

**FINANCIAL ADMINISTRATION IN  
DEVELOPING COUNTRIES:  
A STUDY OF BANGLADESH.**

GIFT

A  
THESIS  
SUBMITTED FOR THE DEGREE OF  
DOCTOR OF PHILOSOPHY  
IN  
THE DEPARTMENT OF PUBLIC ADMINISTRATION

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লেখাগার

ZAKIRUL ISLAM  
DEPARTMENT OF PUBLIC ADMINISTRATION  
UNIVERSITY OF DHAKA  
BANGLADESH.

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## CERTIFICATE OF SUPERVISOR

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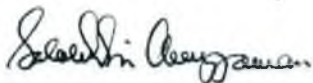
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Salahuddin M. Aminuzzaman


Professor

Department of Public Administration

University of Dhaka

Dated : 30.01.2000

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Muzaffer Ahmad

Professor

Institute of Business Administration

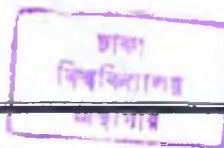
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*Zakirul Islam*

ZAKIRUL ISLAM

University of Dhaka

## ***ABSTRACT***

This research study in the form of a thesis under the title of “Financial Administration in Developing Countries : A Study of Bangladesh” is an effort to examine the structural functional aspects of the financial administration of Bangladesh . The financial administration of Bangladesh , in fact is one of the important part and parcel of the Government of Bangladesh . But the financial sector practically most uncoordinated and neglected sector as far as financial administration of Bangladesh is concerned . The Ministry of Finance is the main institution for the people involved in the financial aspects of the country . But it could not lead the nation properly towards achieving financial goals and could not strengthen the financial activities of the country efficiently due to existing socio- political system . The thesis aims to discuss the evolution , functional and structural aspects of the Financial Administration of the developing countries with special emphasise to Bangladesh. The study also aims to find out the substantive problems of the Financial Administration of Bangladesh .The Ministry of Finance of Bangladesh as Financial Administration of the country started it's functions from 1972 independently. But it has a legacy of British and Pakistani period and financial administration of that period was not very effective and the people had no faith in that financial administration . In this regard the discussion of the financial administration system of the country is taken in to consideration . With this the structure and function of the other the countries are also taken into consideration for better understanding and analysis. The growth and development of the financial administration in general and the problems of the financial administration of Bangladesh in particular have been taken here for discussion . The study also intends to show a comparative analysis in this respect . But for the interest of the research main emphasis has been given to

the problems of the country itself, because every country , especially the developing countries , has a peculiar nature of problems , which are sometimes not very easy to compare to those of developed countries . During the research study the author had to remember that the country of Bangladesh is a developing one . The characteristics of the society and bureaucracy of Bangladesh are not necessarily similar to those of the developed countries and the developing countries. The standard and social values of such countries differ for many reasons. In the light of above , the aim of the thesis has been fixed to look deeply into the problems of the financial administration of Bangladesh by reviewing its activities , structure , role and function in relation to the national development .

The thesis comprises of ten chapters . Each of the chapters includes a brief introduction , a comparative discussion and analysis indicating substantial problems and a conclusion . In this regard the first chapter of the thesis covers the Introduction of the thesis where the introductory note , objectives , hypothesis and methodology has been discussed .It also covers a brief discussion of conceptual framework of the study . The second chapter covers the Origin and development of financial administration started from the ancient world to present Bangladesh . The third chapter covers the horizontal and vertical structure and functions of the Ministry of Finance of Bangladesh known as the Financial Administration of Bangladesh. It also covers the organisational and functional relationship between various components and parts of the structure and the structural changes that have been introduced since 1947. It also covers the expanded functional areas of the Ministry of Finance of Bangladesh . The forth chapter covers Fiscal aspects and its problems with reference to Bangladesh . The fifth chapter covers the Parliamentary role regarding financial aspects of the government of Bangladesh .The sixth chapter covers Accounting system and its role in the financial administration .The seventh chapter covers the Banking sector of Bangladesh .The eighth chapter covers Tax administration and the ninth chapter covers Financial sector reforms in Bangladesh .The concluding chapter covers analysis of problems and recommendations . In fact the concluding chapter examines the out come of the research work and necessary recommendations are



made in order to make the financial administration effective and efficient in the future. Actually this is a unique research study. Because there was no example in the past of such research study in this particular field of Bangladesh . So this thesis could be treated as a reference for the researchers , the academicians, the civil servants and the students of Public Administration , Finance , Economics and Business Administration in the future .

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# LIST OF ABBREVIATIONS

|                |                                                                  |
|----------------|------------------------------------------------------------------|
| <b>ACT</b>     | <b>Assistant Commissioner of Taxes</b>                           |
| <b>ADB</b>     | <b>Asian Development Bank</b>                                    |
| <b>ADP</b>     | <b>Annual Development Program</b>                                |
| <b>AGPR</b>    | <b>Accountant General of Pakistan Revenue</b>                    |
| <b>BB</b>      | <b>Bangladesh Bank</b>                                           |
| <b>BCS</b>     | <b>Bangladesh Civil Service</b>                                  |
| <b>BFR</b>     | <b>Budget For Result</b>                                         |
| <b>BMDC</b>    | <b>Bangladesh Management Development Centre</b>                  |
| <b>BMRC</b>    | <b>Budget , Monitoring &amp; Resource Committee</b>              |
| <b>BMRE</b>    | <b>Balancing , Modernisation , Replacement and Extension</b>     |
| <b>BPATC</b>   | <b>Bangladesh Public Administration Training Centre</b>          |
| <b>BRC</b>     | <b>Banking Reform Commission</b>                                 |
| <b>CAMEL</b>   | <b>Capital , Asset , Management , Earning , Liquidity</b>        |
| <b>CAG</b>     | <b>Comptroller &amp; Auditor General</b>                         |
| <b>CGA</b>     | <b>Controller General of Accounts</b>                            |
| <b>CIB</b>     | <b>Credit Information Bureau</b>                                 |
| <b>CIP</b>     | <b>Commercially Important Person</b>                             |
| <b>CONTACT</b> | <b>Controller's Accounting</b>                                   |
| <b>CORIBEC</b> | <b>Committee on Reforms in Budgeting and Expenditure Control</b> |
| <b>CT</b>      | <b>Commissioner of Taxes</b>                                     |
| <b>DCT</b>     | <b>Deputy Commissioner of Taxes</b>                              |
| <b>DFA</b>     | <b>Deputy Financial Adviser</b>                                  |
| <b>DFI</b>     | <b>Development Financial Institution</b>                         |



|                  |                                                            |
|------------------|------------------------------------------------------------|
| <b>DFID</b>      | <b>Department For International Development</b>            |
| <b>DR</b>        | <b>Departmental Representative</b>                         |
| <b>DTCO</b>      | <b>District Treasury Controller Officer</b>                |
| <b>ECNEC</b>     | <b>Executive Committee of National Economic Council</b>    |
| <b>ECR</b>       | <b>Expenditure Control &amp; Regulation Wing</b>           |
| <b>EOP</b>       | <b>Ends of Project</b>                                     |
| <b>ERD</b>       | <b>Economic Relations Division</b>                         |
| <b>FA</b>        | <b>Financial Adviser</b>                                   |
| <b>FCGO</b>      | <b>Financial Controller General Office</b>                 |
| <b>FSRP</b>      | <b>Financial Sector Restructuring Project</b>              |
| <b>FY</b>        | <b>Financial Year</b>                                      |
| <b>FYP</b>       | <b>Financial Year Plan</b>                                 |
| <b>GAIS</b>      | <b>Government Accounting Information System</b>            |
| <b>GATT</b>      | <b>General Agreement of Trade and Tariff</b>               |
| <b>GDP</b>       | <b>Gross Domestic Product</b>                              |
| <b>GOB</b>       | <b>Government of Bangladesh</b>                            |
| <b>IA&amp;AS</b> | <b>Indian Audit and Accounts Service</b>                   |
| <b>ICAS</b>      | <b>Indian Civil Accounts Service</b>                       |
| <b>IJCT</b>      | <b>Inspecting Joint Commissioner of Taxes</b>              |
| <b>IMED</b>      | <b>Implementation Monitoring and Evaluation Division</b>   |
| <b>IMPROVE</b>   | <b>Integrated Multi module Processor for Voucher Entry</b> |
| <b>IT</b>        | <b>Information Technology</b>                              |
| <b>ITO</b>       | <b>Income Tax Officer</b>                                  |
| <b>JCT</b>       | <b>Joint Commissioner of Taxes</b>                         |
| <b>JS</b>        | <b>Joint Secretary</b>                                     |
| <b>LRA</b>       | <b>Lending Risk Analysis</b>                               |
| <b>NAP</b>       | <b>National Action Plan</b>                                |
| <b>NBR</b>       | <b>National Board of Revenue</b>                           |
| <b>NEC</b>       | <b>National Economic Council</b>                           |



**DEDICATED**

**TO**

**THE LOVING MEMORY OF  
MY FATHER AND MOTHER**





## **CHAPTER-ONE**

### **INTRODUCTION**

For any country either developed or developing , an effective and efficient financial system is an important tool for its overall development. Government financial administration is not only an important tool for financial purpose , but also it is important as a vital part of development administration of a country . The relation between financial administration and development administration is very close. They are inter-dependent and inter-related for various aspects. This relation may reflect and represent the economic situation of a particular country. A well-designed and well organised financial administration system of the government can create an appropriate atmosphere or scope to allocate available resources efficiently. An appropriate and skilled financial system can also control their use and ensure availability of funds when necessary. It also signals the future impact of current management actions and provides appropriate information for decision making.<sup>1</sup> It has been mentioned that the government financial administration and management system is a vital instrument for overall development of the state. In fact, the system of financial administration of a government is an indispensable tool for allocating, mobilising and utilising resources efficiently , effectively in order to achieve a success from the development activities or to fulfil the development objectives. The strategy which is being used for government financial administration and management perhaps is one of the important national policies of the national government. It is known and always significant that financial management is especially critical today in an era of large deficits, high debt repayments, inflation, declining export earning devalued currencies and hence, shrinking resources. A broad consensus exists through out the world both in the developed and in the developing countries , as to the desirable components of an effective government financial management system , encompassing budgeting , accounting ,tax administration and auditing. Indeed, many developing countries have

made notable progress in these areas.<sup>2</sup> It is also a fact that because of variety of internal and external factors, each country is at a different stage of development in the financial administration. Hence depending on the character of the country, budgeting may be advanced, adequate, rudimentary or virtually non-existent. Linkages between budgeting and development planning, may range from strong intertwining systems to uncoordinated and fragmented decision making.<sup>3</sup>

Accounting in some countries may serve as a support system for planning and budgeting as well as a central mechanism to enforce financial discipline.<sup>4</sup> Conversely, elsewhere, it may be so inadequate as to provide not even minimal elements of information and control. Tax collection may be timely or late, deposited quickly in the treasury or held back by collecting agencies, marked by compliance with the tax codes or by blatant evasion.<sup>5</sup> At one extreme, auditing may cover financial performance as well as the efficiency and effectiveness of programs and projects, at the other, it may be more than an exercise in shifting vouchers.<sup>6</sup> However, in the developing countries, the nature of the government financial management and administration should be considered in the contexts of its social structure, level of mass education, standard and quality of experts, political will, leadership pattern, fiscal policy and development planning and programs of the State.<sup>7</sup> The financial administration cannot run effectively until the national administration is committed and has foresight.<sup>8</sup> The efficiency with honest commitment perhaps is one of the important preconditions for national development. This is very much true for financial aspects of the government for any country either developed or developing.<sup>9</sup> Most of the developing countries have two kinds of characteristics in this respect. As far as financial administration and management is concerned, the developing countries are still the replica of old ideas.<sup>10</sup> The other is the standard of mass leadership which is not necessarily and sufficiently well equipped or knowledgeable in financial and economic aspects. The political persons involved in the system are not also well-educated to understand the financial system of the government.<sup>11</sup> For that reason, the governments of such political elements are dependent on the foreign advice and local

bureaucratic mercy or help. There are very few examples in this regard that the political ministers, in charge of Ministry of Finance or in charge of financial matters of those countries, administer their Ministries having sufficient knowledge and experiences both in practically and theoretically on financial discipline. Most of the political parties of the developing countries have been suffering from this problem. It has been observed that when a political party form a government to run the country for next certain periods, the newly formed government faces problem often for lack of experience and knowledge. As a result, they can not take prompt and proper decision especially in the economics and financial aspects without the help of bureaucracy.<sup>12</sup> This is very much true in Bangladesh. The study aims to highlight this aspect too.

Bangladesh has gained its liberation followed by a bloody war of liberation in 1971. Already twenty eight years have been passed, but the country yet has not been able to set up any modern, effective financial administrative system for her own benefit. Since independence, Bangladesh has been receiving uncountable foreign aid in cash and kind in order to build her fortune. But in most of the cases, the utilisation process of foreign aid as not satisfactory to the eyes of donor agencies.<sup>13</sup> The former Secretary of State of the United States named Bangladesh as a bottomless basket due to mismanagement of foreign funds and aids.<sup>14</sup> The overall financial procedure and control mechanism is not necessarily reasonable and acceptable for various causes to the donor and aid groups. The budget system, the accounting system, the financial rules, the fiscal policy, the tax administration, the expenditure control process, the banking system and the role of central bank, the system for collection of other revenues are highly dissatisfactory, ineffective and unscientific.<sup>15</sup> Financing in unproductive sectors and increasing trends of establishment costs of the government offices, in fact, has been producing unwanted financial burden for the government. This is actually hampering the development activities of the country. All these things, mentioned above, are the pre-conditions for improving the current socio-economic situation of the country.



## **PURPOSE OF THE STUDY**

Bangladesh is a developing country. The country needs to be efficient and expert in financial administration and management for the benefit of its own development programs. It is also necessary for the sake of its good future and fortune. The internal business and economic flow in connection to the financial management and policy of the national government and national strategy for utilising foreign aid are the most important aspects of development administration for Bangladesh. The policy for development administration can not be successful until an appropriate and modern financial administrative system is established. So the purposes of this research study are actually based on the topics mentioned above. For these reasons, the following matters were explored and taken into consideration during the present research study.

(a) to identify the features and scope of financial administration. (b) to identify the actual problems of financial administration and management of the Government of Bangladesh. (c) to study the financial administration system of some developing countries in order to compare with the system of Bangladesh. (d) to identify socio-economic, political and administrative factors affecting the structure and operations of financial administration of the Government of Bangladesh. (e) to find solutions to put recommendations for future action in this regard in order to make the existing financial system modern.

## **IMPORTANCE OF THE STUDY**

Generally speaking, the aim of financial administration of any developing or developed countries is to ensure discipline in the sector and provide necessary services effectively and efficiently in order to run the existing system. The financial administration provides best opportunities for the internal financial flow which, to some extent, determines the nature and objectives of the national development policy.<sup>16</sup> The name of Bangladesh is included in the list of least developed countries, prepared by the United Nations. Like other members of the group of least developed countries, Bangladesh has been following conventional system of financial management. There are lot of criticisms regarding following of conventional or outdated system of financial administration. It is advised by many donor agencies



that the country should change its outlook towards outdated system , because the existing system cannot fulfil the needs of the national development activities as well as administrative requirements. So every aspects of public financial administration of the country required to be modified and reconstructed. The importance of study of financial administration of Bangladesh is therefore cannot be ignored and underestimated. So the importance of the proposed study can be seen in the following way more specifically.

Budget is one of the important aspects of the financial administration . Budget is one of the fundamental political issues of the developing countries too. The elements of budget and implementation of budget is the most important or vital task of financial administration of the country . Most of the times , the party in power face criticism from the opposition regarding this sensitive issue. It is also a fundamental problem to identify the relationship between recurrent and development budgets of the government. In the developing countries , there are difficulties of determining the impact of development budget or the recurrent budget . It has been observed in many developing countries including Bangladesh that the decision makers focused more on the costs of completing new projects than on the costs of staffing and maintaining them after completion. As a result, newly opened facilities stood idle or suffered from inadequate maintenance and staffing. The revenue budget is an example of conventional method<sup>17</sup> and mostly dependent on clerical labour and merit . The elements of revenue budget has been existing for long time in the same manner. There is a misunderstanding regarding revenue budget between the policy maker and budget maker .Some times development budget is getting more importance than the revenue budget and sometimes development budget is getting less importance than the revenue budget.<sup>18</sup> Contradictions and confusions are regular phenomenon in this regard in most of the developing countries and Bangladesh is no exception. For the benefit of the national economy of the developing countries , such countries are in need to develop an integrated budget system which might be useful to strengthen the existing financial administration and management system. It has been observed during this

study that wide ranging changes are also necessary for the existing budget making process of such countries. In order to set-up an effective budget system for achieving national goals, these countries are in a great necessity for changing many things of their existing system. In order to develop an integrated budget system covering all expenditure elements including recurrent and development budget, a systematic consideration of the impact of projects on recurring costs could be considered. Such countries have been suffering for appropriate training to strengthen capacity of the skilled budget staff to analyse recurring costs. Moreover to create a focal point in the budget office for continuing appraisal of capital and operation costs it may be necessary to develop a joint accounting classification system covering both development and recurrent budgets. Side by side continuation of appraisal of the impact of projects on debt service are in great necessity for such countries. For the interest of overall financial administration such countries may take initiative to disseminate of information on projected recurring costs to bilateral and multilateral donors. The above mentioned things are very important for the whole financial administration system of a country which in fact moves around the national budget. The budget is mainly related to the revenues of a country. So when the budgetary system is effective and appropriate, it could be assumed that the financial administration of the country is efficient.<sup>19</sup>

It is an admitted fact that without a good accounting system the financial control can not be efficiently performed and transactions can not be promptly carried out. In fact, in the developing countries and off course, in Bangladesh, the role of accounting and its potential for improving the efficiency of management were often underestimated. In Bangladesh, accounting in the public sector was seen often as a routine, legalistic and low status activity, associated with the observance of set-up procedures, but not with the need to get things done. So it is necessary to reassert the central role played by accounting in the government financial management system of developing countries. It is very unfortunate that the country has been following a poor, backward accounting system since its independence which is required to be replaced by a modern one. With out good accounting data activities such as budget formulation,

budgetary control, progress monitoring, forecasting financial scenario can not be realistic and effective. So in order to improve the existing system, it is necessary to diagnosis of the strength and weakness of the government accounting system. The study aims to focus on this aspect because it has been already mentioned that the accounting system is the centre point of the financial administration of the developing countries.<sup>20</sup>

The central banks of the developing countries are known as different names .In Bangladesh it is known as Bangladesh Bank .This is the bank of the government and also it is called as the banker of all banks of the country . As a central bank, it provides normal bank services by opening bank account at the request of an appointed officer in the Ministry of Finance, usually the head of the central accounting office, to receive government revenues and pay government expenditures. This account is normally held at the head office of the bank. The head office therefore, provide a central depository for the consolidated fund of the government. The Central Bank serves as a central or focal point for the management of the foreign currency resources of the country. So the role of central bank is very important but there are some limitations in this regard . Issuance of regular and timely bank statements are very essential aspects for determining the role of central bank in Bangladesh because the Bangladesh Bank is also considered as a part of the whole financial administration system of the country. This study would also conduct research on this point in order to find out the actual problems.<sup>21</sup>

The United Nations has classified forty two states of the world as least developed. In the year , 1998, the average Gross Domestic Product per capita of these countries were a little over two hundred US Dollar and for Bangladesh it is now two hundred eighty US Dollar. The external assistance has important implications for the least developed states and their government financial management system , in particular for their development budgets which are often predominantly funded by such means. The external aid for least developed countries are vital tools for overall development activities.<sup>22</sup> The external aid is also a fundamental requirement for the national budget



of Bangladesh unfortunately. These external resources come in several forms. For example: (a) General budgetary support (b) Project-related assistance from the donor (c) Advance payment to the recipient government via a special currency account (d) Project-related assistance on a reimbursable basis, where recipient reclaims from the donor or lender. (e) Transfers in kind to projects, agencies, as to the government itself.

