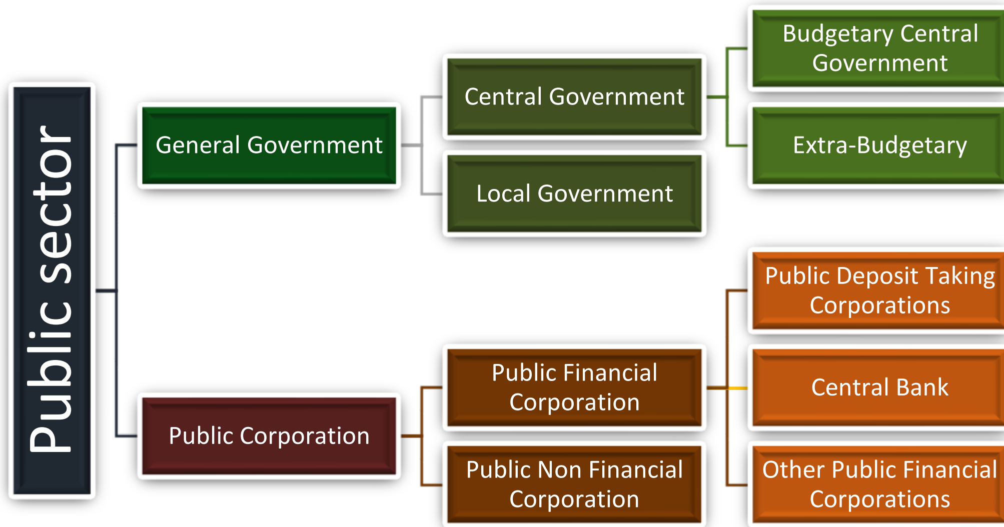


Figure 2: The Jurisdiction of Public Sector

So far what we have discussed, the jurisdiction of public sector can be classified into four broad categories.

- Budgetary Central Government (BCG)
- Statutory Public Authority (SPA) other than public corporations known as Extra Budgetary
- Local Government often known as Local Authorities
- Public enterprise and corporations

Importance of Public Sector in Audit

We have now the knowledge of four broad categories of public sector. Among the four categories, it is CAG's Constitutional mandate (article 128(1)) to audit Budgetary Central Government. Section 5(1) of the Comptroller and Auditor General (Additional Functions) Act 1974 mandates the CAG to audit the accounts of Extra Budgetary organizations (SPAs), any Local Authority and Public Enterprise including government companies and statutory corporations. As an auditor if we want to have an effective audit, we must have the knowledge of public sector. Understanding the scope or boundaries of public sector will help us to identify what type of audit (compliance audit, financial audit and performance audit) will be applicable for which entity. In addition, the audit criteria for an entity mostly depend on the nature of the entity. If we want to cover all the entities of CAG's audit universe, we need to understand about public sector. This will enable us to choose the right entity

to audit that is no institutions are left out or wrong institutions being selected as audit entity. So, the vision of OCAG to enhance accountability and transparency in the utilisation of public resources that promotes value and benefit to citizen will be more efficiently, more accurately and cost effectively realised. Hence, being an auditor, it will be easier and simpler to provide independent assurance to citizens, parliament and other stakeholders on optimum management of public resources for ensuring good governance and improved public service delivery through quality audit (OCAG, 2022).

Conclusion

What we have seen that public financial management is the core of a government and all the activities done in PFM cycle is carried out centering the public sector. So, auditing being an important part of PFM cycle, the CAG and his authorised representatives must have the knowledge of the institutional boundaries of the public sector. If they know about which entity they should cover along with their nature of business process, criteria setting will be easy. Hence auditing will be fruitful and value for money (efficiency, effectiveness and economy) of the public money will be ensured. This will result in the best use of public resource that means more infrastructural development, more employment which will accelerate sustainable economic growth and ensure stability of the country.

Reference

Bangladesh Bank. (2020). *Vision And Mission*. Retrieved 09 08, 2022, from Bangladesh Bank: The central Bank of Bangladesh: https://www.bb.org.bd/en/index.php/about/mission_vision

bd laws. (n.d.). *The Constitution of the People's Republic of Bangladesh*. Retrieved 09 05, 2022, from Laws of Bangladesh: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjLue2rt4D6AhU71XMBHcIOCdUQFnoECAUQAQ&url=http%3A%2F%2Fbdlaws.minlaw.gov.bd%2Fact-367.html&usg=AOvVaw0YAHHQC8CQtABDorfr78l8

Business Organisations. (n.d.). *PUBLIC SECTOR ENTERPRISES.* Retrieved 06 28, 2022, from https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjVxcivj934AhVMxTgGHUvBClcQFnoECAoQAw&url=https%3A%2F%2Fwww.nios.ac.in%2Fmedia%2Fdocuments