In practice, general budgetary support is not very common as a means of providing international assistance with a few exemption. However, the foreign aid related to the projects of the recipient country undoubtedly an important matter. Giving of aid on a reimbursable basis is a severe test of the efficiency of the national financial administration or the government financial management of a particular state. In Bangladesh, unfortunately there are lot of examples about misuse of foreign aid for which the donors and lenders objected and complained about unskilled management and poor accountability for projects which they had financed. It is a fact that many developing countries have been facing these types of problems. Bangladesh needs more foreign aids and assistance in the near future to implement its development projects. In order to ensure all sorts of financial assistance the government financial management system and utilisation policy of aid should be more effective. The policy makers should be more conscious. They should provide sincere attention to the expectations of the donors. In fact, the necessity of changing financial management strategy and technique is now a popular demand from all walks of life.<sup>23</sup>

The key elements in any system of management and administration is the competence of the personnel who operates and manages the system. It means that human elements or human resources are the part and parcel of management system of any social and financial organisation. In most of the cases, effectiveness of government financial management and administration depends on the quality and skills of the staff involved in its various activities and also the extent of motivation and discipline they bring to the performance

of their job. It is a fact that the development of skills up to expected level of improvements in financial management and administration of Bangladesh has not yet achieved. Because the supportive system of motivation and commitment has been lacking to encourage the body of accountants, budget makers and auditors to perform their job or duty efficiently, honestly and effectively.<sup>24</sup> Development of skills for financial administrative staff can be basically at two phases. One is pre-entry education, usually leading to a degree at an academic institution in the field of finance, accounting, economics, public administration and business administration. Another is post-entry training which is in the job course completion and specialised courses, some times leading to a certificate or diploma. In Bangladesh, there is a serious lack of educational background in connection to ones job. For example, the job of auditor or accountant requires academic background in accountancy or finance or economics but unfortunately for the increasing trend of unemployment of educated young persons the right man can not be posted in the right position. It has been observed that a person having university degree in the discipline of physics or biology, joins as an officer of audit cadre or as an officer of tax department. So after joining of such officers having no idea about their job, are required urgent intensive training so that they can perform their duties. There is a need also to train the related clerical staff and supervisors of the respective ministries or departments in order to develop their skills. All the persons involved in the financial system of the government of developing countries are required motivation, incentive as well as professional knowledge and training for quick development of skills. These things can not be ignored or underestimated. Most of the developing countries have been suffering from these problems since their independence. Creating a professional and skilled cadre in the field of government financial administration may be very helpful for implementing government policies. The policy makers of the developing countries should think the importance of the area with great emphasis.<sup>25</sup>



The necessity of computerisation of the whole financial management system of the governments of the developing countries is another field of research and implementation which can not be underestimated. Especially, now a days, the budget system is the important field of computerisation which is well recognised. The usefulness of computer system for all sort of government functions need not to be repeated. The developing countries have been suffering from lack of introducing computer system in the public administration sector in general and financial administration sector in particular. The importance and utility of computer technology in both the public and private offices of the developing countries have increasing quickly. From the above mentioned discussion, it is very clear that the financial administration and management system of the governments of developing countries are very important aspect.<sup>26</sup> It is important not only for the benefit of national development activities but also for the interest of its national public administration. As an integral part of public administration, the financial administration of developing countries are normally expected to play a significant role in the whole financial system of the country. From the above discussion it is perhaps understandable about the importance of the present study as the research study is based on the issues mentioned above.

#### **CONCEPTUAL FRAMEWORK OF THE STUDY**

There is no universally accepted definition of financial administration. Information on possible definition can be obtained from a number of sources. The term is closely associated with the financial management of corporate bodies or private organisations. Therefore, the contents of definition can be found in the pages of financial management text books which concentrate on large companies, are one source. Advertisements in newspapers for financial managers, finance officers, finance directors or financial administrators and financial controllers are another source. Because it is normally mentioned in the advertisement about the job requirements which in fact, indicates or represents the current duties of the incumbents for the posts. So one can find a normal but

meaningful definition from it. However, among all different definitions there is a measure of agreement. And it can be said by saying this way that financial administration is concerned with the aspects stated below:

(a) Specifying and attaining objectives of the financial policy of the government. (b) Safe guarding and making optimum use of resources. (c) Achieving aims of the existing financial system. (d) Enabling something to happen according to monetary policy implementation of the respective government in order to develop economic activities .

Financial Administration is one of those subjects which lie on the border line between economics and politics . It is mostly concerned with the income and expenditure of public authorities and with the adjustment of the one to the another . In real sense public authorities include all sorts of territorial governments including regional , national , federal and even international government . They differ widely , of course as regards the magnitude of the areas and populations which they govern , the range of functions which they exercise , their methods of obtaining income , the objectives of their expenditure and their financial relations with other public authorities whether superior or subordinate to themselves . In broad survey of the subject , most of these differences are only of secondary importance but a clear distinction should be drawn between financial administration or public authorities and economic activities which have the power to issue currency and those which have not . In the present world ,the most central governments have this power . In broad sense the term 'finance' signifies money matters and their management . But when the term 'financial administration' comes up then it presupposes the existence of a money economy and overall control and management of financial atmosphere of the country .<sup>27</sup> Some authors mentioned that financial administration is concerned with moving governmental business forward. The corollary of this is that it has to create and maintain a financial infrastructure , to organise , to control strategy , make decisions , prevent and overcome obstacles of a financial nature as well as contributing to overcoming non-financial limitations with financial implications. Accounting for and recording past events is vital for

providing statements of the starting and ongoing positions. These things change with the passage of time, and need up to date management information. In practical term, it means that financial administration of any state has the following duties. These duties are the core of any definition of financial administration.

(a) the raising and provision of money.(b) the controlling of flow of money in the present and future.(c) the stewardship of money already invested in the projects of the government.(d) meeting obligations to employees, fund providers and other interested parties both statutory and non statutory. (e) protecting government interest against financial ills.(f) achieving financial goals and objectives.(g) advising financial institutions and authorities both government and non government about the implications of their plans and decisions.(h) representing the interests of the government when attending to the meeting for the financial needs of the government which involves outsiders.(i)establishing an effective, fruitful and dynamic administration in financial aspects of the government.

It can be concluded here about this aspect by saying that financial administration of any State is completely a government aspects but it also includes non-government financial activities which is obviously an integral part of the whole financial system of the respective country.<sup>28</sup>Some scholars have tried to find out a reasonable definition of financial administration. Dr Pinto says that financial administration means such operations the object of which is to raise funds available for the government activities and to ensure the efficient use of these funds.<sup>29</sup> Another scholar Dale Beach says that public administration is detailed and systematic execution of public laws. Keeping the idea of Beach it can be said in a little different way. It can be said that financial administration is detailed and systematic execution of financial rules.<sup>30</sup> But when Tyagi says that financial administration means how public revenue is collected and how it is spent and who collects it and who spends it then the basic facts come in front of us and that is it has three main area namely fiscal policy, fiscal management and



accountability.<sup>31</sup> Because according to L.D.White, the management of finance is one of the first and one of the inescapable responsibilities of administration. As a matter of fact financial operations affect the very structure of the government.<sup>32</sup>

Alfred .G . Buehler says that financial administration is the financial functions of the government. It is the financing of those public wants that are supplied by governments. As a study, it comprises the divisions of expenditures, the raising of funds by taxation, borrowing and other methods and other financial management of the government. <sup>33</sup> According to Campbell, Financial Administration is conducted by two types of government activities. One of these divisions consists of Ministerial departments and the other encompasses a variety of statutorily created authorities in the form of boards, commission and trusts. <sup>34</sup>

Public Financial Administration in fact is a science which treats of income and outgo of government. In modern times this includes in practice four subdivisions: public revenue, public expenditure public debt and certain problems of fiscal system as a whole such as financial management of government activities. On the other hand, it is usually thought to be exclusive of the public control of private credit, banking and corporation finance. In a broader sense, of course, all finance is public finance. Banks may be owned by the government or by the public corporations. But even under private ownership their operations are so extensively controlled in the public interest that it would indeed be difficult, if at all possible to draw definite bounds around either of the two fields of private or public finance. It should be noted here that Financial Administration is also on the borderline between economics and political science. Obviously, many of problems are economic in character, involving very closely the process of getting a living and seeking command over economic goods. And in the domain of political science, relate primarily to the effective functioning of government as such. Furthermore, there are no very clear lines separating financial administration from both economics or public administration or political science or sociology. Because all of these are related to the aspects of the public interest. It is known to all that the public interest is the interest of good economic life, increasing of life style, better



financial system . So financial administration can play here a vital role . However , for the purpose of the present research study , I would like to make a definition of financial administration . This definition would be only applicable for this research work and here financial administration would mean government financial administration . The following is the definition of financial administration . Financial Administration is the administration of financial activities of the government. It covers the area of all sorts of government financial activities ensuring appropriate utilisation of public money through financial discipline of a country .

### **CONSTRAINTS OF FINANCIAL ADMINISTRATION**

The necessity of effective financial administration system in the developing countries are nothing surprising . Because , the system itself requires a change , a modification or a complete reorganisation or restructuring what ever the case may be. When a discussion takes place about the constraints of financial administration or financial management system of any developing country, there are positive as well as negative opinion regarding the structural or organisational set up of the system. Prominent amongst the positive reasons is the need to consolidate the different parts of government financial activities. On the other side, negative reasons provide for unchanged, static system which is popularly known as pragmatic mentality of the developing countries. However, in the developing countries , the whole government financial activities have been performed by the Ministry of Finances with the help of other associated relevant financial institutions and also general organisations but the Ministry of Finance plays key role in the whole aspect. Although all the parts interact , but for lack of proper consolidation , there is a danger of fragmentation with all its associated control problems. The control mechanism of the governments of developing countries in connection to financial aspects are very ordinary and long way process. The strategy to control financial activities is applied normally to form the basis of technical decisions. It is fact that all the decisions

in connection to running of day to day administration and implementation of different projects are necessarily financial. Of course, some of the decisions may not be financial primarily, but it can be argued that all decisions and actions of the government which are development oriented, if not initially so, are ultimately of a financial nature. In the developing countries the governmental involvement in many people oriented programs are obviously financial in nature because in such countries, the responsibilities of the government are very wide and the nature of such responsibilities are very fundamental. The government can not avoid such responsibilities for socio-economic-political reasons. There may be different kinds of the feature, character, goal, objective or management style of the government financial administration around the world, no government is free from constraints. There are some constraints which are external and some are obviously internal. The external constraints in fact, include the statutory obligations of the State which are principal constraint of financial management system. For any country all financial activities must answer to the internal revenues usually to customs and excise, value added taxes and income taxes. These are the support base for government financial activities. In the developing countries, the process of collection of such revenues are not scientific and satisfactory. Unscientific utilisation process of foreign aids or funds is also another constraint for government financial activities. Internal constraints are much more diverse and imprecise than the external one. In the developing countries, internal constraints are so prominent and active that these can stop or make stagnant the whole financial system. Actually, for any developing country, absence or presence of internal constraints represent whether there is a strategy for financial management in the country or not. In the developing countries, there are inadequate, inappropriate strategy<sup>35</sup> for which financial system is constrained by lack of direction and improper use of resources. Lack of opportunity for advancement and very limited scope for exercising financial management skills cause many financially qualified personnel to prefer employment in private

national or multi-national companies and professional firms. Another important internal constraint for most of the developing countries are appropriateness of information. The information collection and supply system of the governments are not very active and prompt.<sup>36</sup> The sense of responsibility of the employees of financial institutions are very poor and initiatives to maintain interpersonal relationships regarding government functions are severely insufficient. There is a trend of non co-operation among the inter offices sometimes which creates direct hostility.<sup>37</sup> The financial administration of developing countries are successful when all the constraints are removed or controlled and when the employees, finance providers, service receivers or whatever their identity, confident that governments of such countries have been achieving its expected current financial goals.<sup>38</sup>

#### **AREA OF THE STUDY**

Government Financial Administration and its management techniques in fact, cover many subjects. If the financial administration system of developed countries, it will also show another set of different features. Bangladesh as a newly independent country has a broad area of research in the field of financial administration. But actually, it is not possible to cover everything by one research study for practical reasons. So the researcher had to limit its area for the benefit of proper completion of the study. In order to get a clear picture of the financial administration system and also to have proper solutions of the problems of the area, the field of research should be also specific. So the main area of the proposed research study was therefore, the financial administration of Bangladesh and its structural, functional problems. The study also covered the area of the efficiency and impact of the financial system on the whole country. For this purpose, the historical back ground of the financial administration, structural functional aspects of the Ministry of Finance and economic situation of the country in general, fiscal system and fiscal policy, parliamentary relationship with the financial aspects of the government, accounting



and audit of the government , role of central bank and commercial and private banking sector , taxation system , financial sector reform activities will be considered and studied . Again , the financial rules, regulations also were considered . In general , attempts will be made to find out the actual picture of the structural and functional problems of the financial administration and its basic role in the field of national development activities. A study of few developing countries will also be conducted in order to get a comparative picture of the financial administration and management system of such countries .

#### **HYPOTHESIS OF THE STUDY**

The hypothesis of the proposed research study were :

The existing financial administration of Bangladesh can not be effective within the present structural and functional perspectives or framework and that the targeted objectives or goals of the financial administration and policies can not be sufficiently achieved .

The overall financial administration is not development oriented . So the real concept of financial administration has not been established for the benefit of the common people of Bangladesh .

#### **METHODOLOGY OF THE STUDY**

The nature of the present research work was such as to combine analytical and empirical approaches in the methodology . Accordingly both qualitative and quantitative data was required. In order to generate data base of the study , firstly , all necessary information will be collected from all available secondary sources but it was not sufficient to draw any conclusion regarding some of the critical objectives of the study. Therefore , it was necessary to collect information from the following respondents and sources :

- (a) Policy Makers and Senior Bureaucrats of the Government of Bangladesh
- (b) The working people in the Financial Institutions
- (c) Project implementing agencies and employees



(d) Donor agencies

(e) Intellectuals and Finance experts of the country

The research study as mentioned above will also be necessary for examination of both published and unpublished reports and documents of the developing countries published and unpublished survey reports and other papers of various academicians, intellectuals and institutions and on field interviews.<sup>35</sup> Four developing countries such as India, Pakistan, Nepal, Bhutan was visited for collecting of materials. Primarily data was processed partly manually and partly through computer. Necessary figures, tables, graphs were produced in order to show actual scenario of comparative analysis and the stated problems. Personal interviews and discussions with scholars, intellectuals of the country, secretaries of the Government, economists of the World Bank, Asian Development Bank of Dhaka and Business elites of Bangladesh was made for clear understanding and presentation of the picture of financial administration of the country. In order to complete the thesis, the researcher faced lot of problems from different corner. In Bangladesh any researcher of social sciences faces problems or difficulties in practice. The first and basic problem in this respect is the dearth of informative and original as well as secondary materials. The tradition of systematic publication of government documents was a legacy of British rule. But after partition period or post liberation period has not witnessed the continuance of this tradition. The second problem which is vexatious, rather irritating is that it is extremely difficult to trace and obtain existing important necessary materials. These materials are not properly and systematically preserved with the result that much of information necessary to any study is not accessible in convenient form in government sources. This problem has become more aggravated by the fact that many reports of important committees and commissions have been classified as restricted materials for official use only. Being a civil servant, the author also failed to collect many information from the government reports directly. Another problem is that a researcher finds very little co-operation and sympathy from both officials and non-officials with a few exception. The government officials are afraid of social science

researchers as they think that secret information of the government might be disclosed by the researchers for which they might suffer in future. But they never think that the outcome of the research work may bring a positive result for the institution concerned. The Institute of Business Administration of the University of Dhaka was the source of help. The Department of Public Administration was one of the sources of information and guidance but the syllabuses of financial administration which are being taught to the students of honours class are not scientific and practical. Another problem for the researcher was that the Department of Public Administration do not teach the origin or history and development of financial administration to the student for what no necessary information in this aspects was available there. It is not even included in the syllabuses of the Department of Public Administration. However, the researcher had to work hard in order to write the origin and development of financial administration collecting from various sources.

At the time of submitting the thesis, many of the data and information have been changed for the development of government financial activities and for introduction of new policies and decisions. Especially data of fiscal and monetary aspects may differ from the data included in this thesis. The information and data used in the thesis cover the time period from January 1996 to December 1998. According to the instruction of the supervisors and as per existing rule of the University of Dhaka, appropriate methodology were used for collection of information, data and for completion of the research study. All other efforts were made for successful completion of the thesis.

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## **CHAPTER-TWO**

### **ORIGIN AND DEVELOPMENT OF FINANCIAL ADMINISTRATION**

#### **INTRODUCTION**

In this chapter the historical development of financial administration would be discussed and analyzed. But mainly emphasize would be given in the context of subcontinent and particularly of Bangladesh.

Historians have always paid their serious attention to the problems of power struggle and the wielders of power, whose importance cannot be gainsaid. On the other hand much less has been said about administration and those who carried it out on behalf the leaders. This is too understandable, for the activities of the leaders are often spectacular, providing the very essence of a good story, while those of the administrators are inherently pedestrian. However, the leadership of the government were gradually expanding towards many directions. For this reason the historians had to move to find out the back ground of specialized aspects of administration like finance. The Public Administration serves so many fields of activity and in such a diversity of forms that it can be approached from a number of viewpoints. In order to find out the back ground history of financial administration, the historians have been facing many problems for lack of proper and reliable records. Because many records has been erased by tragic destruction, or sad neglect. Although, there have been plenty of such instances, once the individual administrator died, the record itself was beyond creation. Despite these gaps in the historical record, the survival material is abundant and in some instances not easily manageable. Many good studies of development of financial system and its period are not clearly available and understandable. So in order to build up a reasonable picture of overall history of financial administration system, the scholars have been able to

do it by following universal methods . So the origin of the financial administration which have been developed with the development of the public administration , should be seen and studied from that viewpoint or angle . The financial administration as a vital part of the public administration could not contribute in the field of the government activities sufficiently in the ancient period of human civilization due to lack of emerging a proper system . Of course , a constructive and well organized financial system can not be expected in the feudal society or in the dark ages. The ancient civil societies were mostly engaged in struggle of existence. For this reason the Feudal leaders or the Kings could not emphasize in developing a good financial system . Although there were a financial system based on trade and commerce , salary or pay of the officials working in the government in the particular area or territory of the Kingship . But no specific data or source is available in this connection .In ancient civilization like China ,Maya or India , no accurate history of financial administration is available . Only from the ancient history of India we can get some information or a brief picture in this connection from the book named 'Arthashastra' written by Kautilya ,an Economist of ancient India . From this book only we can get the idea of financial system of ancient India for a particular period . So for lack of more information we have to leave our efforts to prepare the clear background history of financial administration of the old ages . But it would be possible to prepare a brief history of development of financial administration from middle ages especially about Europe and this sub continent . For many reasons middle ages are in the heart of civilization of the World<sup>1</sup>. In this chapter attempts have been taken to discuss the origin and development of financial administration in the later paragraphs .

### **CAUSES OF DEVELOPING FINANCIAL ADMINISTRATION**

Before going to discuss about the origin and development of financial administration it would be worth to talk about a little regarding causes of emerging financial administration as a separate branch of governmental activities.

Many of the scholars have identified four main reasons for growing and expanding of financial administration separately in both the developed and developing countries . The reasons are discussed below :

**(a) INTRODUCTION TO DEMOCRATIC SYSTEM**

Introducing of democratic system in administering the civil society after industrial revolution through out the European in the sixteenth century, in fact opened a new era for multidimensional public functions. The government had to take more significant responsibilities for the well-being of the common people. These responsibilities , in fact made governmental functions wider which insisted the government to be involved deeply into specific areas of development of the state. The people became the part of the government and the government started to consider the demand of the common people seriously and sincerely. All these things , actually made scope for the government to expand it's development functions at various level and different sector. In order to fulfill the demand and aspiration of the people, the democratic governments , dating back from sixteenth century had to make more plans and development programs which also required huge involvement of finance or money through a financial system. In order to develop a proper expenditure system, the concept of management of governmental finance had been developed.

**(b) DEVELOPMENT OF GOVERNMENT FUNCTIONS**

Expansion of government functions in connection to economic activities has widen the scope of financial administration system of a particular state. So expansion of government function at that time , required a relatively better financial system in order to get a positive outcome of the development activities . After sixteenth century, the democratic values and ideas had spread over the world. The establishment of British , French , Spanish and Portuguese colonies through out the world also created new scope for introducing financial system . The administration of colony countries realized or felt the need to establish a proper , effective and fruitful financial system for the purpose of achieving the goal of



colonial rule. After establishing civil rule, the colonial administration felt the need to reduce expenditure by introducing effective financial system, because the aim of colonist was to make money from the colony and to transfer assets from the colony to their own country. At the same time, the people of newly emerged democratic countries demanded better economic and social life. So the governments had to take massive social and economic programs in order to develop the standard of life of common people. For this reason, social allowance system, child allowance system, education loan, health allowance and many other program of financial benefits for the people were made by the government. These socio-economic programs for the people had in fact, involved huge amount of government finances. This also required a proper expenditure policy in connection to financial administration of the particular state. The Government had to expose its area of works for the purpose of welfare of the people. Expectations from people side were also very high. Because when a new system for social or political life is introduced, normally the people are mentally prepared for getting more benefits. So, it can be said that the sixteenth century was a turning point from monarchism to democracy, in order to change the life and fate of the people. At the time of monarchy the state would have been controlled or conducted by the monarch. But when democratic rule was introduced, the elected representatives of the people become ruler and controller of the fate of the people. It means indirectly the people become the part of the administration and the elected government had to take responsibility of the people in order to ensure the better economic life. These situation in fact, led the democratic governments to wide their functions. Thus, increasing of the government business involves expansion of financial activities of the government. So emergence of financial administration was a necessity to fulfill this vital part of government activities.

### **(c) DEVELOPMENT OF CONSCIOUSNESS OF THE PEOPLE**

The people of democratic countries are very conscious regarding their rights and privileges. So when they want to know about the activities of the government

actually they want to know about the financial policies and economic objectives of the government. Especially they are very much interested about development activities and goals of the government. Because development programs are related mostly to the improvement of their social & economic life. Economic activities of the government actually attract people attention towards the functions of the government. In order to utilize properly the funds of development programs, the government had to introduce adequate and effective financial system. For the entire satisfaction of the government himself as well as the people, the government of democratic countries had to introduce a proper and dynamic financial system. So from this situation the emergence of the government financial administration was inevitable.

#### **(d) IMPORTANT ADMINISTRATIVE TOOL**

It is widely recognized that financial administration is a very important administrative tool for a popular government. Every popular government of democratic country is very careful and conscious regarding financial aspects on its way of administration. Effective and dynamic financial administrative system of the government is an essential part of whole development programs. Most of the developed countries have introduced effective financial administration and Management system from the very beginning of their development activities. Many of the developing countries have also developed an improved mechanism for their government financial management system. From this point of view it could be assumed that a developed financial administration system was a necessity for the developing countries. So the idea of creating a new system or a scientific system of government financial administration in fact, originated to fulfill the need of the time to implement development programs properly and effectively. Bangladesh inherited the financial administration and Management system from Pakistan. Because Bangladesh was a colonial part of Pakistan until its independence in 1971. The Pakistani system of financial administration was the product or output of British colonial rule in India which lasted for near about two hundred of years. So the back ground of financial administration

has been developed in Bangladesh through the British India rule and Pakistani rule, because these countries together were ruled by the British occupier. The history of Bangladesh in this regard is little bit different, because in 1947 when India was divided into two parts namely India and Pakistan, this part of Pakistan was known as East Pakistan. But in 1971, this part of Pakistan, earned independence by a bloody civil war. Bangladesh is now an independent state having its own identification in international community. But most of the government systems including financial system are still the replica of colonial rule. Having more than hundred million people in one hundred and forty four thousand square land, the people of this land have been trying for the development of an effective financial system for ensuring better economic life since independence.<sup>2</sup>

## **FINANCIAL ADMINISTRATION IN ANCIENT PERIOD.**

### **REVENUES IN ANCIENT TIMES**

It is not very easy to discover the nature and objectives of the ancient financial administration and system. But little stories are found in the old religious books and in other related books. One needs to recall only a bit of general history to appreciate what a central place the public purse has had in the development of human affairs. Citations of a few of the more dramatic episodes may illustrate this. Going back to ancient history and the Bible, it is found that the secession of the ten tribes of Israel, and thus the disruption of the Jewish monarchy, was in large part a tax phenomenon. The revolt is said to have been due to the refusal of Rehoboam to reduce the heavy taxes of his predecessor, King Solomon, who had embarked on an ambitious program of public works. The new King greeted a petition for tax relief with the ugly threat: "My little finger shall be thicker than my fathers loins. And now whereas my father did lade you with a heavy yoke. I will add to your yoke; my father had chastised you with whips, but I will chastise you with scorpions". As a prelude to the revolt which followed, the insurgent tribes answered the King by stoning his revenue agents to death.<sup>3</sup>



## **DEVELOPMENT OF PUBLIC FINANCE INSTITUTIONS .**

No very clear pattern of evolution can be traced in the history of revenues collection or taxation and public expenditures. Most of the taxes and public expenditures known to the modern world are of ancient origin. The changes have been not so much in the tax system or in public expenditures themselves as in the nature of the institutions and the environment to and in which they have been applied .

## **PUBLIC EXPENDITURES**

From the earliest time of organized society the prime function of government has been the protection of the people from foreign aggression . This includes, of course , the preparation of such aggression upon others . A second time honored function has been the preservation of internal peace , law and order , security and the administration of justice. A third function now exercised by only a few states has been the maintenance of a state religion. In some states where the Church has been separate from the state, the latter nevertheless, usually has had it's own financial system with high powers of compulsion . A fourth function was formerly the maintenance of the King and his household , for example an expenditure which reached it's height with Louis XIV of France whose court probably cost the French about \$100,000,000 in addition to much forced labor . This function has it's counterpart in the general national governmental expenditures of today .These four functions have been the most universal . A fifth function, however , that of public works, including the building of pyramids, roads, canals and a postal system , has also been common . Egypt incurred heavy burdens to build it's pyramids .ancient Athens had an even more extensive programs of public works which included fountains, markets, gymnasium, walls, and fortifications . In addition both the Greeks and the Romans assumed some responsibility for the welfare of their poor , the distribution of free grain in Rome is renowned . Beginnings of public recreation appear in the Greek Theater and religious festivals and in the Roman Amphitheater. The Roman sewers constituted a rudimentary public health program. Of all the major modern public expenditures, only education appears to have been



entirely neglected and even under this heading , the Greeks provided physical education in the gymnasium and wrestling schools.<sup>4</sup>

### **DIRECT TAX**

Along with these feudal contributions many of the nations of the ancient world developed rather complex revenue systems. The gross produce tax for example , like our modern gross income tax , was very common both within and without the feudal system. It depended upon the harvest and was more like our income than our property tax. More often than not these taxes were paid in produce, such as cattle, grain, wine, oil, honey, and textiles. The Greeks and the Romans objected to direct taxes in any form, they regarded them as derogatory to the dignity of a free citizen . The Greeks nevertheless resorted to such taxes in times of emergency and the Romans exacted them from the conquered provinces .The best known of the taxes which have been handed down to us from the ancients, however , is the inheritance tax . The origin of this tax has been attributed to Rome , although there have been traces of it in Egypt many centuries earlier. In Rome it was first a twenty percent of the estate, but under Emperor Caracalla the rate was doubled . It applied to both inheritances and bequests but close relatives and the very poor were not included . An interesting feature of this tax was its non fiscal aspects . It taxed the estates of unmarried people one hundred percent and those of childless couples the fifty percent . Apparently , the similar features of the income and inheritance taxes of prewar Germany and Italy are non-innovation in revenue legislation. Of the other direct taxes known to us, the poll or captivation tax is of very ancient origin. It was known in Egypt where it was levied upon the male population from fourteen to sixty two years of age, but with numerous exceptions , in Rome it was levied upon all those engaged in business who were not citizens . Although it remained a poll tax in form , in time it actually developed into a kind of personal property tax.<sup>5</sup>

## INDIRECT TAXES

The indirect taxes were also well developed in the ancient world. Probably the oldest of them was the customs which first appeared in the form of gifts to the king as the price of the permission to trade. Merchants were frequently required to pay a tax upon both importing and exporting. Strabo, the Greek historian and geographer, writes in his discussion of the Egyptian trade as follows "the most valuable consignments of India and Ethiopia came to Egypt and are sent on from there to the rest of the world so that Egypt gets double duties from them on coming in and on going out and the duty is heavy in proportion to the value of the goods". The sales tax was also familiar to the ancients. In Egypt there was not a single stage on the way by which goods went from a place of production to a place of consumption, where the exchequer did not step in and seize some proportion of the value of the goods. It was also a very profitable source of revenue to the Greek. They levied it on practically all buying and selling. To Athens especially the sales tax on slaves brought in huge sums, since that city was the chief mart for the slave trade during the fourth and fifth centuries BC.<sup>6</sup>

## THE FINANCIAL SYSTEM

It will be observed that most of our modern taxes were introduced before the Middle Ages. Only the net income tax, perhaps the most important of the present day levies, appears to have been neglected. The gross produce tax had much in common with our modern property tax. It was based upon rentals or annual values, which is also true of European property taxes today. Apparently, actual yield was the base rather than an objective rating independent of management and fortune. In this respect the tax was more like the modern net income tax. Its closest resemblance is found in our gross income and severance taxes. Even the modern democratic tradition of no taxation without the consent of the taxed was not unknown to the ancient world. It was accepted in the Athenian democracy.<sup>7</sup>

## **MEDIEVAL EUROPE AND FINANCIAL SYSTEM**

During the Middle Ages public finance became closely identified with the feudal system, a system which was not unknown but less important in the ancient world. One writer has referred to this system as one of patrimonial as distinguished from contributory finance. The King, Dukes, Counts, Barons, Bishops and Convents received their income partly from the land they held directly and partly from the feudal dues paid to them by their subordinates. Except during certain travels and in certain emergencies, the king was expected to subsist mainly upon the income from the property, he held directly. The additional revenues he sought on such occasions as ransoming him, knighting his eldest son and marrying eldest daughter. The additional revenues he sought on such occasions were designated, at least in England, as subsidies or grants. Such grants or subsidies were often made necessary by foreign wars. These revenues were contributory in the sense that both the expenditure and the grant itself depended upon the assent of a representative assembly. The assent principle, of course, was not always conceded and it was the basis of that long constitutional struggle.<sup>8</sup>

Europe is the center of modern civilization and symbol of world development in science, technology, economics and modern civil history. So in this aspect we would like to limit our discussion within Europe, because the development of financial administration in Europe through an evolution has influenced the other world. Many other developed countries have borrowed the financial system from Europe especially from the British system. There is another reason to limit the discussion. In this research work, the main emphasis has been given on Bangladesh Financial Administration. Actually Bangladesh, as a former part of British India inherited and borrowed administrative system from the British occupier ruler. Still the country could not be free from the impact of colonial rule and have been following the same mentality. However, in the history of Europe in medieval period, it is found that with the fading as early as the ninth century of Charlemagne's heroic vision of a rehabilitated central power in the image of Imperial Rome, stretches of western Europe had subsided into the shades. To



extract the essence of the administrative system of the times it is necessary to look into deep but unfortunately records are not meager ,if not painful defective. Apart from the dream picture of the Holy Roman Empire and the actual extension of the temporal sway of the Church , flowing into fill the institutional vacuum , centralized government was every where at a discount . Administration had become drastically localized . The financial administration was based on that locality . By the eleventh century the process had gone far that the situation can be described as tide of history . At that time long standing institutions were experiencing imperceptible modifications to cope with the developing social and economic situation while new institutions were tentatively emerging to meet the new needs .Because the older institutions were proved effective in order to fulfill the demands of changing time. New financial system were emerged with the changing time.<sup>9</sup> Some scholars divided the medieval period into two distinct phase , the first of which actually culminated during the eleventh century . The earlier phase had been characterized by shrinking populations , forest encroaching upon pasture , regressive economy with unskilled financial management , unsound banking process and declining commerce and also partial disappearance of money . Land was the only source of income and wealth and the financial activities of the people were not based upon common economic goals as because the central power or administration divided among lesser powers . So a systematic picture of financial administration could not be developed for obvious reasons . But by the end of the eleventh century a radical change was taking place . The population was increasing ,commercial activities were expanding , money mobilization was developing and all sorts of financial activities of the governments were gradually touching the socio- economic life of the common people.

#### **FINANCIAL SYSTEM AND DEVELOPMENT: THE ANGLO-SAXON CONTEXT**

The medieval feudal system was an ideal instrument for arbitrary power. The King and the Barons were under no obligation or to answer to anybody for their revenues since they received them as a matter of right . By 1066 , when William , Duke of



Normandy, crossed the English Channel and established his power in southern Britain, the existing feudal institutions including financial system there, were already supplemented by a well conceived pattern of local administration and the starting of an integrated administration under the King at the center. In his efforts to strengthen the royal government the new King was conscious of the need for a more effective administration including financial aspects of the administration. King William was fortunate in finding at hand a governing instrument which the Anglo Saxons had brought to as high a pitch of efficiency as any in the Western Europe<sup>10</sup>. In order to establish the authority of his notables and to introduce an effective system of taxation the King needed to know what the actual situation in the locality was. In fact the King well understood from his experience that effective management and financial control of the larger domain would not be possible without detailed information on the countries resources. Later, information was collected and this impressive inquiry into the resources of Britain showed how clearly the practical William was aware. However, among other development works of that time of William was the working out of effective financial methods and this may best be illustrated by the Course of the Exchequer as it was conducted in the reign of Henry -ii from A.D 1154 to 1189.<sup>11</sup>

There is no doubt that modern system of government was developed in the middle ages in Europe. For various reasons, Europe became the key point of modern civilization covering most of the aspects of human life and societies. Especially in the middle ages, European civilization influenced the other world in many ways. The medieval period of Europe has shown the world new way in Public Administration. With gradual expansion of better civil administration system, the middle ages in Europe also indicated to a good system of financial administration.

#### **FINANCIAL ADMINISTRATION : THE COURSE OF THE EXCHEQUER**

The financial administration in the medieval Europe was the subject of public administration and management policy as well as economic & social activities of the

governments. At an early epoch the supply of currency had become an important duty or responsibility of the government. It had ceased for a time in England with the withdrawal of the Romans. But the minting of money had been resumed with the return of Christianity towards the end of the sixth century. Numerous mints were established under the Anglo-Saxon. Thus, although feudal society was based upon a subsistence economy, a substantial need for coinage continued. In a more general sense the Anglo-Saxon period has seen the emergence of a financial system that was quite advanced for the age. The extended scope of the royal government and the increasing use of taxation by the King called for more precise financial administration. Within the royal chamber specialization had led to the appearance of a specialist, the *thesaurus* or treasury, which by the passage of time or gradually became a separate unit. But with the increasing difficulty of carrying around large stores and records, separate treasuries were set up as a matter of convenience in England & Normandy particularly in Winchester, Rouen and Falaise. The Winchester treasury became the center of the royal financial system by creating 'an official body' especially for financial management. This office actually made the store house into something approaching an administrative office.<sup>12</sup> It is in the record that by 1086, several of the royal officials were granted Hampshire mansions in consideration of making Winchester their head quarters, thus illustrating a way of remunerating such officials at a time when the monetary economy was still embryonic in form. The treasury had become a fixed place but two other of the royal household such as chamber and the wardrobe continued to travel with the king. Not that the treasury was yet finally anchored. Because during the King John who ruled from 1196 to 1216 in order to ensure the availability of local funds for the purpose of overall administration many treasury offices were established in many places such as Bristol, Devises, Nottingham, Marlborough and Corfe. It is in the growth of Exchequer that we witness the most illuminating development in the financial administration. Originally this was just the Kings Council sitting for the transaction of revenue collection. However, the office of Exchequer seems to have appeared during the reign of

Henry -i as a separate institution and during the period of King Henry-ii the post of the Treasurer became the mainstay of the Exchequer.<sup>13</sup>

### **FUNCTIONS OF THE EXCHEQUER**

The Exchequer being a dignified official performed some important duties. Its main aim was to call to account such persons as had been appointed throughout the land to take responsibility for the King's business. These were mainly the Sheriffs, local officers chosen by and responsible to the king personally for finance and justice in the Shires or Counties. The Exchequer was also responsible for payment of pension allowances for the clerks and other retired employees. It is observed that the King used to select the person for the post of Exchequer. What is seen today regarding selection of Finance Minister by the Prime Minister or the President.