%2FSrSec319NEW%2F319_Bus_Studies_Eng%2F319_Bus_Studies_Eng_Lesson7.pdf&usg=AO

Business Standard. (n.d.). Retrieved 09 06, 2022, from Revenue, Revenue Definition, Revenue News: https://www.google.com/url?sa=t&rct=j&q=&esrc=s&source=web&cd=&cad=rja&uact=8&ved=2ahUKEwjBz6jYqYD6AhWV7nMBHW4XCx0QFnoECAYQAQ&url=https%3A%2F%2Fwww.business-standard.com%2Fabout%2Fwhat-is-revenue&usg=AOvVaw20pn8t2e0OtFG0q6iLDVN8

IMF. (2014). In *Government Finance Statistics Manual 2014* (pp. 22-25). Washington, D.C.: International Monetary Fund.

Laws of Bangladesh. (n.d.). Retrieved 06 25, 2022, from The Constitution of People's Republic of Bangladesh: http://bdlaws.minlaw.gov.bd/act-367.html

OCAG. (2022). *CAG | Comptroller and Auditor General of Bangladesh*. Retrieved 10 02, 2022, from https://cag.org.bd/

toppr>Busoness studies. (n.d.). *Types of Companies and Forms of Organising Public Sector*. Retrieved 06 26, 2022, from https://www.toppr.com/guides/business-studies/private-public-and-global-enterprises/types-of-companies-and-forms-of-organising-public-sector/

Reforms in Public Financial Management: A Critical Need to Augment Revenue Mobilisation for Sustained Economic Growth

Sharlina Sharmin Richi*

Abstract

The constitution of a country portrays a delitescent contract between the state and its citizens. Through the constitution, people delegate the power to the agents they choose to govern to establish the rule of law, take decisions on behalf of them, most importantly, uphold the people's sovereignty in a democratic world. The state does not have its own money to spend to carry out its functions rather it finances its expenditure from the public purse, mostly, by mobilising revenues. Whatever it receives by way of mobilising revenues is limited in the context of competing demands of different sectors. And from there the concept of public financial management emerges as the state has to ensure the best use of its limited resources. From the perspective of the tax-paying public, they also have the right to question whether their money is being utilised properly. Public Financial Management (PFM) encompasses the area where the use of public money is involved. That is why, throughout the PFM cycle, transparency, accountability, and good governance must be followed (Islam, 2020). Moreover, with the advancement of technology, we must exploit all of its benefits to keep pace with the international best practice of Public Financial Management.

Key Words: Public Financial Management (PFM), Supreme Audit Institution (SAI), Medium Term Budget Framework (MTBF), National Board of Revenue (NBR), revenue mobilisation.

Introduction

In recent times, Bangladesh's economy suffered a serious setback due to the COVID-19 pandemic that affected the entire world. The real GDP growth rate sharply plummeted from 7.88 percent in 2018-19 to 3.45 percent in 2019-20 (BBS, 2021). Although in the subsequent fiscal year the growth rate stood at 6.94 percent (BBS, 2021), due to the inflationary effect arising from the unstable and sky-rocketing prices of commodities in both domestic and the world market, people are not being benefitted from the phenomenal rise of growth as real GDP growth decreased with rising inflation.

* Assistant Chief Accounts and Finance Officer

The 8th Five Year Plan of the Bangladesh Government portrays the overarching national (political, social, and economic) goals to achieve the status of a Lower-Middle Income Country (LMIC) within stipulated time by accelerating growth and alleviating poverty, reducing unemployment, elevating human development and strengthening social inclusion, ensuring good governance with a transparent and accountable service delivery (GED, 2020). The graduation year from LDC to LMIC has been extended for two years, now 2026, for economic rejuvenation from the shock of the COVID-19 pandemic (UNGA, 2021). These goals are also linked with the National Macroeconomic Framework where the revenue collection, revenue mobilisation, investment generation, BoP management, debt management, and overall, long-term macroeconomic policies are to be set to achieve the long-cherished targets of Vision 2041 to gain the status of a High-Income country. (GED, 2020).