### **CLASSIFICATION OF THE EXCHEQUER**

The Exchequer was divided into two levels

- (a) The Upper Exchequer
- (b) The Lower Exchequer

(a) The Upper Exchequer which was a court of account engaged in managing royal revenue, auditing the accounts of its collection and disposal. He was also responsible to meet up the questions arising in connection to revenue.

(b) The Lower Exchequer or was known as the Exchequer of the Receipt, was concerned with the actual receipt and issue of money. The modern treasury system in fact developed from this system of the Exchequer. Each Exchequer had its own staff. A lot of staffs were engaged with the Exchequer in order to perform the duties properly. During the period of Henry – ii, the classification of posts were made.<sup>14</sup> The classification of the Exchequer in the middle ages can be seen in the Table -1

TABLE – 1

CLASSIFICATION OF THE EXCHEQUER IN ENGLAND IN MIDDLE AGES

| The Upper Exchequer                   | The Lower Exchequer        |
|---------------------------------------|----------------------------|
| <b>President</b>                      |                            |
| <b>Treasurer</b>                      | <b>Treasurer's Clerk</b>   |
| <b>Treasurer's Scribe</b>             |                            |
| <b>Clerks of the Rolls Chancellor</b> |                            |
| <b>Chancellor's Clerk</b>             |                            |
| <b>Chancellor's Scribe</b>            | <b>Deputy Chamberlains</b> |
| <b>Constable</b>                      | <b>Usher</b>               |
| <b>Marshall</b>                       |                            |
| <b>Constable's Clerk</b>              | <b>Tellers</b>             |
| <b>Chamberlains</b>                   | <b>Weighers</b>            |
| <b>Cutter of the Tallies</b>          | <b>Watchman</b>            |
| <b>Knight Assayer</b>                 | <b>Clerks, Sergeants</b>   |
| <b>Melter</b>                         | <b>Porters, Messengers</b> |

Source – History of Finance in England.



## **RESPONSIBILITIES OF THE TREASURER**

The Treasurer was the most important official, generally responsible for both Exchequers. But specially he was concerned with the accounts of the Sheriffs and also with the function of the compilation of the Pipe Roll, in which the transactions and decisions were recorded. These records were impeachable evidence and was only changeable by the Barons. Any alteration of the records was possible during the actual session of the Exchequer for the particular bill in presence of the Barons. There were another way for alteration which could be made only by the King, the sovereign power preserver and who can do no wrong.<sup>15</sup> There were another interesting event of that time was to develop the idea of banking system. Almost concurrently, far away in Italy similar concern was being devoted to the discovery of solutions to problems of finance. But there the main interest was concentrated not upon the financial interests of the ruler but upon the growing need of the trading community for a reliable system of banking. However, it was a notable contribution by the Italian in banking and accountancy<sup>16</sup>, both of which are primarily financial and secondarily administrative. Monopolizing the more important trade routes between the Mediterranean and the east and across the Alps to northern Europe, the Italian cities particularly Florence, Sienna, Genoa wielded considerable financial control. The introduction of stable gold currencies during the thirteenth century also facilitated the creation of an internationally acceptable currency. The Italian financiers, under the level of Lombard covered the whole of Europe with a banking network. To this very day Lombard Street in the city of London stands witness to their enterprise.<sup>17</sup>

During the reign of Papal State in Rome<sup>18</sup> it was divided into several provinces. Each province had a post of Treasurer, Second Officer of the Province and official considerable political importance, was often a clerk of the Apostolic Chamber to which he rendered his account. He worked through his own notaries and issued letters in his own name. He also used his own seals. Apart from his responsibilities for all financial business, the treasurer also acted as watchdog over the rights of

the Apostolic Chamber .He had much power to investigate the departments if necessary. Under the treasurer , there were some clerks . They were responsible for day to day business but their financial functions were detailed and important . They supervised all financial network which covered the whole Papal State . Also there were a post of auditor .The auditor of the court of the Apostolic Chamber exercised wide powers through his own organization and staff . During the fourteenth century first probably in Geneva but possibly in Florence the principle of double entry book keeping was being applied by the Italian trading concern. The accounting methods were developed in this time which brought a radical change in such techniques since classical time . At that time booking developed rapidly it's practices are evident in numerous surviving business records of that age . The first treatise to place on record existing book keeping methods , some probably already as much as two centuries old ,was written by Luca Paccioli , the famous Mathematician ,who in his *Summa De Arithmetica .Geometrica* ,published in Venice in 1494 ,included sections on book keeping ,money and exchange.<sup>19</sup>

### **FINANCIAL ADMINISTRATION : SIXTEENTH CENTURY EUROPE**

Administratively the sixteenth century marks a watershed between the feudal and the modern World . In all European countries the struggle within the Christian Church had a shattering impact upon society imposing , especially in the Protestant countries ,new responsibilities upon government . Overseas expansion deriving a new dimension from discovery of America by Christopher Columbus in 1492 , added new problems of imperial administration . Although ,initially it was Spain who were in the forefront of this development with Cortess invasion of the Aztec kingdoms of Mexico in 1519 . However , the general administration was still basically personal administration . But a new dimension in the administration were gradually developing. The Tudor monarchy in Britain proves an instructive example of this development . The King brought some significant change in the administration including financial aspects of the country . When Henry VII , the first of the Tudors came to the throne of England ,the time were

ripe for administrative change . During the reign of Henry viii and Elizabeth-<sup>20</sup> the administrative aspects were divided into three headings (a) Councilor (b) Institutionalization (c) Financial Administration .

### **THE TUDORS AND FINANCIAL ADMINISTRATION**

By the time of the Tudors , the old system of household finance had become quite inadequate to meet the needs of the Crown in an expanding society .It was in the hands of the Exchequer , where there had been no substantial reforms since 1325 . It's procedures were too long-winded for the new tempo of government and for a time it was over-shadowed by the revival of Chamber finance by Henry vii until it's rejuvenation by the reforms of 1554 . In this sphere , the contribution of Tomas Cromwell was vital . In 1515 , some important steps had been taken in order to change the revenue collection system . In February ,1511 two general surveyors of Crown lands had been appointed in order to free the greater part of the royal revenues from Exchequer control and also redefining the administrative manner of revenues . It is true that they were to be dependent upon the activation of the Privy seal and upon the Exchequer for keeping their records and dealing with their legal business . But in their own right they formed an active department of audit . The creation of an audit department actually was a milestone towards the foundation of financial administration before modern age. The step was in the right direction because at that time no minister was responsible for finance and some personnel were very necessary to perform the task actively and sincerely . But Thomas Cromwell , the famous English Premier , by a method adopted by him in other spheres , managed to accumulate in his own hands a number of important posts such as Jewel House, Hanaper and Chancellorship of the Exchequer . This enabled him to approach to the status of Minister of Finance . He also acted as collector of revenue and paymaster . With the expansion of Crown estates the responsibility of collecting more revenues became an important aspect. The acquirement of monastic lands added greatly to the Crown s incomes . The new department thus added a further branch to the



States financial machinery . Transferring the control of royal finances from household to separate offices of the State and by holding these several offices himself , Cromwell was able to ensure co-ordination of the Financial machinery. His sudden assassination in 1540 , in fact , stopped new ideas in financial administration and management .<sup>21</sup>

In 1542 , there existed six main revenue collecting departments , dealing with different sectors of the King's income . These were (1) the Exchequer (ancient revenue) (2) the Duchy of Lancaster (its own land) (3) the Court of the General Surveyors (the lands acquired by Henry -vii and Holsey ) (4) the Court of Argumentation (lands acquired since 1535) (5) the Court of First- Fruits and Tenths (ecclesiastical revenue ) (6) the Court of Wards and Liveries (feudal revenue ) . During the remainder of the reign of Henry viii and through the reigns of Edward- vi and Mary- i , the movement to reconstitute financial machinery continued culminating to general reforms of 1554 . In the new system the traditional structure was recast in the light of the institutional ideas of Cromwell .The Exchequer after a period of decline , came back in to prominence as a true central treasury , under the supervision of Lord Treasurer who at last provide a real Finance Minister . At the same time the chancellor of the Exchequer became more important at the expense of Barons of the Exchequer who lost importance as administrators and turned to ordinary judicial clerk . The Lord Treasurer's personal office and staff grew in to a treasury department which was on the way to becoming the leading state department in which fiscal policy would determined . The Tudors Administration actually made the bridge to move from personal royal financial management to institutional financial management . This , in fact created a wide impact on the financial administration of middle ages in order to change the exiting shape for future development .

Following the republican interlude of the Commonwealth under Oliver Cromwell and his son Richard from 1649 to 1660 , the restoration of the monarchy under Charles II from 1660to 1685 registered the supremacy of Parliament and the inauguration of constitutional monarchy.<sup>22</sup> But the situation was not very easy



as it was expected . The King retained all power and control over administration . At the same time in the light of French monarchy a ministerial system was started and more authority was given to the departmental ministers . The ministers mainly concerned were (a) the Secretary of the State (b) the Lord Treasurer or a Commissioner in charge of the Treasury . There were other ministers for various departments . It is significant that Charles- ii chose Thomas Osborne as Chief Minister for his financial experience and gave him the post of Lord Treasurer which established a future close relationship between the Prime Ministership and the Treasury . However , gradually , the Parliament secured its position to control over administration including financial civil expenses of the Crown . Some steps were taken to make the Parliament more effective and to strengthen parliamentary control of the public finance but the attempt was not successful for non co-operation of the treasurer . However , in 1691 the House of Commons found itself to appoint a group from the members of the parliament as Commissioners of public accounts committee to examine estimates and supply with the information needed for inquiry . Tentatively moneys were appropriated for the first time to specific services and government borrowing became important . It was also necessary to regularize the process of borrowing in time of war and thus the Bank of England was founded in 1694 . At first it was a private joint stock company . The government borrowed huge amount of money at 8% interest from the Bank of England . In return for the loan the government allowed the bank to discount bills , to issue notes and conduct general business . The Bank of England faced grave difficulties but was able to extend its services . In 1709 the Bank of England got the sole right of issuing notes in England and started to play the role of a regular Banker of the government.<sup>23</sup> So the financial administration and institutions of the Great Britain entered in to a new era with the activities of the Bank of England.<sup>24</sup> Later on , this bank proved itself as one of the best bank in the world and appeared as a model of central banking for other countries . However , by the passage of time a complete financial administration system was developed in

England in order to fulfill the demand of emerging socio-economic changes. At least the creation of famous British Treasury indicates that the emerging leadership of that time were very conscious and eager to develop a new order of life in order to enter into the new European era. In this connection the contribution of some civil servant reformers such as Burke, Cromwell, Burghley, Cranfield, Samuel Pepys of England could be remembered. Their efforts in fact had developed the modern British Financial Administration. The British Treasury as a Financial Administration of the country was first commissioned in 1612. A Board of Commission was formed as a Board of Treasury which was composed of several Lords or Commissioners. The first Lord of the treasury was a nominated person by the Ruler, the second Lord was the Chancellor of Exchequer and there were also five junior Lords. At present the Prime Minister is the first Lord of the Treasury. Although the Prime Minister is the head of the Treasury but the second Lord or the Chancellor of Exchequer or the Finance Minister is liable for the treasury functions in the United Kingdom.

### **FINANCIAL ADMINISTRATION IN THE SUBCONTINENT**

Between the great administrative age of the Mauryan Dynasty, founded by the celebrated Chandragupta in 322 B.C. and the rise of the Mughal Empire under Akbar the Great (1556 - 1605) the people of the Indian sub continent experienced many vicissitudes. Over the centuries there arose a number of empires, mostly short lived and a multitude of states. Invasions from outside were frequent especially from the mountainous lands to the west and north west and internal conflict in which Brahmanism and Buddhism figured prominently, was continuous. The governments changed overnight and the political patterns were kaleidoscopic.<sup>25</sup>

The menace of Islam began to exert itself from the west in the eighth century, but it was not until some three hundred years later that the armies of Mahmud of Ghazni, in 1001, flooded into the Punjab in search of booty and tribute. During the twelfth century the real Islamic conquest began, with the followers of Mohammed (peace be on him) installed as a ruling race over the rest. The two religions were too diverse

spiritually to permit a coalescence of Hindu and Mohammedan . Although the Sultanate was established during the following century , true unity was not easily achieved and the country remained divided into a number of separate states whose boundaries were more or less determined by the military power that each of them wielded at the particular time.<sup>26</sup> But within this situation each state had developed an administrative system including a financial system in order to run its day to day business.

### **FINANCIAL ADMINISTRATION AND MUGHAL REGIME**

The Mughals are the architect of a developed revenue and financial system in India. The contributions of Mughal period towards financial administration in the subcontinent is remarkable .The Mughal period can be the best example in developing a good financial system in the sub continent. The Hindu and the Muslim states were both based upon the monarch who ruled by divine right and headed all branches of government . It had been the practice of Muslim leaders to participate in the minutiae of administration and we are fortunate in having a detailed contemporary record of how Akbar the great Mughal , carried on this tradition in his expanding realm . This is embodied in the two works of the chronicler Abul Fazl in the Akbar Nama supplemented by the Ain -e - Akbari .<sup>27</sup> Following Mohammedan tradition Akbar shared the responsibilities of the state among four ministers besides the Wakil who , as we have seen , became very much of a supernumerary . The four branches or departments were headed respectively (a) Revenue and Finance by the Divan or Divan-E- Kul ( Chief Divan) (b) Military by the Mir Bakhshi ( Chief Bakhahi ) (c)Factories and stores by the Mir Saman ( Chief Executive officer ) and (d) Ecclesiastical and Judicial by the Sadder . Of these the Divan occupied the position normally held by the Vizir . He was higher in status than his three colleagues but exercised no supervision over them or their departments . Each was individually responsible for his own department , yet Akbar ensured , by his habit of consultation that they maintained constant contact with each other on matters of policy and in fact each was made fully aware of important matters being handled in all departments.<sup>28</sup>



Akbar had some difficulty in finding the right men for his new system . The first Divan , Muzzaffar Khan , who took up the office in the ninth year of the reign , had a wide experience in revenue administration and was also acquainted with the central administrative machinery .A career that had brought him up from the bottom commended him to the Emperor , as having given him a sound working knowledge down into the very roots , which those coming suddenly to power did not usually possess. Muzzaffar s selection , without high connections or recommendations was sufficient to attest his high ability . Under him the Divan was established in a leading position among the departments . On his return Muzzaffar shared in an inspection of the Treasury of the capital and in the twenty fourth year he was appointed Governor of Bengal .Apart from the Divan , the finance department was divided into four branches under the Divan- E- Khalsa ( for lands ) and the Mustaufi ( auditor ) each of which was further divided into several sections according to the needs and nature of the work . Each of the chief officials had a personal assistant and several superintendents of offices.<sup>29</sup>

The branches were staffed by clerks specially skilled in the techniques of the particular office . The Divan had three fold responsibilities which kept him in touch with all three departments of the central government besides his own as well as with the Amirs and nobles and with every part of the provincial administration . Thus (a) as head of the revenue department (1) he had his eye on every officer who received a salary from the state (2) as chief executive officer he had control over provincial officials , from Governor to downwards and ( 3) as Financial Minister he had a finger in every pie that involved the royal treasury in any way . It was decidedly the Divans exercise of this general supervision that accounted for his ascendancy among the ministers . Thus the Moghuls seem to have had an extensive experience of the ramifications of what today we know as treasury control . Collection of taxes in the local areas was in the hands of the Amil who was also directly lined with the central government . He too had his assistants as collectors , such as the Karhun ( Registrar of collections ) the Mukaddam ( Chief Village Revenue Officer ) and the Patwari ( Land Steward ) . It was his duty to prevent petty tyranny in the villages especially by



the headman. He needed a large subordinate staff, among whom the Bitikchi, or Scribe, was important. Something like a registrar, the Bitikchi maintained records of relevant information about the village. There were also Fotehdars (treasurers) who were responsible for the safe keeping of and accounting for public moneys. Thus the local administration was highly specialized with a well conceived finance system. This was the general picture of the whole Mughal period more or less.<sup>30</sup>

### **EAST INDIA COMPANY : FINANCIAL SYSTEM**

The East India Company was the architect of British rule in the undivided India. It is very surprising that being a business company, it was able to occupy the state power of India. However, the employees of the company were very ambitious, active, diplomat by nature, cunning by character and also courageous. Otherwise it would not be possible for them to be emerged as state ruler from company executive. The company employees were ill-paid and subject to many hardships.<sup>31</sup> Although there was no very good financial system for the employees of the East India company.<sup>32</sup> But they knew how to collect money. Power and rulership came to the Company<sup>33</sup> not by design but through some deep laid policy of colonialism and under the compulsion of events. The company made no territorial acquisitions before 1760. But they acquired control of Burdwan, Midnapore and Chittagong from Mir Kasem Ali Khan in order that their revenues might meet the cost of the defense of Bengal by the company's troops and levies locally recruited for its own protection.<sup>34</sup>

For collection of revenues, a radical change by the company administration<sup>35</sup> was inaugurated by Clive, the architect of British rule in India, empowered by the Emperor. By that change the Dewan of Bengal authorized the company to take over the charge of revenue administration. The later administrators gradually developed the revenue system which will be discussed in the later paragraph, but the Indian Act of 1833 might be regarded as the beginning of evolution of government budgeting in modern sense of term<sup>36</sup>. This Act made compulsory the placement of budget by the ruling East India company to the British Parliament.

The system reached its culmination when by the Government of India Act of 1859 the administration of the subcontinent was taken over by Her Majesty, the Queen of England<sup>37</sup>. At that time the Secretary of State was made responsible for placing budget of India before the British Parliament. In 1860, Sir James Wilson, the first finance member of the Viceroy's Executive Council of the British India introduced for the first time a comprehensive budget. All financial transactions of the British India irrespective of the level of administration<sup>38</sup> were included in the budget and had to go through the finance department of the Government of India. The Government of India Act of 1919 which created two chambers in Indian legislature<sup>39</sup> enhanced the role of the legislature with respect to budget. The Act laid down that the Governor General of India would place it in Council before presenting both the chambers with the estimated annual expenditure and revenues of India. However, the Act of 1919 and 1935<sup>40</sup> also made further developments in the financial procedures.<sup>40</sup>

### **POST EAST INDIA RULE : HISTORY OF THE FINANCE MINISTRY**

The background of financial administration of Bangladesh is deeply related to the history of Indian Financial Administration, because both the countries were ruled by the same occupier, the British. Although, we have another colonial history between British rule and Independence of Bangladesh, that the Pakistani rule for twenty five years but in order to search the origin of modern financial administration, we have to consider the British period of Indian rule.

The origin of the Finance Ministry in the sub continent goes back to the year 1810 when a separate finance department was created out of the public department, but a separate Secretary for the finance department was appointed only in 1843. From 1810 to 1816 it remained under the charge of the Secretary of public department and from 1816 to 1830 under the Secretary of the Territorial Department and from 1830 to 1843 under the Secretary of the General Department. In 1879 the finance department was redesigned as the Department of Finance and Commerce which designation continued up to 1905 when it was renamed as the Department of Finance.<sup>41</sup> With the

constitutional changes brought about by the Government of India Act , 1919, the Finance Department was re-organized into seven branches .These were General Finance , Revenue ,Currency and Banking , Salaries and Allowances , Civil Accounts, Army Finance and Military Accounts . The Auditor General was assigned a statutory status .Although the Finance Department was not assigned a statutory status but the Finance Department was given a measure of control over the Indian finances , yet the Secretary of State for India had full power to exercise control over the entire revenue and expenditure of the Government of India . He was assisted at his Indian office by a full fledged finance department . The Government of India Act , 1935 did not relax the control of the Secretary of the State over Indian financial matters .Although the Act increased the power of the provincial governments but the power of the finance department were greatly restricted.<sup>42</sup>

#### **DECENTRALIZATION OF FINANCIAL POWER : BRITISH INDIA**

Financial power of state machinery is no doubt a basic strength for the government .The central government always wants to keep it on its own hand for various and obvious reasons. In the British India the financial administration was totally centralized but by the passage of time it had been decentralized. We will see in the following paragraph that how the decentralization process was initiated from time to time during the British regime.

It is well known that up to the passing of the Charter Act of 1833 , the provinces enjoyed a lot of autonomy in financial matters . It was the Act of 1833 that brought about financial centralization. The Act provided that no government shall have power of granting without the previous sanction of the Governor General . Indian finance remained centralized in the hands of the Government of India even after the passing of the Act of 1853 and the Act of 1858 . The provinces were not given any right or authority on the provincial revenues . They were merely the managing agents for the central government .The sources of taxation, the amount of taxation ,the manner of collection and the authority for expenditure were all dictated from the headquarters . For this reason the provinces had absolutely no interest in the collection of the taxes .



According to William Hunter<sup>43</sup> towards the end of every year, each local government presented to the Council of Governor General its estimates of expenditure for the coming twelve months. The Governor General in Council, after comparing the aggregate estimates with the expected revenue from all India, granted to each local government such sums as could be spared for its local services. The whole revenues from all the provinces of British India were treated as belonging to a single fund and expenditure from which could be authorized by the Governor General in Council alone. The provincial governments were allowed no discretion in sanctioning fresh charges. They could not pass any order of financial matter without the approval of the supreme government and without its knowledge. The adoption of such measures virtually affected the interests of millions of people. They provincial governments could not make changes in the system of administration that might involve serious consequences to the state. They could for instance and this is a case which actually occurred, alter the basis on which the assessment of the land revenue had been made but they could carry out no improvement, great or small, for which actual expenditure of money was required. If it became necessary to spend twenty Taka on a road between two local markets to re-build a stable that had tumbled down or to entertain a menial servant on wages of ten Taka a month, the matter had to be formally reported for the order of the central government of India. A critic points out that the distribution of public income degenerated into something like a scramble in which the most violent had the advantage, with very little attention to reason. As local economy brought no local growth of the income led to local means of improvement the interest in developing the public revenues was also brought to the lowest level. It was admitted on all hands that the system was faulty and required to be changed. The efforts of General Dickens and Mr. Laing did not improve the matters. In 1867 a scheme was prepared by Strachey to revise that system. On the basis of that scheme Lord Mayo took the first step on the road to decentralization.<sup>44</sup>



### THE RESOLUTION OF 1870

The Resolution of 1870 transferred to the control of the provincial governments the following heads of expenditure, with the revenue accruing from them and in addition, a fixed annual Imperial Grant for the purpose. The heads were Jails, Registration, Police, Education, Medical Services, Printing, Roads, Miscellaneous Public Improvements and Civil Buildings. The deficit, if any, was to be met either by local taxation or by the reduction of expenditure. Any portion that may be unspent by the end of the year was not to lapse to the central government but was to remain at the disposal of the provincial government concerned<sup>45</sup>. The Provincial Governments were given powers, subject to certain conditions, to create appointments provided the salary in each case did not exceed money two hundred and fifty per month and the amounts could be met out of the assigned grants. The Government of Lord Mayo hoped that the Resolution would produce great care and economy, that it would import an element of certainty into fiscal system which has hitherto been absent<sup>46</sup> and that it would lead to more harmony in action and feeling between the central and provincial governments than has hitherto prevailed. The operation of this resolution, in its full meaning and integrity would afford opportunities for the development of self government for strengthening municipal institutions and for the association of Natives and Europeans to a greater extent than here to fore in the administration of affairs.

The main defect of the system of 1870 was that Imperial Grants were made on the basis of expenditure in various provinces in 1870-71. No attempt was made to remove the existing inequalities and to give Grants to provinces according to their actual needs.<sup>47</sup> The province which had the low level of expenditure owing either to access to the central government or to its under developed or backward state due to recent annexation was penalized for its economy,<sup>48</sup> unassertiveness or worse still backwardness. The comment of R.C. Dutta was that the reform of Lord Mayo brought about an increase in the general burden of taxation. Each province increased its own revenues by imposing new taxes, mostly on land. The result was that the state demand on the soil was increased. That was against the spirit of the permanent

settlement in Bengal and as regards to other provinces , it broke the rule adopted in 1855 and 1864 of limiting assessment to one half the rental.<sup>49</sup> However , it has been pointed out that the practice of separating taxation from central to local was almost universal in the modern states . Moreover the system of Lord Mayo resulted in a lot of economy . According to Robert, Lord Mayo found serious deficit and left substantial surplus . He found estimates habitually untrustworthy , he left thoroughly worthy of confidence . He found accounts in arrears and statistics incomplete he left them punctual and full .<sup>50</sup>

### **LORD LYTON AND REFORM**

In 1877 , the Government of Lord Lyton took the second step on the road to decentralization of finance . In this purpose several heads of expenditure such as Land Revenue , Excise , Stamps , General Administration, Stationery , Law and Justice were transferred to the provincial governments . It was also provided that any surplus above the estimated income was to be shared to the extent of one half with the Government of India which also undertook to meet deficits to the same extent, if and when occurred . The reform initiated by him was more or less interesting in the field of revenue income .

### **LORD RIPON AND HIS ACTIVITIES .**

The next change was made in 1882 by Lord Cromer in the time of Lord Ripon . He introduced the system of Imperial , Divided and Provincial Heads of Revenue by which the revenues from all sources were divided into three categories . Income from imperial heads was to go to the central government , the provinces were to get all the income from the departments under their control . Income from the divided heads was to be shared mostly in equal portions between the central government and the provincial governments . The deficit in the provincial budgets was to be made good by the imperial government by giving a fixed percentage of land revenue to the provinces. This settlement was made for five years and was renewed in 1887 , 1892 and 1897.<sup>51</sup>

According to Ananda the advantage of this system over the one hundred years which had hitherto generally prevailed was that it gave the provincial governments a direct interest not only in the provincial revenue but also in the most important items of imperial revenue raised within their own province. The defects of this system were described in the words by Lieutenant Governor of Bengal in 1896. He deprecated the way in which these revisions have too frequently been carried out. The provincial sheep was summarily thrown on its back, close clipped and shorn of its wool and turned out to shiver till its fleece grows again. The normal history of a provincial contract was that two years of screwing and sewing and postponement of works, two years of resumed energy on a normal scale and one year of dissipation of balances in the fear that if not spent they will be annexed by the supreme government directly or indirectly at the time of revision. Now all this was wrong, if not demoralizing, Ananda said that the supreme government might not share too closely with every event. It would be an immense gain to local administration if the Government of India could see its way to each occasion. It was only in this that the element of fiscal certainty which was put forward in 1870 as one of its main objects, can be secured.<sup>52</sup>

#### **LORD CURZON AND HIS EFFORTS**

In 1904, Lord Curzon tried to remove the defects of the settlement of 1882. Although the old division of revenues into the Imperial, Divided and Provincial Heads was continued, the shares of the central government and the provincial governments were revised. Expenditure on purely Imperial Heads was to be incurred entirely by the Government of India. Expenditure incurred on the Divided Heads was to be divided between the central government of India and the provincial governments. The settlement was declared to be quasi permanent and was to be revised only if found to be grossly unjust or in very extreme circumstances. The object of quasi permanent settlement was to give the local governments a more independent position and a more substantial and enduring interest in the management of their resources than had previously been possible. The provincial governments

could count on the continuity of the financial policy and reap the benefits of their own economy. As a result the intergovernmental controversy ended, the central government also gained and the central government was in a better position to calculate its own resources. After some time, an important change was made with regard to famine expenditure. Formally, the Government of India came to their rescue only in case of shortage. What was done was that a new Famine Insurance Scheme was devised by means of which the Government of India put at the disposal of the local government concerned a fixed amount from which it could spend at the time of famine without drawing on its normal resources. When that amount was exhausted further expenditure was to be shared equally by the central government of India and the local government. In the last resort the central government of India was to give further assistance from its own revenues.<sup>53</sup>

#### **DECENTRALIZATION COMMISSION**

The Decentralization Commission was set up in 1907 by the British Government to inquire into the financial and administrative relations of the central government of India and the provincial governments and of authorities subordinate to them and to report whether by measure of decentralization or otherwise the system of government could be simplified and improved. The Commission was presided over by Hobhouse, Under Secretary of State for India. The other five members were senior ICS officers. R.C. Duty was the only Indian member. The Commission presented its report in 1909. It made the following important recommendations in the financial field:

- (a) The Governor General should not interfere with the revenues assigned to the provinces.
- (b) Distributions should be fixed according to needs of the provinces.
- (c) The residue should be taken in the shape of a fixed fractional share from a few of the main heads of revenue.



## **RESOLUTION OF 1912**

The Government of India accepted generally the recommendations of the Decentralization Commission and passed a resolution on provincial finance on 18<sup>th</sup> May 1912 . The Government of India was anxious to make their financial relations with the provincial governments as stable as possible . However , before declaring the provincial settlement permanent , they considered regarding the inequality of treatment given to the various provinces . The view of the Government of India was that if it exists at all it would be historical and inevitable whilst its very existence was doubtful . The haggling of a quarter of a century has established a rough equality which should not be replaced by theoretical calculations . Actually there was no equity , rough or refined in the Settlement of 1911 . But the Government of India proceeded on the assumption that there existed rough equality between the various provinces . After making certain adjustments the Government of India made the provincial settlement permanent . In certain provinces fixed assignments had reached a high figure . The Government of India revised the provincial settlement and made some more heads wholly or partially provincial . The fixed assignments were proportionately reduced . The policy of giving lump sum grants to the provinces out of the surplus of the Government of India was revised in accordance with the recommendations of the Decentralization Commission . The Commission had recommended the adoption of three principles with a view to removing the defects of the policy of Doles. Those principles were that regard should be made to the wishes of the provincial governments , the purpose for which grants are made may not be the same in all provinces and the grants should not involve greater central interference . Moreover new revised rules were issued by the Government of India in connection with the control over provincial budgets in future of revenue expenditure . The provincial governments were to be given authority to overdraw upon the balances with the Government of India and to budget for a deficit under certain conditions .It is pointed out that in spite of the changes made by the Resolution of 1912 , many defects remained in the system and inequality in provincial expenditure was not removed .independent powers of taxation and borrowing were not granted to the provinces .

The old system of divided heads and the giving of lump sum policy of Doles was allowed to continue . But in spite of these defects it was declared that the provincial settlements with the provinces were fixed in perpetuity.<sup>54</sup>

### **MESTON SETTLEMENT**

After the publication of the report on Indian constitutional reforms in 1918 , the new policy was inaugurated .The authors of that report had recommended that the provinces should have their independent sources of revenue .This implied the abolition of the system of divided heads and the separation of provincial finance from the central finance .With the object of giving effect to the principle of bifurcation the two lists were prepared in such a way that the central and provincial governments were to have the least possibility of clash . If there was any doubt as to whether a particular matter was a provincial subject or a central subject , the final decision vested with the Governor General in Council . The principle of discrimination between central and provincial subjects was that where extra provincial interests predominate the subject was treated as central while on the other hand all subject in which the interests of a particular province predominate were provincial . Forty seven subjects were declared to be central subjects and the most important of them were Defense, External Affairs , Railways , Shipping and Navigation , Posts and Telegraphs , Customs , Income Tax etc. and fifty two subjects were included in the provincial list and the most important were Education , Local Self- Government , Medical Administration , Public Health and Sanitation , Irrigation , Land Revenue Famine Relief , Agriculture Forests, Industries , Police , Justice etc. The distribution of subjects involved a deficit for the central government and a committee known as the Provincial Relations Committee was set up with Lord Meston as its President to make recommendations as to how the deficit could be met . The Meston Committee recommended that the provinces should make contributions to the government of India so that the budget might be balanced . it was estimated that the deficit was to be about Rs ten cores . The provinces were not required to pay equally but according to their paying capacity . Different provinces were to contribute different sums in

different years . Another schedule gave the permanent and standardization at which each province was to be taxed in order to wipe out the central deficit .Table-2 can be seen as an example regarding the contributions made by the provinces to the central government of India in 1921-22 .

There was a general complaint against the Meston settlement and both the officials and non officials condemned in equal severity the and un wisdom of the new system . The Inquiry Committee also wrote against the system . However , Sir Blackett , the finance member of the Government of India , announced the complete and final remission of provincial contributions in his budget of 1928-29 . Although under the reforms of 1919 , the position of the provincial governments with regard to finance considerably was increased but they were directed by the Secretary of State for India and practically ,they were helpless with regard to their appointments and salaries . Their powers to borrow on the security of their revenues were not exercised . The provincial governments resented those restrictions and desired an independent provincial department of accounts and audit.<sup>55</sup>

#### **REFORMS OF 1935.**

The Government of India Act , 1935 , introduced in the provinces what is known as provincial autonomy . The Act provided for a three fold division of powers between the central government and the provincial governments . The central government was given the power to pass laws on those matters which were given in the central list . The provincial parliament were given the power to make laws on those matters which were included in the provincial in the provincial list . The concurrent list contained those matters about which laws could be passed both by the central legislature and the provinces . However many restrictions were allowed to be continued on the provincial finances. It is true that they were given the power of borrowing within certain limits but as per Niemeyer Report , the provinces were given financial assistance by the central government to meet their deficits .The report also recommended the distribution among the provinces of half of the income tax receipts.<sup>56</sup>

**TABLE – 2**  
**CONTRIBUTIONS MADE BY THE PROVINCES TO THE CENTRAL**  
**GOVERNMENT OF BRITISH INDIA(1921-22)**

| <b>Name of the Provinces</b> | <b>Contribution<br/>Rupees In Crore</b> |
|------------------------------|-----------------------------------------|
| <b>Madras</b>                | <b>348</b>                              |
| <b>Bombay</b>                | <b>56</b>                               |
| <b>Bengal</b>                | <b>63</b>                               |
| <b>Punjab</b>                | <b>175</b>                              |
| <b>United Provinces</b>      | <b>240</b>                              |
| <b>Assam</b>                 | <b>15</b>                               |
| <b>Burma</b>                 | <b>64</b>                               |
| <b>C.P. and Bihar</b>        | <b>22</b>                               |



## **FINANCIAL ADMINISTRATION : NEW CONSTITUTION OF INDIA**

It is to be noted that even under the new Constitution of India which came into force in 1950, the various States of India do not enjoy complete autonomy in the sphere of finance. The distribution of financial resources between the Union and the States follows the Government of India Act, 1935. Several taxes and duties have been exclusively given to the Union. Some were to be levied by the Union but collected and appropriated by the States. Certain taxes were to be levied as well as collected by the Union but were assigned to the States within which they were levied. Certain taxes were to be levied and collected by the Union but distributed between the Union and the States. Provision was also made for Grants in Aid by the Union to the States. The taxes which belong exclusively to the Union were customs, corporation tax, taxes on capital value of assets of individuals and companies, Surcharge on income tax, fees in respect of matters in the Union list, Excise duties on Tobacco and all other goods produced in India except alcoholic liquors for human use, Opium and other drugs. The taxes which belong exclusively to the States were land revenue, taxes on agricultural income, succession duties on agricultural land, taxes on land and buildings, taxes on mineral rights opium and Indian hemp, taxes on consumption and sale of electricity, terminal tax, taxes on goods and passengers carried by road or inland waterways, taxes on vehicles, professions trades and entertainment under sales tax Act, stamp duties on bills of exchange, bills of lading, insurance policies, transfer of shares etc. and excise duties on medicinal and toilet preparations containing alcohol are to be levied by the Union but were to be collected and appropriated by the States within whose jurisdiction they were levied. The following taxes were to be levied as well as collected by the Union but assigned to the States within which they were collecting duties on succession to property other than agricultural land duty in respect of property, taxes on goods or passengers carried by railway, air or sea, taxes on railway fares and freights, taxes on transactions in stock exchange and taxes on sale of and advertisements in newspapers. The following taxes levied and collected by the Union but their proceeds were divided between the Union and the States in a certain proportion : Taxes on income other than those on agricultural income and

duties of excise as were included in the Union list , except medicinal and toilet preparations . President of Indian Union has to distribute the products of income tax between the Union and the States up to that time when it was fixed by the Finance Commission . The distribution of the Union excise duties was to be made by the parliament . The Article 275 of Indian Constitution provides that grants in aid shall be made every year by the Union Government to those states which were considered to be in need of help by the Parliament . These Grants were particularly for the welfare of the scheduled tribes . Assam was given some special grant in addition to the temporary Grants for a period of ten years . The States of West Bengal , Bihar , Assam and Orissa in lieu of the shares of the export duty on their jute products as they used to receive before the commencement of the Constitution were given special Grants . According to Professor B.R.Misra , the rationale of the distribution of resources follows closely the principles adopted in the distribution of functions.<sup>57</sup> Professor Seligman mentions three such principles such as the principles of efficiency , suitability and adequacy . Efficiency and suitability depend upon the nature of the tax and its administration. No matter how well intentioned a scheme may be or how completely it may harmonize with the abstract principles of justice , if the system does not work administratively , it is doomed to be failure . The problems of efficiency and suitability really depend upon the choice between a wide or a narrow tax basis . Again , to evolve a system of financial allocation in India , in conformity with the principles of efficiency , suitability and economic considerations, place insurmountable difficulties in its way . A system which would obviously secure efficiency and suitability would break down on the principle of adequacy . Moreover a system that might suggest itself as the most acceptable would not satisfy the conflicting claims and counter claims of the various states . Hence financial allocation between the Government of India and the States has always been a matter of compromise . Such compromises were reflected in the system of Doles which were contribution from the center to the local or contribution from the local to the center or in the system of shared revenues or grants in aid from the Federation to the States.<sup>58</sup> However , the

development of structural administration of finance in India finally got a shape to meet up the demand of time and regime.