The effectiveness of all these policies and targets essentially depends on efficient Public Financial Management. However, in this era of the 4th Industrial Revolution, the traditional PFM strategy is becoming obsolete rapidly. This study, therefore, lays emphasis on the recent reforms in Public Financial Management and its way forward linking their macro-fiscal impact on the economy, especially in revenue mobilisation, to achieve sustainable development. In the 8th Five-Year Plan, before the pandemic situation, the shortfall of budget revenues and increasing non-performing loans in the banking sector were indicated as the two gray areas in the economy. Other economic indicators like a stable inflation rate, keeping deficit below 5 percent of GDP, steady external debt servicing, no major fluctuations in Balance of Payment (BoP), and sufficient credit flow in the private sector depicted a transition phase moving towards development (GED, 2020). But now the situation has deteriorated as the two external shocks (the pandemic and Russia - Ukraine war) have convulsed the stability of our economy. There is no other way than to reform the policies and implement them immediately so that the economy gets its desired momentum on the way to persistent economic growth. In that case, policymakers should at first concentrate on reforming revenue mobilisation-related issues as, without fiscal prudence, there is no way to recuperate.

Public Financial Management Definition and its Constitutional Mandate in Bangladesh

The Chartered Institute of Public Finance & Accountancy (CIPFA) defines PFM as *"Public Financial Management (PFM) is the system by which financial resources are planned, directed and controlled to enable and*

influence the efficient and effective delivery of public service goals" (Islam, 2020).

A holistic definition of Public Financial Management is given in an article by Governance and Social Development Resource Centre (GSDRC)-

'*Public Financial Management (PFM) refers to the set of laws, rules, systems, and processes used by sovereign nations, to mobilize revenue, allocate public funds, undertake public expenditure, account for funds and audit results*' (Lawson, 2015).

So, PFM broadly consists of six phases-

Figure 1: The six phases of PFM cycle (Lawson, 2015)

Chapter ll (Legislative and Financial Procedures) of Part V of the Constitution of the People's Republic of Bangladesh lays down the basic structure of the PFM of our country. Money bill, Consolidated Fund, Public Account of the Republic and the legal mandates to draw money from these funds, Annual Financial Statement or budget, imposition of taxes, regulation of public money, charged and voted expenditure, supplementary and excess grant, Appropriation Act- all are described in this chapter[3].

[3] The Constitution of the People's Republic of Bangladesh; Part V, Chapter ll

Apart from the mother law, a primary piece of legislation called Public Money and Budget Management Act, 2009 further elaborates on all the above-mentioned matters. The Ministry of Finance, Ministry of Planning, Comptroller and Auditor General of Bangladesh, Controller General of Accounts, and Bangladesh bank are the key players in the Public Financial Management of our country.

At the policy level, the Ministry of Finance, Ministry of Planning, Bangladesh Bank, and politicians play the key role here (ADB, 2018). They harmonise the previous economic experience with the political mandate of the government. To implement the policies, they take different strategic plans for different time horizons- medium and long-term. These are then broken down into the Annual Development Program (ADP) with specific allocations for implementation. The ADP once finalised is translated into the development budget and placed before Parliament. The Annual budget shows the proposed spending and anticipated revenues to be collected from different sources. It also keeps links with the Medium-Term Budget Framework (MTBF) where one year's estimation and the next two year's projections are reflected. The main objective of MTBF is to link budget allocations with the policies and priorities of the government, on the one hand, and with actual performance, on the other (ADB, 2018). The budget or the Annual Financial Statement, as it is termed in the Constitution (Article- 87), after passing through the voting process, as laid down in the Rules of Procedure of the Parliament (ROP) is passed by the Parliament. Then the budget execution starts and at this stage, all the budget spenders swing into actions to spend the allocations provided in the budget. The Controller General of Accounts (CGA) keeps records of all the expenses and receipts on behalf of the government. Here, Bangladesh Bank plays a vital role in reconciling the receipts and expenses with accounts kept by CGA as the funds of the government (Consolidated Fund and Public Account of the Republic) are received and disbursed from there.

The last stage of the PFM cycle is auditing which is performed by the Supreme Audit Institution (SAI) of Bangladesh- the Comptroller and Auditor General (CAG) who is constitutionally mandated to audit the public accounts of the Republic, all courts of law, all authorities and officers of the government [Article 128(i)]. The annual audit report of the CAG once laid before Parliament stands referred to a committee called the Standing Committee of Public Accounts (PAC) and these reports are discussed in the committee meeting. Thus, the accountability of the agencies involved in the budget execution process is ensured by the PAC.

Background of PFM Reforms in Bangladesh

Though PFM received its most recent impetus from the "New Public Management" reforms in several developed countries like the UK, Australia, and New Zealand in the 1980s (Hood & Jackson, 1991), the core theme of it dates back to the ancient society since when there is the idea of the state. This implies that there must have been some functions of financial management which may differ from what they are today. In our sub-continent, during the company rule (1757-1857) and the crown rule (1858-1947), the British rulers shaped the structure of the PFM which has been evolving over the years. Bangladesh has also inherited this system. But with the emergence of newer concepts like good governance, new public management, business process reengineering, and so on, there was a need to revisit the conventional PFM system. This prompted several initiatives to reform the PFM system in Bangladesh since the 1990s.