### **DEVELOPMENT OF LAND REVENUE ADMINISTRATION**

It would be worth to discuss in the following paragraph about the development of land revenue administration in the sub-continent especially in Bangladesh . Because it would help to understand the land revenue administration as well as the policies of the British Government in India in this field . Before partition of India in 1947 , the land revenue system in the then East Bengal , presently Bangladesh was based on the Zamindari system introduced in 1793 by Lord Cornwallis . Regulation number one of 1793 created the Permanent Settlement system in Bengal . It also included the area now comprising the Indian states of West Bengal, Bihar and part of Orissa. Present Bangladesh was the eastern part of erstwhile British Bengal . In 1802 , in a portion of Madras the permanent settlement was extended. The important features of the system were (a) the Zamindars were declared proprietors of area over which their land revenue collection extended subject to the payment of land revenue and to the liability to have their land sold for failure of payments (b) the assessment fixed on the land was declared to be unalterable for ever and the government guaranteed that assessment would not be raised.<sup>59</sup>

The Zamindari system was created by the Permanent Settlement Order in Bengal , Bihar , parts of Orissa, parts of Madras and a few places elsewhere . In this system there was a middleman between the government and the actual cultivator . This middleman who held the settlement was the proprietor of the land and exercised all rights of private property with as fixed by the permanent settlement and in turn he could let out his land to cultivators and realized rent from them . Thus , under this system the proprietor and the actual cultivator were different persons. Hence there was no direct relationship between the government and its officials on the hand and the actual cultivators on the other.<sup>60</sup>

Thus , the revenue work was not heavy in Bengal and all that the Collector needed was some clerical assistants for the preparation of demand lists and the maintenance



of registers of revenue accounts.<sup>61</sup> He was also assisted by one or two Deputy Collectors. The revenue history in the later half of the 19<sup>th</sup> century concerned mainly with the statutory development of rights given to occupancy Raiyats<sup>62</sup> and later to under Raiyats. The Rent Act of 1859 defined the rights of occupier as twelve years continuous possession of land in possession of a Raiyat. It laid down that rent must be fair and equitable and it recognized the Zamindars right to claim enhancements on the ground that there had been an increase in area, that the value of the produce had increased, or that the rent of a particular holding was below the prevailing rate. The Act also provided that eviction for non-payment of rent could only be made through the courts.<sup>63</sup> During the next two decades, the Act proved to be in some respects, unworkable. Though the value of the produce increased, the Zamindars could not enhance rent owing to the opposition of tenants. They united to resist the landlords or Zamindars. Thus agrarian discontentment grew and for some years the amendment of the Rent Act became the subject of agitation.<sup>64</sup>

In 1878, a Commission which had prepared a Bill for the realization of undisputed arrears of rent recommended to the government that it was desirable to undertake a complete revision of the tenancy law. The Government of India agreed and a report was submitted in 1880. The Bengal Tenancy Act of 1885 was based on this Bill. The Bengal Tenancy Act of 1885 corrected the defect in the law relating to occupancy rights by enacting that a Raiyat who had been in possession of any land for twelve years, either himself or through inheritance, would become a Raiyat of the village, with occupancy rights in the land he already possessed and would also acquire those rights in respect of new lands which he took into cultivation.<sup>65</sup>

The right of the Raiyat was made a protected interest in the event of his superior landlord being sold up, he was given the right of mortgaging his holding, and of substituting it for a period of not more than nine years. It was also laid down that Raiyats should not be ejected for areas of rent, but their holding must be sold up in the civil court.<sup>66</sup> The Tenancy Act of 1885 was amended in 1928 and 1938. As a result of the amendments, the Tenants as a whole, enjoyed greater rights and privileges. The



occupancy Raiyats virtually became masters of their own destiny . They could then use their lands in any manner they choose and could not be evicted from their lands except through court proceedings . The condition of the landlords was made so precarious by 1938 that it became difficult for them to realize even legal rent in time and in due proportion . Now with the dwindling of landlords powers and influence , rise in prices of agricultural products and with political consciousness among the tenants , a new resurgence and aggressiveness among the Tenants were distinctly visible . It became gradually difficult for the Zamindars or landlords to realize rent from tenants which fell into healable to protect the estates from revenue gales.<sup>67</sup>

The Government then set up a Land Revenue Commission in 1938 , with the main objective of going into the question of retention or abolition of the Zamindari system. This Commission in 1940 recommended the abolition of the Zamindari system .On the basis of the recommendations of the Commission the Bengal State Acquisition and Tenancy Bill was introduced in the Bengal Legislative Assembly in 1947 . But due to partition the Bill could not get through . In 1948 , it was placed in the East Bengal Legislative Assembly and subsequently passed in 1950 , assented to by the Governor General on May 18, 1951 .This Act sought to abolish the hundred and fifty years old permanent settlement system and envisaged a system of direct payment of land revenue to the government by the actual owners and users of the soil , by eliminating all intermediaries.<sup>68</sup> After the Act was passed , it was decided that only big estates with good collection papers and the estates under the management of Courts of Wards, would be acquired by a summary procedure immediately and that the remaining rent receiving interests would be acquired after regular revision of the record of rights, without which correct preparation of rent - rolls and compensation assessment rolls could not be possible . Accordingly , big estates were acquired between 1952 and 1955 . A new revenue administrative set up was created at all levels, beginning from Tahsils upto the district level , creating posts of Tahsildars , Thana Circle Inspectors , Sub-divisional Managers, District Manager and Additional Deputy Commissioner of Revenue and in smaller districts Joint Deputy Commissioners, for proper management of the newly acquired estates.<sup>69</sup>

The acquisition of all rent receiving interests was made under the summary procedure without any proper plan and without making adequate arrangements either for the collection of land revenue from acquired properties or for the assessment of various kinds of compensation payable to the ex-rent receivers . This brought troubles both, for the government and the people . Due to defective rent-rolls , it was difficult for the government to collect revenue and for the tenants to pay them . In many cases no data was available for pre-acquisition arrears of rents and leases in respect of properties acquired prior to April, 1956 . Even when final compensation had been assessed , no arrangement could be made for their prompt payment.<sup>70</sup> In a word , the entire machinery of land revenue administration was out of gear. The Government of the then East Pakistan , therefore , appointed a Land Revenue Commission in December , 1958 to look into the problem . The Commission submitted its report in July , 1959 and made recommendations regarding payment of compensation to the revenue department in order that it may cope with the new situation arising out of the summary acquisition of rent receiving interests all over the province of the East Bengal . In September 1962 , the government of former East Pakistan constituted a 'Land Revenue Administration Inquiry Committee' . This committee thoroughly examined all aspects of land revenue administration and submitted its report to the government in April , 1963 with a number of recommendations for the improvement of land revenue administrative system.<sup>71</sup> The Committee proposed a re-organized revenue administrative machinery in all the districts with the Deputy Commissioner in over all charge at the district level . He should be assisted by an Additional Deputy Commissioner in charge of revenue , taking a senior officer of former East Pakistan Civil Service or EPCS<sup>72</sup> , an officer with the designation of Additional Sub-divisional officer who would work under the general supervision and control of the Sub-divisional officer or the SDO. He should be the former EPCS Class-11 officer. The committee also proposed for an officer designated as Circle officer (Revenue) at the Thana level , to be assisted by a Field Kanungo and one Tahsildar in - charge at Tahsil level to be assisted by two Tahsildars .The government accepted this recommendation of the committee but the recommendations in respect to the Additional sub-divisional

officer ( Revenue) could not be implemented for want of suitable experienced former EPCS-1 officers required for the post as such , the Sub- divisional office continued to be managed by a non-gazette Sub-divisional Manager ,who worked under direct control of the SDO. As a result of implementation of the recommendations of the 'Land Revenue Administration Inquiry Committee', the land revenue administration of the country was being managed by the gazette and non- gazette officers at various levels as shown below. <sup>73</sup>

(a) Division level :Divisional Commissioner

(b) District level : Deputy Commissioner : Additional Deputy Commissioner

©Sub-division level : (a). Sub- divisional officer ( b) Sub- divisional Manager .

(d) Thana level (a) Circle officer ( Revenue ) (b) Field kanungo .

#### MODE OF COLLECTION

Before the abolition of the Zamindari system <sup>74</sup>the Tenants had to pay their annual rent at the landlords local Tahsil kutchery . The Tahsildars also sometimes used to go to the villages with prior intimation for the collection of rent from the Tenants especially when the Tenants did not come up in sufficient numbers to pay their rent. There was also provision for payment of rent by money- orders for which a special money order form was used but payment of rent by money order was never popular. This system of collection of land revenue still continues in the district. The Tahsildars who are government employees now go for Mufassil collection more often than their predecessors in Zamindari days used to do . The system of payment by money order is still there . Later the government introduced another system of payment through commercial bank. <sup>75</sup>

#### LAND CEILING

After the emergence of Bangladesh , the State Acquisition and Tenancy Act , 1950 was amended.<sup>76</sup> The amendment exempted payment of land revenues of agricultural holding up to twenty five standard bighas . By another order <sup>77</sup>, the maximum quantity of land which a family can retain or acquire was reduced to hundred standard



bighas . The definition of family was also modified so as to prevent the retention of acquisition of more land by splitting up of families for circumventing the provisions of the law . The excess land that would be available to the government by such reduction of the ceiling would be distributed among the agriculturists having no land at all or less than 1.50 acres according to the order of priority laid down by the government. It also came to the notice of the government that in many cases lands, having public right of easement were settled or occupied by private persons with out authority . An order was promulgated which authorized the D.C to resume such lands when need for any public purpose or in public interest on payment of compensation where such payment is justified <sup>78</sup> . Later with a view to streamline the administration relating to land and land reforms, an order was promulgated abolishing the Board of Land Revenue and excluding the Divisional Commissioners from the field of land administration and land reforms.<sup>79</sup>

### **ROLE OF DEPUTY COMMISSIONER AS COLLECTOR**

The Deputy Commissioner before 1960 was known as Collector . The designation Collector originated from his revenue functions. There is no basic change in his functions relating to revenue collection although importance of items of work has changed . The word revenue does not convey a clear picture of the work of the Deputy Commissioner as Collector . His duties as Collector include looking after the general interests and welfare of the cultivator in so far as they relate to cultivation and allied matter on which he depends for his living. The Collector also decides the rights of Tenants, such as mutations, encroachment , land acquisitions etc.<sup>80</sup> Thus , the Deputy commissioner , in his capacity as the Collector is required to act as (a) a collector of land revenue , water dues etc (b) a Recorder of agricultural statistics (c) a Guardian and Registrar of the rights in the soil enjoyed by private persons, (d) a Promoter of the stability and improvement of the landed property , (e) a Custodian of state property and (f) a Judge of the revenue cases.<sup>81</sup>



## PRINCIPLES OF COLLECTION OF REVENUES

The of collection of revenues was based on the following three main principles:

- (a) Revenue which is intended to be collected ought to be collected
- (b) There should be one standard of collection and that is collection in full. There should be no incentive for remission of revenue and
- © Cases where revenue should not be collected are very limited, such as during natural calamity, condition of distress, wholesale damage of crop by fire, flood, storm etc<sup>82</sup>

Thus, as the Collector, he is not only responsible for collection of revenue but he is also equally responsible for the welfare of the Tenants. So in cases of calamities and distress, the collector has to be very quick in giving relief on any outstanding amount of revenue and in addition should also come to the aid of the tenants with money and materials quickly to relieve their immediate distress and secondly to enable them to get on with the next crops.<sup>83</sup> But the DC has also to ensure that the following principles of full collection has been observed

**(a) PRINCIPLE OF FAIR ASSESSMENT** - The principle is whether it is land revenue, irrigation rates or any other taxes and suites, the most essential preliminary is the fair and correct assessment of the amount payable by each individual assess.

**(b) PRINCIPLE OF CERTAINTY** - The D.C should see that the individual assess, know the basis of assessment, the amount assessed, the place and the time, for example where and when the revenue are to be paid of or collected.

© **PRINCIPLE OF COLLECTION AT PROPER TIME** - The DC should also see that the collection is made while the money is there in hand, harvesting time is best for collections and whether it is drought or flood, hailstorm or fire. It is the responsibility of the DC to assess the situation correctly and speedily and then provide adequate relief quickly, so that the purpose is not defeated.<sup>84</sup> But in practice the DC does not directly perform these functions. He simply maintains an overall control and supervision over the revenue machinery in the district and that the Additional or Joint Deputy Commissioner who is directly sub-ordinate to him mainly perform these functions.

### **ROLE OF ADDITIONAL DEPUTY COMMISSIONER ( REVENUE)**

With the abolition of Zamindari system and governments assumption of the responsibility of collection of revenue, greatly increases the volume of work of the DC as Collector .The migration of Hindus in 1947 and the Muslim law of inheritance further complicated the situation . The number of mutation and certificates cases , settlement of khas land and correction of land records continued to file up.<sup>85</sup> In view of the great increase in the volume of revenue work, an Additional Deputy Commissioner or the ADC was posted to assist the Deputy Commissioner .The newly appointed Additional Deputy Commissioner took over the responsibility of revenue collection . He has been discharging duties enjoying all powers of the Collector but is directly responsible to the DC. He supervises the revenue and land collection, inspects offices of circle offices and Tahsils and hears appeals in revenue certificate cases. One Deputy Collector remains in charge of the Revenue office for day to day work . After the promulgation of Enemy Property Ordinance in 1965 , the ADC was also appointed as assistant custodian of the enemy property . Similar responsibility has been entrusted for the non- resident and abandoned property of the Pakistani.<sup>86</sup>

### **ROLE OF THE FORMER SUB DIVISIONAL OFFICER**

In Bangladesh before 1983 , every district except Tangail was divided into several Sub-divisions .The Sub-divisional officer or the SDO was the head of the Sub-divisional administration who worked under the direct control and supervision of the DC .The SDO except sadder Sub-division was a miniature DC in his Sub-division . He was the representative of the DC in his Sub-division . Like the DC the SDO was the overall head of revenue functionaries operating within his jurisdiction but in practice, he exercises nominal control and supervision over them . Like the former, the latter gives more attention to important aspects of administration such as development, law and order , the affairs of the local bodies etc. In discharging revenue functions the SDO was assisted by non- gazette officer designated as Sub- Divisional Manager . There was a circle officer in every Thana and there are Tahsil offices for

every two Unions of the Sub- division . The SDO used to inspect Thana Revenue offices , Tahsil offices , Sub-divisional Revenue office also . The Tahsildars are appointed by the ADC ( Revenue) . They are also transferred by him . But in some districts, the SDOs have been authorized to transfer the Tahsildars , but this would need to be approved by the ADC(Revenue). Returns and Statements of Thana Revenue office were consolidated in the Sub-divisional office and later on sent to the district office . However , in 1984 , the administrative unit of Sub -division was abolished .the the post of SDO was was also derived from the administrative field of Bangladesh .

#### **ASSISTANT COMMISSIONER (REVENUE)**

The Assistant commissioner (Revenue) is now the head of revenue matters in the Thana of Bangladesh . But before 1984 ,the name of the present post was Circle Officer (Revenue)as mentioned earlier. After the abolition of the Zamindaari system the village and the Thana became the focal points of revenue administration . The post of circle inspector was created in the first half of 1950s to look after revenue administration at the Thana level the newly appointed circle inspectors were given training for a period of two - months in revenue law and survey.<sup>87</sup> But the Circle Inspector system proved to be a failure .The Circle Inspectors whose primary duties were to inspect and supervise the works of Tahsildars , were , in fact intended to work in such a way as to keep them in the right path . They themselves know less about revenue work than the Tahsildars . More over , they had no such personality to be able to control the Tahsildars even when they found the Tahsildars going wrong . In 1959 and 1963 reports on Land Revenue Administration Commission recommended that the non-gazette Circle Inspectors should be replaced by the gazette grade- ii officers of the then East Pakistan Civil Service and that the designation of these gazette officers should be Circle Officer ( Revenue) . But this recommendation was not immediately implemented mainly because of the shortage of officers .By 1967 , Circle Officers ( Revenue) were posted at Thana level to supervise the activities of Tahsil offices . The CO (Revenue) was entrusted with the powers under Certificate Manual for the recovery of public demands. He heard the petitions for partition of



holdings and allowed mutation . He had the jurisdiction to inspect and audit Tahsil accounts . The CO ( Revenue) was required to submit periodical reports to the DC about the crop condition , revenue collection and mutation of holdings etc. Recently ,in 1985, the designation of Circle Officer (Revenue) has been changed into Thana Revenue officer or Assistant Commissioner (Revenue) . The AC (Revenue) is now responsible for the revenue administration in the respective areas. But the overall responsibility lies with the Deputy Commissioner.<sup>88</sup> It is important to note , however, that although historically revenue collection was the main function of the collectorate, the collection and the amount of it became less significant than the other subsidiary functions of the revenue administration . Earlier the DC used to devote a great deal of time and energy in the revenue administration which always received his special and personal attention . The extent of his ability to administer revenue matters efficiently was one of the most important criteria by which his competence as a DC was measured. Several factors were responsible for the paramount importance of the revenue administration . Firstly , land revenue used to be the principal source of revenue receipts of the government . Secondly , the land revenue administration enabled the DC and his subordinates to come into the close contact with the rural people who constituted the big amount of the population of the country and learn about the conditions and problems of the remotest part of the country side . The revenue hierarchy was in fact , considered the central channel of communication between the people and the government .Thirdly the land revenue administration affected to an enormous extent the interest and well being of the bulk of the population of this sub-continent who were almost wholly dependent on land for their livelihood . Fourthly , the offices of the Collector was a great source of influence and prestige . He could easily bring his pressure upon the landed aristocrats either to keep a check on their arbitrary and tyrannical dealings with their tenants or to make use of their influence at the time of emergency , for example , at the time of communal riot or dispute between hostile groups etc but from the post world war period the large increase of the specialization , diversification and modernization of governmental functions, the growth and expansion of development activities , the rapid



urbanization and industrialization minimized to an enormous extent the importance of the land revenue administration . The DC also found his hands too full with a great variety of urgent problems to find sufficient time and energy to devote to revenue administration.<sup>89</sup> Moreover, in the 50s and in the 60s ,the percentage of land revenue continued to decrease very fast mainly as a result of the increases in income from other sources .Such decreases further lessened the importance of land revenue administration to a considerable extent .