But before hopping into the answer to why PFM reform is important let us draw its boundary –

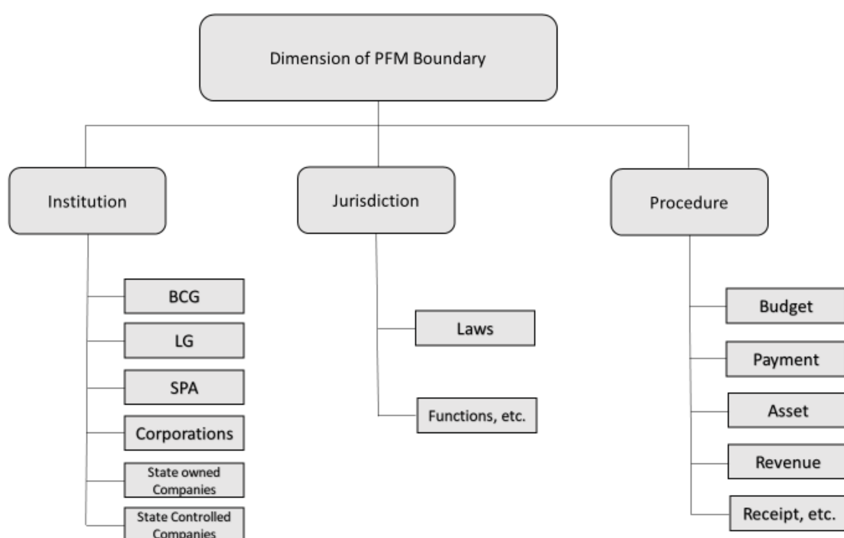


Figure 2: source: series of lectures of Mohammad Muslim Chowdhury, the Honorable Comptroller and Auditor General of Bangladesh **(Chowdhury, 2022)**

(BCG: Budgetary Central Government; LG: Local Government; SPA: Statutory Public Authority)

After independence in the late 1980s, the Government took up the task of reforms in PFM by forming a Committee on Reforms in Budgeting and Expenditure Control (CORBEC). The committee diagnosed the problems that

existed at that point in time and delivered a number of recommendations. Based on the recommendations of this committee, the Government initiated a project called Reform in Budgeting and Expenditure Control (RIBEC) project in the mid-1990s. (Shil & Chowdhury, 2021). Following this project, there had been successive reform interventions and within several years, there had been a major shift in budgeting - from input-focused to output-based budgeting. Rapid decentralisation in the treasury function took place and the accounting and auditing system started to comply with the international best practices (MoF, 2016). For the first time in 1998, the RIBEC project introduced all-numeric13-digit Budgeting and Accounting Classification System (BACS), which was the first step toward automation in accounting (Shil & Chowdhury, 2021). The reform in the PFM gathered pace with the interventions from different projects undertaken by the government with support from the development partners. The GoB adopted PFM Reform Strategy (2007-2012) for the first time and in continuation, with it the PFM Reform Strategy (2016-2021) was formulated (MoF, 2016). Moreover, a PFM Action Plan (2018-2023) has been adopted by the government to support the effective implementation of the reform strategy (Finance Division, 2018). These strategies laid emphasis on developing Medium Term Budget Framework (MTBF), strengthening auditing and parliamentary oversight through financial accountability, and incorporating technologies in the accounting system through BACS, iBAS++, etc (Shil & Chowdhury, 2021).

PEFA Assessment and Current Situation

The Public Expenditure and Financial Accountability (PEFA) is a methodology for assessing Public Financial Management performance which was developed by seven international development partners: The European Commission, the International Monetary Fund, the World Bank, and the governments of France, Norway, Switzerland, and the United Kingdom in 2001 (PEFA). In assessing the PFM reform of Bangladesh in 2016, PEFA came forward with some challenges like- fiscal and macroeconomic forecasting issues, MTBF implementing unreliability, weakness in expenditure and revenue control, insufficiency in auditing and reporting mechanism, and an inadequate disclosure of a timely annual audited financial statement (MoF, 2016).

The Government of Bangladesh, especially the Finance Division, Office of the Comptroller and Auditor General, and National Board of Revenue and Planning Commission are working relentlessly as a cross-institutional team to address the weaknesses identified by PEFA (Finance Division, 2018).