## **BACKGROUND OF INCOME TAX IN THE SUBCONTINENT**

### **DEVELOPMENT OF INCOME TAX LAWS**

Income Tax in the sub-continent is a legacy of the British Rule .The first Income Tax Act was introduced by the British Government in 1860 to tide over the financial difficulties faced after the Great sepoy mutiny in 1857 . It was in force for five years from 31th July , 1860 to last of August , 1865 . This Act was framed in the light of the United Kingdom Income Tax Act . The Tax was introduced on the basis of the income from land but this Act lapsed in 1865 .Tax on income was again introduced in 1867 as a license tax on the annual income from trades and professions . The Government servants were not required to pay license tax as tax was deducted from the purview of this tax.<sup>90</sup> In 1868 the British Government introduced certificate tax . This was not materially different from the license tax . Agricultural income tax was again excluded from the purview of this tax . In 1869 a general income tax was introduced in lieu of certificate tax . This tax was meant for one year . In the subsequent four years the government abolished the levy of income tax . After the great famine of 1876-1878 the government revived the direct tax by the Act of 1877. This tax was imposed in the form of a license tax on the traders.<sup>91</sup> Taxes on land was also imposed at that time . From these two sources a famine fund was created . In order to suit local conditions, separate local acts were introduced in Bengal, Madras and Bombay provinces . There were central acts for the province of the Punjab and N.W.F.P. In 1880 the local acts were amended to bring conformity in exemption limit as there were divergences in these limits in the provinces.<sup>92</sup>

### LAND MARK OF HISTORY

1886 is a land mark in the history of income tax in this Subcontinent . By the Act of 1886 , Income Tax was reintroduced . It was a great improvement on the earlier Acts . Its main provisions still remain . In this Act, agricultural income was defined. It contained provisions for exemption in respect of certain portions of income. But computation of income was left to the Governor General in Council by making Rules. The Schedule of this Act contained the sources of income and the rate of taxation . This Schedule was replaced by a new Schedule which provided for enhanced rates of taxation by gradation.<sup>93</sup> This Act remained in force till 1918. The year 1918 is another landmark in this field . By the Act of 1918 the whole tax law was recast. By this Act the conception of total income as a basis for tax was introduced . Income from all sources was clubbed together and the levy was made on the aggregate income . The tax levy was imposed as the taxable income of the assessment year . First the assessment was made on the basis of income of the previous year and when subsequent by the actual income of the assessment year was ascertained , an adjustment was made . There were six heads of income (a) Income from Salary (b) Income from Interest on Securities (c) Income from House Property (4) Income from Business (5) Income from Professional earnings (6) Income from other Sources . A Schedule to the Act fixed the rate of tax varying from four pies to the Taka from twelve pies to the Taka depending on the taxable income . This system was known as Slab System which continued till 1939 . In 1939 the present Slab System was introduced.<sup>94</sup>

### THE INDIAN INCOME TAX ACT , 1922

A Committee was appointed in 1921 called the 'All India Income Tax Committee' to review the Income Tax law . On the basis of the recommendations of the Committee the Indian Income Tax Act , 1922 (Act No xi of 1922) was introduced . In Pakistan the nomenclature of this Act was changed to Income Tax Act , 1922 after the partition of the Subcontinent. But this Act remained in force in Bangladesh till its repeal in 1984 . However, on the basis of recommendations of an 'Expert Income Tax

Committee' appointed in 1935 which submitted its report in December, 1936, the 1922 Act introduced status of assesses as (a) Resident (b) Resident but not ordinarily resident (c) Non-Resident. For the first time it brought under tax of foreign incomes of resident to be assessed wherever accrued or arose, whether brought to the taxable territories or not. It granted to business for the first time carry forward of loss up to six years. In 1945 'Earned Income Relief Act' was introduced. In 1947 'Capital Gains Tax' was introduced. The Income Tax Act, 1922 remained in force with necessary changes.<sup>95</sup> Although it brought about changes by almost every Finance Act or Ordinance in Bangladesh till 1984. In India it was replaced by Indian Income Tax Act 1961 and in Pakistan it was replaced by Income Tax Ordinance, 1979. In 1984 the Income Tax Ordinance, 1984 of Bangladesh was introduced by replacing the Income Tax Act, 1922. As there was no Parliament at that time and the country was run through Martial Law Administration, it became an Ordinance instead of an Act. This Ordinance was given effect from 1st of July 1984 which means from the assessment year 1984-1985. The Supreme Court of Bangladesh (High Court Division) declared in a recent case of C.T. Khulna Zone VS M / S Reza Brothers that income for the assessment year 1984-85 should be assessed under the provision of Income Tax Ordinance, 1984<sup>96</sup> by virtue of provision of section 186 of the Income Tax Ordinance, 1984. So there was no doubt of the effect of the Ordinance of 1984 and has been given the status of law from that period.

#### **ORIGIN OF CUSTOMS AND ITS MANAGEMENT**

The origin of Customs Act in the Subcontinent could be found in the British period. At first the British made the Sea Customs Act in 1878. Later Land Customs Act was made in 1924. The Government of Pakistan reconciled both the Customs Act and the Sea Customs Act of British period and made the Customs Act of 1969, of Pakistan. The Customs Act of 1969, consolidated by the then Government of Pakistan was adopted by the Government of Bangladesh by the President Order No. 48 of 1972<sup>97</sup> The International Rates of the GATT, the General Agreement on Trade and Tariff, was also adopted by the Ministry of



Finance of Bangladesh in the same year , in order to facilitate customs procedures for international trade and commerce .<sup>98</sup>

### **CREATION OF THE FINANCE MINISTRY AND THE NATIONAL BOARD OF REVENUE**

After Independence of Bangladesh ,the Financial Administration started its journey in the name of the Ministry of Finance in 1972 with new ideas and objectives to fulfill the hopes and aspirations of the common people . Also the Government of Bangladesh in 1972 established the National Board of Revenue in order to achieve its fiscal goals and to establish a proper financial administration and effective management system in the field of revenue collection.

### **ASSESSMENT**

History goes forward for its own action . The history of financial administration also goes forward for the same purpose . All the financial institutions played a central role in most of the cases throughout history . With the passage of time the institutional jurisdiction has been increased and the importance of financial management has been able to draw the attention of the government . The constitutional development of the Great Britain , the American Revolution ,the French Revolution has widen the scope of governmental activities which in fact created scopes for enormous financial involvement . More over , in the course of history , the Industrial Revolution , the growth of territorial interdependence ,the development of the modern corporation ,the universal franchise ,class conflict ,Marxism brought a change to the attitude of the governments resulting expanding the scopes of financial administration .As a newly liberated country , Bangladesh also goes forward to make its financial administration system modern . After partition of India in August , 1947 the present Bangladesh became the part of Pakistan . So the Finance Ministry of British India transferred to Pakistan and started its activities under a new jurisdiction and system . From mid of the August ,1947 , the Ministry of Finance started its functions with a view to economic and



financial reconstruction under a Cabinet Minister . The authority of Pakistan Government opened the provincial branch of Finance Ministry in the then East Pakistan in the early 1950 but remained all financial powers to the central Ministry of Finance . Most of the central offices of other financial departments were established in the then West Pakistan with a view to economic oppression of the people of this part of Pakistan . Under the Ministry of Finance , there were several departments such as Office of Customs and Excise , Commissioner of Taxation , Audit and Accounts and National Revenue Department . All the head offices of such departments were situated in West Pakistan and followed the principles and objectives and instructions of the central Government of Pakistan. A very little changes or improvements took place during the period when this country was under the rule of Pakistan from 1947-1971 . A few innovations like distinction between recurring and non recurring expenditures and declaring Secretaries of the Ministries as the head of accounts were effected during that period . An unsound financial system for the whole Pakistan period in fact could not show any new way for overall development of the country . In 1971 , Bangladesh emerged as independent country and started a new life as a new nation. The Constitution of Bangladesh ,1972 incorporates detailed provisions for national budget and financial matters .<sup>99</sup> In order to survive , Bangladesh started its journey taking massive reform programs in various sectors especially in socio economic field covering financial goals of the government . Bangladesh has been able to make its financial sector little effective and organized. But for many reasons has not been successful totally . Bangladesh has to pass long way for this purpose . The Government of Bangladesh have been undergoing through reform since beginning by establishing different Commissions and Committees for the purpose of an improved and modern financial administration , but there are many barriers in order to get actual success. Because the policy makers ,those are mainly politicians do not want an acceptable and dynamic system . In the following chapters ,attempts would be taken to discuss this matters .

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## CHAPTER- THREE

# FINANCIAL ADMINISTRATION : STRUCTURE AND FUNCTION

### INTRODUCTION

Financial Administration deals with the finances of the public as an organised group through the financial institutions of the government . It thus deals with the financial aspects of the government . The financial aspects of the government include the raising and disbursement of the government funds. So the financial administration is concerned with the operation of the fiscal matters or public treasury . Hence , to the degree that it is a science , it is the fiscal science . Its policies are fiscal policies , its problems are fiscal problems . But it does cover other government financial activities too.<sup>1</sup> So it could be said that financial administration is not only concerned with the direct regulatory functions of the government over the private economy . It is not also concerned with such matters as the regulation of Railroads and Public utilities , Monopolies , Banks and Security Markets , except as administration of these programs which involve the expenditure of public funds or taxes may be used for the purposes of regulation .The government affects the private economy of a country in very many ways . However, there is a general idea that financial administration is mostly concerned with the raising and disbursement of funds by the government . Because the raising and disbursement of government funds have a significant effect upon the level at which the economy operates .The role of the financial administration in a modern country is ever changing. . Its responsibilities are

broadening and becoming more vital to the over all development of a country . Before modern ages, these responsibilities were confined mainly to keeping accurate financial records, preparing reports, managing the banks cash position and providing the means for the payment of bills .Even before modern ages when liquidity was insufficient for the banks and prospective cash was in need , the financial administration was responsible for procuring additional funds. However ,this procurement often included only the mechanical aspects of raising funds externally on either a short or an intermediate or a long term basis .The raising and disbursement of the government funds by no means constitute a narrow field of problems. The determination of an appropriate measures for raising funds implies an understanding of the flow of production from and income through the private economy and therefore the way the whole economy works. In fact determination of an appropriate expenditure program implies insight into such vast fields as the effects of public spending upon the income stream of the whole economy, the relative social utilities of governmental services and private spending and the impact of change in government expenditures upon the structure and philosophy of the government.<sup>2</sup> The field is thus both broad and deep . The solution of fiscal problems requires co-ordination of the efforts of many specialists . So the ultimate goal of the study of financial administration is to develop proper fiscal policy.<sup>3</sup> This implies that the purpose of the study is to determine what should be done in the fiscal field and what should be done during financial crisis as well as how to project new and sometimes daring plans for the future . The fiscal policy embraces matters of policy at various levels , ranging from matters of local concern , such as the desirability of erecting a new grammar school to matters of broad national policy such as the proper sphere of governmental fiscal activity in relation to the operation of the economy as a whole.<sup>4</sup> In recent years , the influence of the financial administration has expanded far beyond these limited functions . Now its concern is with (a) allocating funds to specific purposes and (b) obtaining the best result from financing in relation to the overall development of the country . The former determines the size of the project , its profits from operations , its



business risk and its liquidity while the latter determines the project's financial charges and its financial risk .

## **CONCEPTUAL DEVELOPMENT AND DISCUSSION**

In order to understand better the changing role of the financial administration and the evolution of its functions , it would be useful to trace the changing character of financial administration as an academic discipline .<sup>5</sup> In the early part of this century , corporation finance emerged as a separate field of study . Whereas before it was considered primarily as a part of economics . By and large , the field encompassed only the instruments, institutions and procedural aspects of the capital markets . At that time , there were a large number of consolidations, the largest of which was the colossal formation of U.S.Steel Corporation in 1900 . These combinations involved the issuance of huge blocks of fixed income and equity securities . Consequently , there was considerable interest in promotion and in consolidations and mergers . Accounting data and financial records, as we know them today, were virtually non-existent. Only with the advent of regulations did disclosure of financial data become prevalent . With the era of technological innovation and new industries in the 1920s , the private firms needed more funds. The result was a greater emphasis on liquidity and financing of the project . So considerable attention was directed to describing methods of external financing and little to managing an organisation internally . One of the landmark texts of this period was Arthur Stone Dewing's book on the 'Financial Policy of Corporations' which , in a scholarly fashion , drew together with existing thought promulgating certain new ideas and served to the pattern of the teaching of finance for many years to come. During this period , there was widespread interest in securities particularly in Common Stock Market . This interest became intense towards the end of the decade and the role and function of the investment banker was particularly important in the study of corporate finance at this time.<sup>6</sup>

### **DEPRESSION OF THIRTIES**

The depression of the thirties necessarily focused the study of financial administration and management aspects on the defensive aspects of survival. A great deal of attention was directed towards the preservation of liquidity and towards bankruptcy and reorganisation. The principal concern in external financing was how a lender could protect himself. Conservatism naturally reigned supreme with considerable emphasis on the business companies, maintaining a sound financial structure. The large number of abuses with debt particularly those that occurred in connection with public utility holding companies were brought into the limelight when many business companies collapsed. These failure, together with the fraudulent maltreatment of numerous investors, brought cries for regulation. Regulation and increased controls on business by government were quick to follow. One result of these regulations was an increase in the amount of financial data disclosed by companies. This disclosure made financial analysis more encompassing because the analyst was able to compare different companies as to their financial condition and performance. During the financial crisis of thirties, the government of such countries in Europe effectively and efficiently handled the matter which in fact was a great success in the field of financial planning and management.

### **TRADITIONAL APPROACH OF FINANCIAL ADMINISTRATION**

Financial Administration, during the forties through the early fifties, was dominated by a traditional approach. This approach, which had evolved during the twenties and thirties, was from the point of view of an outsider such as a lender or investor analysing the business organisation and did not emphasise decision making within the organisation. The study of external financing was still largely descriptive. During this period, however a greater emphasis on analysing the cash flows of the private business firm<sup>7</sup> and on the planning and control of these flows did develop. In the middle fifties, great interest developed in capital budgeting and allied considerations. This topic and the concurrent emphasis on present value served as a catalyst for the sweeping changes that subsequently occurred. With the development of new methods

and techniques for selecting capital , investment projects came in a framework for the efficient allocation of capital within the business firm and government projects.<sup>8</sup> New fields of responsibility and influence for the Financial Administrator or Manager included management of the total funds committed to assets and the allocation of capital to individual assets on the basis of an appropriate and objective acceptance criterion. As a result of these developments , the Financial Administrator or Financial Manager had to come squarely to grips with how investors and creditors valued the firm and how a particular decision affected their respective valuations . As a result , valuation models were developed for use in financial decision making . Security analysis and financial administrative activities or management are closely related and it could be observed here an integration of these two which were previously separate areas of study . With this concern for, valuation came as a critical evaluation of the capital structure and the dividend policy of the firm in relation to its valuation as a whole<sup>9</sup>. As a result of the widespread interest in capital budgeting , considerable studies have been made towards an integrated theory of finance. Another major event in the 1960s was the development of portfolio theory and its eventual application to financial administration or management . First expressed by Markowitz , the theory was later extended and considerably refined by Sharpe , Lintner, Mossin, Fama, and a number of others.<sup>10</sup> Basically , this theory tells us that the risk of an individual asset should not be judged on the basis of possible deviations from its expected return but rather in relation to its marginal contribution to the overall risk of portfolio of assets . Depending on the degree of correlation of that asset with other assets in the portfolio , the asset will be more or less risky . The development of portfolio theory and the concept of efficient markets brought with it the application of these ideas to financial administration and management.<sup>11</sup> Although this application is still in the formative stages but the key notion is active still to relate the risk of prospective capital investments by the business organisation to the market portfolio of all securities . It should be noted here that the whole financial activities of a country are necessarily financial administration bound .



## **TECHNOLOGICAL DEVELOPMENT AND FINANCIAL ADMINISTRATION**

The use of the computer as an analytical tool added much to the development of financial administration during the fifties, sixties, and seventies. With its advent, complex information systems have been developed that provide the financial manager and administrator with the data needed to make sound decisions. In addition great studies have been made in the application of analytical tools to financial problems, increasingly, operations of analytical tools to financial problems, operations research and decision theory techniques are proving their worth. As better methods and applications are developed, more disciplined and fruitful financial analysis will be possible. Overall, the financial administration has changed from a primarily descriptive study to one that encompasses rigorous analysis and normative theory from a field that was concerned primarily with the procurement of funds that includes the management of assets, the allocation of capital and the valuation of the financial organisation in the overall market and from a field that emphasised external analyses of the organisation to one that stresses decision making within the organisation. The Financial Administration or management today is best characterised as ever changing, with new ideas and techniques. The role of the financial administration is considerably different from what it was fifteen years ago and from what it will no doubt be in another fifteen years. Academicians and financial administrators, managers must grow a mentality to accept the changing environment and master its challenge. In this regard, they must thoroughly understand the underlying financial goals and objectives of the country and the financial and business organisations of the government.

## **FINANCIAL ADMINISTRATION IN DEVELOPED COUNTRIES**

The government financial administration in the developed countries has been playing a significant role. The developed countries have developed a modern scientific financial system for implementation of the national policies which involves huge amount of money. The Ministry of Finances of developed countries in fact play important role regarding this aspects. So for better understanding, it



would be worth to discuss the Ministry of Finance of United Kingdom and United States of America in brief to have a comparative picture of both developed and developing countries. For the purpose of the present research study both the UK and the USA were visited and studied. The Financial Administration of the United Kingdom is the important branch of the national civil administration. The Finance Ministry plays vital role as a financial Administration of this country. The Finance Ministry of the United Kingdom is known as the famous British Treasury.