Utilizing the advancement of automation, payment and accounting system is now less time-consuming and less prone to error. EFT, A-Challan, iBAS++ - they all have made our lives much easier. But this is merely one segment of PFM. Our ultimate target is to reform financial management in such a way that it can be incorporated with our national goals like five-year plans. In the background paper of the 7th five-year plan, some achievable actions to strengthen the ongoing reform activities were delineated (Hasan, Rose, & Khair, 2015)-

- ✓ In the case of public investment management, project selection, and project design and appraisal must be in such a way that they really can yield high returns and achieve economy-wide objectives.
- ✓ IPSAS cash basis of accounting should be implemented to make the financial statement more relevant to the international best practice which is a part of the Financial Management Information System (FMIS)
- ✓ More implementable and technical MTBF incorporating different national strategies.

The benefit of the PFM reform incorporated with the national plan will result in sustainable positive change in our economy. We still have a long way to go to integrate these reforms into our overarching national goals.

PFM Reform in Relation to Four-Sector Economy

If we throwback to the definition of PFM, we realise that the components of PFM transcend the 4 sectors of the economy which involve fiscal, monetary, real, and external sectors, which means, as a whole, the macroeconomy. Moreover, these are related to the political economy as financial decisions change with the change of political regime and Bangladesh is not beyond this context. The ultimate goal of any government is to stimulate national growth and keep it persistent. To accomplish this, the government uses different policy mixes. Fiscal policy related to national income, expenditure, taxation, foreign trade, etc. is directed by the government itself. For monetary policy related to money supply and interest rate, open market policy, and credit policy Bangladesh Bank is the decision maker. These policies are integrated to keep the economy stabilised and to maintain economic growth.

Pursuant to Section 11 of the Public Money and Budget Management Act 2009, the Government of Bangladesh publishes every fiscal year Medium Term Macroeconomic Policy Statement (MTMPS) which is placed before Parliament together with the budget documents. This statement highlights different policy measures to keep the economy on right track. The latest

MTMPS (2020-2 - 2022-23) prescribed a set of policy measures to heal the wounds of the economy caused by the COVID-19 pandemic and the adversities of the ongoing Russia- Ukraine war.

Though our economy was going on a recovery path with a 6.94 percent growth rate in 2021 (BBS, 2021), the world economy shaken by the war does not show a good sign as the inflation is spiralling up. General economic theory tells us that a higher inflation rate lowers the real GDP even if the nominal GDP tends to increase.

The government uses the budget to channel its expenditure and direct the source of income so that in broader aim it can maintain macroeconomic stability, control inflation, encourage employment, mobilise revenue, create fiscal space, stimulate investment, stabilise the exchange rate, bar excessive borrowing, increase reserve in Central Bank and so on. All these elements are very much parts of PFM and that is why one government policy has an impact on the whole system.

The Need to Reform Tax Policy to Mobilise Revenue

There are two types of taxation- direct and indirect taxation. In Bangladesh, the prime duty of tax collection is vested with the National Board of Revenue (NBR). The tax revenues collected by NBR come from taxes on income, profit and capital gain, VAT, supplementary tax, import duty, export duty, and excise duty and these are the main sources of overall revenues. There are several other taxes like motor vehicle tax, narcotics, liquor duty, land development tax, and sale of non-judicial stamps which are called non-NBR taxes but the tax proceeds from these sources are very insignificant compared to NBR taxes[1].

One of the most crucial elements of PFM in Bangladesh is revenue mobilisation. Unfortunately, our revenue-GDP ratio is abysmally low compared to many of our comparators in the region and beyond. This will be elaborated on later in this article. In our successive FYPs including the 8th FYP emphasis has been laid on enhancing our revenues to ensure sustainable all-inclusive economic growth. The PFM Reform Strategy (PFMRS) 2016-2021, therefore, puts emphasis on the areas of integrity, revenue risk management, and ensuring domestic revenue accountability.

[1] Source: Broad Details of Revenue Receipts- 2022-23; published on the website of the Ministry of Finance

It is to be noted that in a recent verdict, the Supreme Court[4] has settled the long contentious issue- whether the C&AG can audit the revenues collected by NBR. This is indeed a land mark verdict which will promote accountability in revenue administration of the country.

The main reasons behind low revenue-GDP ratio have been identified as weakness in the institutional capacity, less effective policy measures, a narrow tax base, inefficiency in tax administration, lack of revenue generating areas and of course corruption.

The following table shows the pattern of revenue mobilisation growth which is far less promising than what was projected.

Particulars	Target FY20	Actual FY20	Target FY21	Actual Jul-Dec FY20	Actual Jul-Dec FY21	Required Jan-Jun FY21
Tax Revenue (a+b)	**50.5**	**-2.3**	**56.3**	**5.7**	**4.0**	**105.3**
a. NBR Tax	**48.9**	**-1.7**	**53.6**	**6.0**	**4.8**	**98.7**
a.1 Income Tax	69.3	12.0	38.0	29.6	-5.2	80.4
a.2 VAT	44.8	-6.0	56.6	-2.7	15.0	93.1
a.3 Import Duty	50.3	-2.3	59.4	7.7	6.6	115.8
a.4 Export Duty	-53.3	-32.5	-28.3	-99.1	-100.0	-27.4
a.5 Excise Duty	-4.2	-1.8	60.5	10.1	-52.8	97.7
a.6 Supplementary Duty	25.3	-2.1	-31.0	-14.8	8.0	137.7
a.7 Other Taxes	45.8	-18.3	62.8	13.9	-74.7	275.9
b. Non-NBR Tax	**97.5**	**-19.0**	**152.4**	**-1.5**	**-18.7**	**425.2**
b.1 Narcotics and Liquor	42.9	-3.5	62.6	4.7	-12.5	152.1
b.2 Vehicles	-14.6	-6.5	-49.2	8.9	-15.9	-99.5
b.3 Land Revenue	110.5	0.2	150.3	32.7	16.1	327.2
b.4 Stamp Duty	163.0	-28.3	293.5	-9.0	-28.7	940.0
b.5 Surcharge	-29.2	-13.8	-9.7	-9.4	-3.8	-14.4
c. Non-tax Revenue	**45.5**	**63.1**	**-21.9**	**9.9**	**40.2**	**-58.6**
c.1 Dividend and Profit	31.8	30.8	-49.7	-36.5	10.5	-65.6
c.2 IFT and others	47.0	66.8	-19.5	14.0	41.7	-57.8
Total Revenue (a+b+c)	**50.0**	**4.4**	**43.7**	**6.2**	**8.6**	**74.2**

Table- 1: Revenue mobilization growth scenario up to December FY-21 (in %)

(DT Global Europe, 2022)[4].

DT Global provides technical assistance to strengthen the capacity of the National Board of Revenue (NBR), the Office of the Comptroller and Auditor General (OCAG), and the National Parliament to implement strategic reform priorities in the areas of Domestic Revenue Mobilization (DRM) and domestic accountability.

[4] Dated 4.01.2022, Leave to appeal no: 2365 of 2020

Again, if we observe a country-wise revenue mobilisation scenario, we find it very unfortunate that, after fifty years of independence we still are behind their developing counties, let alone the developed ones.

Country	General Government Revenue (% of GDP)					
	2017	2018	2019	2020	2021	Average
Bangladesh	9.5	10.4	9.5	9.8	10.9	**10.01**
Cambodia	21.6	23.7	26.8	24.5	23.4	**23.99**
India	20.0	20.0	19.9	18.3	19.7	19.58
Indonesia	14.1	14.9	14.2	12.5	13.6	13.83
Lao P.D.R.	16.3	16.2	15.4	13.0	13.3	**14.84**
Malaysia	19.6	20.2	21.6	20.6	18.3	20.06
Myanmar	17.9	17.6	16.3	16.0	14.1	16.41
Nepal	20.9	22.2	22.4	22.1	24.2	**22.36**
Philippines	18.7	19.3	20.0	20.6	20.4	19.80
Sri Lanka	13.8	13.5	12.6	9.2	8.9	11.62
Thailand	21.1	21.4	21.0	20.7	20.3	20.89
Vietnam	19.6	19.5	19.6	18.5	16.0	18.65

Source: International Monetary Fund, World Economic Outlook Database, April 2022

Table- 2: Comparative Scenario of Revenue Mobilisation (Macroeconomic Wing, FD, MoF, 2022)

Though Lao P.D.R and Nepal are supposed to be graduated from LDCs along with Bangladesh, their revenue mobilisation ratio as a percentage of GDP is much higher than that of ours. The revenue collection target is set for Tk 433000 crore among which NBR will collect Tk 370000 crore[5]. It will certainly be a mammoth task for NBR as there is no visible result of ongoing reform projects. Furthermore, to overcome the shock of the pandemic, the government introduced several stimulus packages to boost up the sluggish economy which do not have any considerable return. Mostly, for this reason, the budget deficit as a percentage of GDP went up to 6 percent in FY 2020-21 (MoF, 2021) and for the current fiscal year, it again decreased to 5.5

[5] Source: National Budget 2022-23

percent[6]. But within the first quarter of this fiscal year, the adverse effects of the Russia- Ukraine war struck the economy again. This time the reserve has fallen sharply with a concomitant rise in inflation.

At this critical juncture, there is no other way but to increase the Tax-GDP ratio. Undoubtedly, if Bangladesh wants to generate revenue through taxation, an updated tax policy and a modern tax administration system is the prerequisite. The National Budget of 2022-23 shows revenue collection from VAT (1,41,192) is way higher than that of direct taxes on income, profits, and capital gains (1,21,020) as usual. The problem with that is, when VAT is imposed, the whole burden of it falls upon all the consumers, irrespective of their income level. As a result, consumers' real income shrinks as they have to pay more for goods and services. Moreover, the newly introduced four layers of VAT slabs are more complex than ever. For instance, record keeping can be erroneous; this may also prompt a tendency of tax evasion.

VAT was first introduced in Bangladesh in 1991 and it was a major reform in tax policy. But prior to that, at most one-third of the revenue was collected from trade-based taxes (Mansur, 2018). The incorporation of trade-neutral taxes like VAT had some positive impact on trade as the export competitiveness of Bangladesh increased as a result of this shift. Otherwise, consumers would have to pay more for imported goods.

Sometimes tax exemption offer from the government leads to tax evasion or sometimes to gain discretionary benefits. Again, private investment must play another significant role to realise the higher growth rate. But our private investment has been quite stagnant since 2008, hovering around 22 percent of GDP. (Saidjada & Jahan, 2016). In 2020-21, it declined to 21.5 percent which is the lowest since 2007-08 (Byron & Barua, 2021). The inverse relationship between taxation and investment shows that, when tax is imposed, the disposable income of an individual falls, so do the savings. As an effect, private investment declines too. To continue economic growth and make it persistent, growth in private investment is a precondition[7]. Otherwise, national growth will get stagnant at some point. So, fiscal prudence to achieve sustainable growth immensely depends on the tax policy.

---

[6] Source: National Budget 2022-23

[7] Both public and private investments are substantial for the economic growth and development of developing countries (Ahmed, 2021)

Recommendations and Conclusion

The reform in the revenue sector must go on in two streams- one should be policy reform and the other should be administrative reform. At the policy level, the policymakers should lay emphasis on increasing the tax base immediately rather than increasing the tax rate. The income tax collection as revenue is not satisfactory at all. Policymakers must focus on increasing direct taxes like Income Tax and Corporate Tax. Newer policy should be advocated incorporating a progressive tax rate (the more the income, the higher the tax rate). Moreover, tax exemption, and tax holiday should be provided for a shorter period as these may distort the market in long run.

A major problem remains in the tax collection procedure. In most cases, automation has been done partially, and as such people could not reap the full benefits of automation. The Government is trying to incorporate all the receipts and payments in only one software- iBAS++. If all kinds of reports of taxes and duties are generated using iBAS++, it would eventually serve the purpose of wider accountability.

As corruption persists in the whole revenue collection process, automation is the best way to prevent this. Moreover, this automation must be user-friendly so that taxpayers can be inspired to pay taxes in a hassle-free environment.

Another issue is the excessive dependence on the trade tax in revenue collection which is mostly one-fourth of the total revenue. This trade tax creates an anti-export bias for Bangladeshi products (Basak & Ahmad, 2022). Bangladesh's export is already in a vulnerable position due to the lack of export basket diversity. To increase competitiveness in the world market, government should shift the tax burden from here.

Non-compliance with the taxpayers still remains a major problem. An equitable and fair tax system may reduce compliance costs. Moreover, punishment for non-compliance must be ensured. Government must find other sources to increase revenue collection. Levying more tax on National Savings Certificate (NSC) can be an option. Though NSC is needed to stimulate national savings and safeguard low-income groups, uncontrolled selling of it has two major impacts. The high yield of NSC has impacted adversely the banking sector on one hand and increased the borrowing cost of the government on the other. The odd thing is that NSC is a fiscal operation, but it does not have any direct consequence in monetary aggregate (Taslim, 2018). So, slabs from interest earning from NSC can be created so that the low-income people get the benefit, and the government can collect more revenue as well.

The external, as well as internal audits, must be strengthened to check the irregularities in the revenue collection process. In the case of tax evasion, an exemplary penalty must be ensured. This turned out to be one of the crucial problems recently with an increasing rate of capital flight. A case study on the reform in the tax policy of Georgia showed that an increasing progressive income tax rate, reduced indirect tax, flattening the corporate tax, broadening the tax base, improved technology and a zero tolerance for corruption resulted in a tremendous output- tax to GDP ratio just doubled (Akitoby, 2018). It does not mean that the same policy will work for our country. But if strict compliance with the rules with reasonable policy actions can be enforced, the result would certainly be positive.

While talking about taxation, we should not lose sight of the spending decisions which are also important as they are in the same equation. Various development projects are being implemented in our country and to meet their expenses government borrowing is increasing each year. Unfortunately, in a number of cases, the implementing agencies cannot complete their projects within the stipulated time. The opportunity cost of extra spending by delaying the projects is very significant as this extra burden falls on the taxpayers.

Bangladesh is going to graduate from its LDC status by 2026 after meeting all the eligibility criteria. We have Vision 2041 to achieve to become a developed nation. The pace of growth can be accelerated if essential reforms are carried out judiciously. Public finance is a huge area that should be managed prudently to make sure that it achieves its main objective of maintaining macroeconomic stability. In a few years, we will lose many of the preferential treatments from the rest of the world just following the country's graduation from the Least Developed Country (LDC) status. As a result, deficit financing would be much costlier. As a preparation for that, the PFM policies must be reformed, they must be well implemented and transparency and accountability must be ensured while utilizing public money.

References

ADB. (2018). *PUBLIC FINANCIAL MANAGEMENT SYSTEMS- BANGLADESH; KEY ELEMENTS FROM A FINANCIAL MANAGEMENT PERSPECTIVE.* Manila: Asian Development Bank.

Ahmed, F. (n.d.). *Impact of Public and Private Investments on Economic Growth of Developing Countries.*

Akitoby, B. (2018). *Rising Revenue.* International Monetary Fund.

Basak, R., & Ahmad, A. (2022). *Budget FY22: Meeting the revenue challenge.* Dhaka: The Financial Express.

BBS. (2021). *Gross Domestic Product (GDP) of Bangladesh, 2020-21 (Final).* Dhaka: Bangladesh Bureau of Statitics.

Chowdhury, M. M. (2022, March Thursday). Public Financial Management of Bangladesh.

DT Global Europe. (2022, September). *DT global Web Page*. Retrieved from Bangladesh: Strengthening Public Financial Management | DT Global: Bangladesh: Strengthening Public Financial Management | DT Global

Finance Division. (2018). *PFM Action Plan 2018-2023 to Implement the PFM Reform Strategy 2016-2021.* Dhaka: Finance Division, Ministry of Finance, Government of Bangladesh.

GED. (2020). *8th FIVE YEAR PLAN; July 2020- June 2021.* Dhaka, Bangladesh: General Economic Division, Bangladesh Planning Commission.

Hasan, M., Rose, J., & Khair, S. (2015). *Background Paper for the 7th Five Year Plan of the Government of Bangladesh: Governance and Justice*. Dhaka.

Hood, & Jackson. (1991). *New Public Management Model*. Retrieved from Management Study Guide: https://www.managementstudyguide.com/new-public-management.htm

IDA, IMF. (2020). *Joint World Bank-IMF Debt Sustainability Analysis.* International Development Association; International Monetary Fund.

Islam, A. S. (2020, September-October). Public Financial Management (PFM) in Bangladesh. *The Cost and Management, 48*, p. 38.

Khatun, F., Rahman, M., Moazzem, K. G., & khan, T. I. (2021, May). Retrieved from The Financial Express: https://thefinancialexpress.com.bd/views/macroeconomic-stance-revenue-mobilisation-for-fy22-budget-1620142062

Lawson, A. (2015). Public Financial Management. *GSDRC Professional Development Reading Pack no. 6*, 6.

Macroeconomic Wing, FD. (2015). *Medium Term Macroeconomic Policy Statement (2015-16 to 2017-18).* Dhaka: Government Printing Press.

Macroeconomic Wing, FD, MoF. (2020). *Medium Term Macroeconomic Policy Statement 2020-21 to 2022-23.* Dhaka: Finance Division, MoF, Bangladesh.

Macroeconomic Wing, FD, MoF. (2022). *Medium Term Macroeconomic Policy Statement.* (K. Mozumder, & M. Altaf-Ul-Alam, Eds.) Dhaka, Bangladesh: Finance Division, MoF.

Mansur, A. H. (2018). *Fiscal Management and Revenue Mobilization.* Dhaka: Policy Research Institute.

MoF. (2016). *Public Financial Management (PFM) Reform Strategy: 2016-2021.* Dhaka: Ministry of Finance; Government of the People's Republic of Bangladesh.

MoF. (2021). *Medium Term Debt Management Strategy of Bangladesh of 2021.* Dhaka: Debt Management Branch, Treasury and Debt Management Wing, Finance Division, Ministry of Finance.

PEFA. (n.d.). *WHAT IS PEFA?* Retrieved from About PEFA: https://www.pefa.org/about

Shil, N. C., & Chowdhury, A. (2021). Public Financial Management Systems in Bangladesh: An Ideological Review. *Management and Public Policy*, 22.

Taslim, M. (2018). *National Savings Certificates: Sense and nonsense.* Dhaka: The Financial Express.

UNGA. (2021, November 24). General Assembly issues resolution on the graduation of Bangladesh, Lao PDR and Nepal. New York, USA: United Nations General Assembly.