### **THE FINANCE MINISTRY OR THE BRITISH TREASURY**

The Ministry of Finance for any country of the world is considered as the financial administration of that country. The name of the Ministry of Finance may be different but functional scopes and areas are more or less same. In fact the British Treasury actually performs the functions and carry the responsibilities of the whole financial aspects of the Great Britain. The British Treasury had emerged through a evolutionary change. So it would be worth here to put attention to the development of the British Treasury and functions of the British Treasury. In Britain, the treasury is the counterpart of the Bureau of Budget in USA and the Ministry of Finance in India and Bangladesh. But there are substantial differences between the structures and functions of the Treasury in U.K and those of Finance Ministry in India and Bangladesh. The Treasury is much more than an organ of financial control. It has other traditional responsibilities also. It is not merely responsible for implementation of the financial policy of the government but the control of civil services is also vested in it. It thus occupies a special position in the administrative organization in UK. The Treasury was first commissioned in 1612. The Board of Treasury was composed of several Lords or Commissioners which included as the first Lord of the Treasury, the second Lord as the Chancellor of Exchequer and five other junior Lords. Though the Board has no met since the middle of the last century but its statutory existence has not been disturbed and the treasury minutes continue to be issued in the name of the Lords of the Treasury. At

present, the Prime Minister of the UK is the first Lord of Treasury. As the treasury is the Prime Minister's department, so it adds to additional prestige and authority. The Prime Minister, however, takes no part in the transactions of normal treasury business but concerns himself with the administration of civil service. The second Lord as the Chancellor of Exchequer, is the effective ministerial head of the treasury and is responsible for the financial and economic policy. He is assisted by two secretaries, the Financial Secretary and the Economic Secretary. The former is associated with the handling of the governments general financial business in the House of Commons and the latter with the policy relating to overseas finance, economics, currency and banking affairs. There are two permanent Joint Secretaries also in the treasury. They are in charge of residual work. These two Joint Secretaries enjoy higher pay and status than the permanent secretaries in other departments. The Treasury also has four second secretaries, seven third secretaries and twelve under secretaries.<sup>12</sup>

#### **FUNCTIONS OF THE BRITISH TREASURY**

As the Treasury has to perform dual functions of administration of finance and administration of civil service, it has been split into two wings, namely the financial wing and the service wing. The financial wing is responsible for financial control and economic co-ordination and for maintaining the economic stability of the country and to this purpose economic planning and allocation of priorities are included in its functions. It initiates fiscal policy on the basis of economic situation prevailing from time to time. It collects the revenue over the departmental expenditure in a general way and lastly it administers public debts, banking and currency. This wing has three major divisions known as Home, Finance & Overseas finance and Supply services and three sections (a) central economic planning staff (b) overseas co-ordination and (c) economic section for co-ordinating economic policy. The Treasury is thus not concerned only with the control of departmental expenditure but with broader issues affecting national economy. The Service wing of the treasury is responsible for policy relating to recruitment, promotion and retirement of the civil service. It deals with questions relating to their pay scales, conditions of services, grading of classes etc.

This wing has three important divisions (a) the Establishment Division (b) the Organization and Method Division and (c) the Training and Education Division.<sup>13</sup>

### **CONTROL OF THE TREASURY**

The Treasury exercises control over finances in so many ways since 1861, the Treasury has been approving all estimates before they are presented to the House and has been exercising control over them even after the Parliament has approved them. All departmental estimates embodying departmental plans and policy are submitted to the Treasury not only the opportunity to assess them individually but also to have a broad view of the policy of department as a whole. It can effect such economies as are feasible in the estimates and expenditure before their presentation to the House. Hence, it occupies a prime place among all other departments. A recent writer said that the power and unpopularity of the treasury rise like twin Everest. So the role of the British is very important. It should be however noted that if there is a disagreement between a departmental minister and the Chancellor of Exchequer the final decision is made by the Cabinet. Further, the departments have no authority to incur expenditure in respect of any new service or even on any approved scheme beyond the amount authorized. The Treasury will satisfy itself that the changes in expenditure are necessitated by new developments, only then it will allow the supplementary demands to be presented to the House, nor will it allow to transfer saving in one sub-head to another sub-head without such satisfaction. In the past, the treasury exercised strict control on every item of departmental expenditure within the scope and amount of appropriations voted but now his responsibility has been given over to the departments themselves. Responsibility for efficient and economical administration rests on the head of the department who is nominated by the treasury as the accounting officer in respect of the department. The permanent Secretary of the department is thus at once the departmental chief and the treasury representative. Where the departments have field offices, heads of these offices are nominated as sub-accounting officers. The head of department is assisted in his work by a finance officer, who is a representative of the treasury. The head of the department can



overrule the finance officer, though in such cases, the papers of over case can be called and examined by the Comptroller and Auditor General. Thus in Britain, both the administrative and financial services are integrated together within the department itself. It is rightly remarked that the best system of direction and internal control so far devised by human ingenuity is that of the British Treasury. The last stage in the parliamentary control over the expenditure was provided for, under the Exchequer and Audit Department Act of 1766, which had created the post of the Comptroller and Auditor General to ascertain whether parliamentary grants are utilized for the purpose for which they were made and with efficiency and economy. This official is responsible to the Parliament and not to the executive branch of the government.<sup>14</sup>

### **FINANCIAL ADMINISTRATION IN THE USA**

The Financial Administration in the USA is very wide and for the same cause it is very important ministry. Being a big country and one of the richest powerful country in the world, the both public and private financial management of the country has been playing very important role. The country has a very large budget and management of such big budget with arrangement of allocation is not a very easy task too. However, the American Federal Bureau of Budget is the counterpart of Ministry of Finance of Bangladesh or the British Treasury. The objectives or goals are as like as Ministry of Finance of Bangladesh and India, though functions and scope of the Bureau are different.

### **ITS ORIGIN**

In the USA before 1921, there was no proper system corresponding to the British Treasury or Indian Ministry of Finance for the preparation of the national budget. The various departments were responsible for the preparation of the national budget. The various government departments used to prepare their estimates and send them to the Department of Treasury which consolidated and sent them to the Congress without any scrutiny or co-ordination. The Budget and Accounting Act 1921, brought about certain reforms in the American budget system. Accordingly a Bureau of Budget was



set up in the original Department of Treasury . But later on it was transferred to the White House . Now it forms a part of the office of the American President . The Bureau of Budget is responsible with the function of preparing the national budget under the supervision of the President of the USA . It is headed by the Director of Budget who is assisted by six assistant directors and the general council .In USA there is a Department of Treasury also but its functions are totally different from those of the British Treasury or Indian Ministry of Finance . It is mainly concerned with the function of treasury nature such as custody of public funds, their disbursement and procurement and has little to do with budgetary control.<sup>15</sup>

#### **FUNCTIONS OF THE BUREAU OF BUDGET**

The Bureau of Budget of the USA performs the following functions

- (a) To assist the President in the fiscal programs of the government
- (b) To supervise and control the administration of Budget
- © To conduct research in the development field and to advise the executive departments and agencies of the government with respect to improve administrative measures and practice
- (d) To aid the President to bring about more efficient and economical conduct of government Service
- (e) To assist the President by explaining and co-ordinating departmental advice on proposed legislation
- (f) To assist in the consideration and clearance and where necessary , in the preparation of proposed executive orders and proclamations
- (g) To keep the President informed of the progress of activities by agencies of government.<sup>16</sup>

#### **PROCEDURE OF BUDGET MAKING**

All the departmental estimates are submitted to the Bureau of Budget for scrutiny and co-ordination. The Bureau calls the official representatives of the various departments, to give them a hearing for their proposals .After such revision and careful review as it

thinks necessary , produces an unified and co-ordinated budget which is more or less like the fashion of the British Treasury.<sup>17</sup> The President transmits this budget to the Congress as his executive budget . As there is a principle of separation of powers in America , the President is not in a position to exercise financial leadership in the Congress . As a consequence , the voting in the Congress is still like the old chaotic manner or system. The demands are considered in each House by the Appropriation Committee which gets the estimates of each department of the government examined by its several sub- committees . The departmental officials appear before these sub-committees but they do not plead for more than what the President has provided for in the estimates. The committees are quite free to make additions or reductions in the demands as they come from the President . Sometimes the demands are so changed that very little of the original plan on which they were drawn in the Bureau of Budget is left. The American budget system is therefore , still largely disintegrated and uncoordinated.<sup>18</sup>

#### **COMPTROLLER & AUDITOR GENERAL AND HIS POWER**

The budgetary control in USA is thus divided between the Congress and the Bureau of Budget . The Budget and Accounting Act , 1921 also provided for establishing the office of the Comptroller & Auditor General who is independent of the control of the executive and exercises the power of financial control in his own right. The Comptroller & Auditor General is the head of the general accounting office and is appointed by the President with the approval of the Senate for a term of fifteen years . But the same person is eligible for appointment for the second term in succession .The Comptroller General has far reaching investigating and auditing powers. His control over expenditure consists in his power to approve the warrants for funds issued by the Secretary of the Treasury , of making advance decisions regarding the legality of the proposed expenditure , of setting claims of the individuals against the United States and of recovering debts to the United States . He is also authorized to prescribe forms , systems and procedures for the accounting systems of the several departments.<sup>19</sup>

### **FINANCIAL CONTROL OF THE BUREAU**

The Bureau of Budget exercises financial control through some other devices also dividing the annual appropriation of a department in to four quarterly in a year to which its expenditure during the quarter must be limited . This appropriation is done with a view to ensure that expenditure should be fairly spread over the whole year and it should not be exhausted too soon or should not be quickly spent towards the closing of the year . The Bureau has also the power to demand the surrender of balances which cannot in its opinion be usefully spent. The departments are also required to submit monthly reports to the treasury on the state of each of their quarterly portions . The Bureau has also been given the power of fixing the strength of the maximum staff . All these various systems of control and the arrangement for legislative control of public expenditure is not effective. It is incomplete , disintegrated and extremely unsatisfactory.<sup>20</sup> The principle of separation of powers in the constitution of USA has provided for an effective arrangement for legislative control of public expenditure but in practice the system of budget in the USA is not very efficient as we find in the UK or India .

### **FINANCIAL ADMINISTRATION IN DEVELOPING COUNTRIES**

The developing countries has a history of colonial rule and legacy of colonial nature, for which most of the developing countries still suffer from lack of efficiency ,experts and acceptance of new invention in the respective fields . In the field of development administration and financial administration , the developing countries are the followers of the model and techniques of the developed countries. Although the developing countries try to introduce the systems applicable to their own atmosphere but ultimately they could not do it because insufficient funds . So in the developing countries ,the role of Ministry of Finance is not very significant and in many areas of financial planning and management ,they are not successful . In the next paragraphs , financial administration system of some of the developing countries would be taken here for discussion . Because during the research study ,the



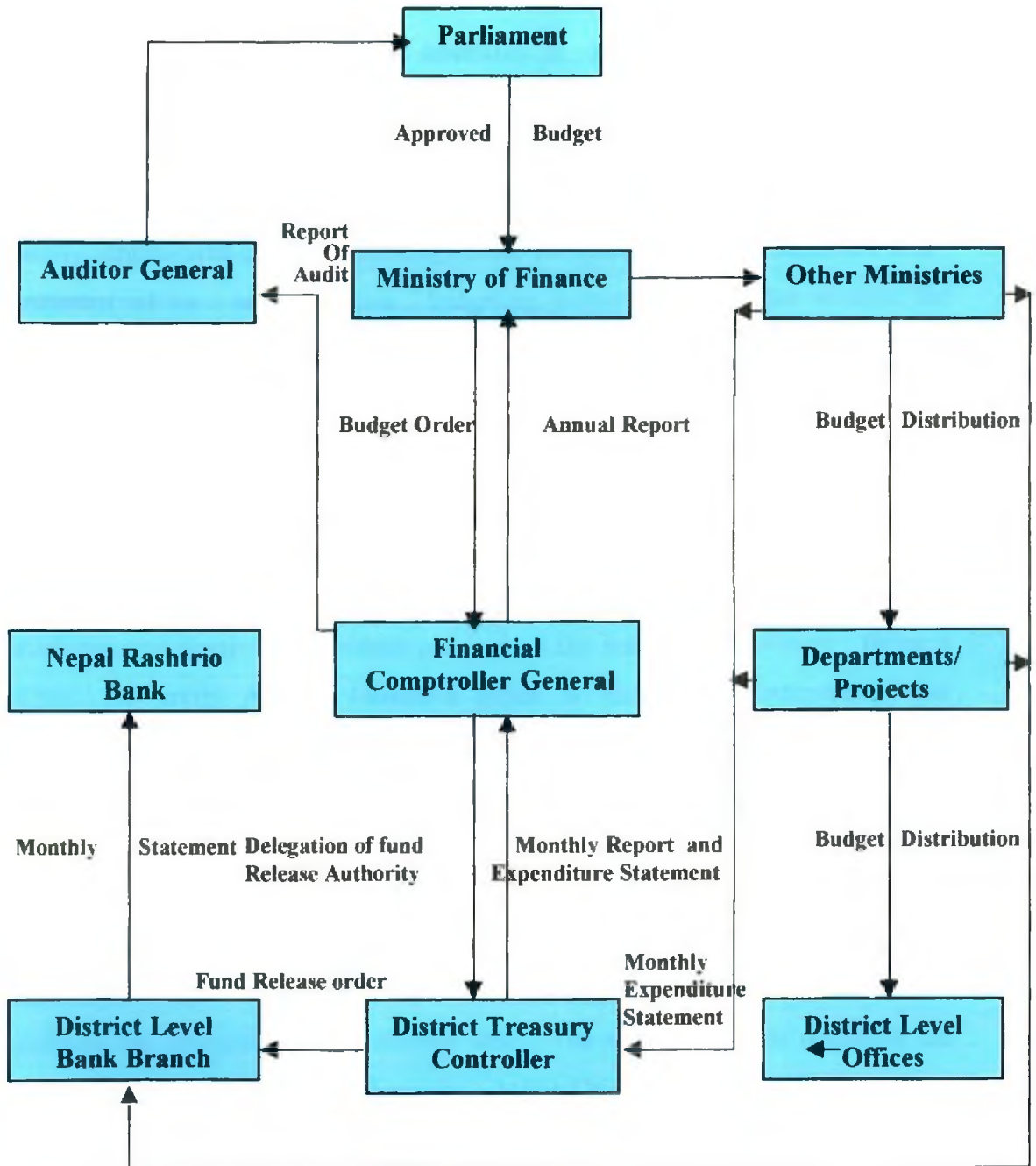
following developing countries such as Nepal, Pakistan and India were visited and studied.

### **FINANCIAL ADMINISTRATION IN NEPAL**

The Financial Administration of Nepal is not very efficient. The Ministry of Finance is the main organization to run the financial administration of the country. The structure of its financial administration is the part of national parliamentary framework (Figure-1). Nepal is different from the other countries in this sub-continent. It was not under the British rule like India and Pakistan and so the systems introduced by the British rulers in administration, budgeting and accounting process in British India and followed for quite a long time by India and Pakistan even after independence, are totally different from the systems prevailing in Nepal. Nepal has seventy administrative districts including capital of Kathmandu. Nepal has no civil service like India or Pakistan. In case of need the ministries or the departments recruit personnel including officers through the Public Service Commission of Nepal. Executive and Judiciary are totally separated and civil administration, law & order are looked after by police department under the Ministry of Home Affairs. The judicial matters are looked after by the judicial department under the Ministry of Law. There is no civil service like the Indian Administrative Service or Civil Service of Pakistan or Civil Service of Bangladesh to look after the civil administration. Audit and Accounts are fully separated and accounts is released by the District Treasury Controller under the Financial Comptroller General. Initial accounts are kept and maintained by Financial Comptroller General and the Ministry of Finance. Audit of accounts is done by the office of the Auditor General, which is a constitutional entity. All the financial activities are done by the Ministry of Finance. The Finance Ministry has no great scope to bring any revolutionary change in the field of financial administration. However, being a poor and developing country, Nepal has been trying to develop its financial conditions introducing new policies. But for lack of sufficient funds, the country cannot be successful totally in this regard.<sup>21</sup>



FIGURE – 1  
FINANCIAL ADMINISTRATION IN NEPAL



Source : Government of Nepal

## **FINANCIAL ADMINISTRATION IN PAKISTAN**

The Ministry of Finance of Pakistan is the Financial Administration of the country. But the parliamentary control over financial administration remains there. After independence in 1947, the country has been trying to develop its financial conditions through rapid implementation of economic and financial policies. The country has a lot of problems of which political instability is prominent. It has economic problems too. But surprisingly Pakistan has been able to make atomic bomb. This is no doubt a great success of its financial policies. Because without investing a huge amount of money, it was not possible for Pakistan to make such bomb. Pakistan is a federally administered country consisting of four provinces and one protectorate area. It inherited all its administrative, budgeting, accounting and other systems for running a government from the British rulers. Since independence Pakistan has been following the same system with some minor changes. Auditor General of Pakistan is the Head of the Audit and Accounts Department. Audit and Accounts are unified as a single service under the Auditor General. Audit function is carried out by different functional directorates while accounts function is done by Accountant General Pakistan Revenue or AGPR at the centre and Accountants General, Punjab, Sind, Baluchistan and North West Frontier province in the respective provinces. Being a constitutional entity Auditor General's office is functionally independent but administratively it is a department under the Ministry of Finance. Pakistan has got a federal government system. It has four provinces with four provincial governments and at the apex there is the central government. Constitutionally, the Parliament is the highest body in the financial aspects of Pakistan. The Ministry of Finance is responsible for the preparation of budget proposals of the government and to place them before the parliament for discussion and approval. The Ministry of Finance distributes the approved budget ministry wise. The ministries again distribute the budget division, department, office wise. At the Central Government Pakistan has retained Financial Adviser Scheme. All the bigger ministries have one Financial Adviser of Joint Secretary level and the smaller ministries have one Deputy Financial Adviser of Deputy Secretary level. They are posted to different ministries by the

Ministry of Finance and so long they work as Financial Advisers they belong to the Ministry of Finance . All the budget and expenditure proposals go through the FA/DFA of the respective Ministry .The Financial Administration of Pakistan is in the hand of Ministry of Finance headed by a full Minister who is supported by a group of expert civil servants. Figure -2 shows the structure of Financial Administration of Pakistan <sup>22</sup>

### **FINANCIAL ADMINISTRATION IN INDIA**

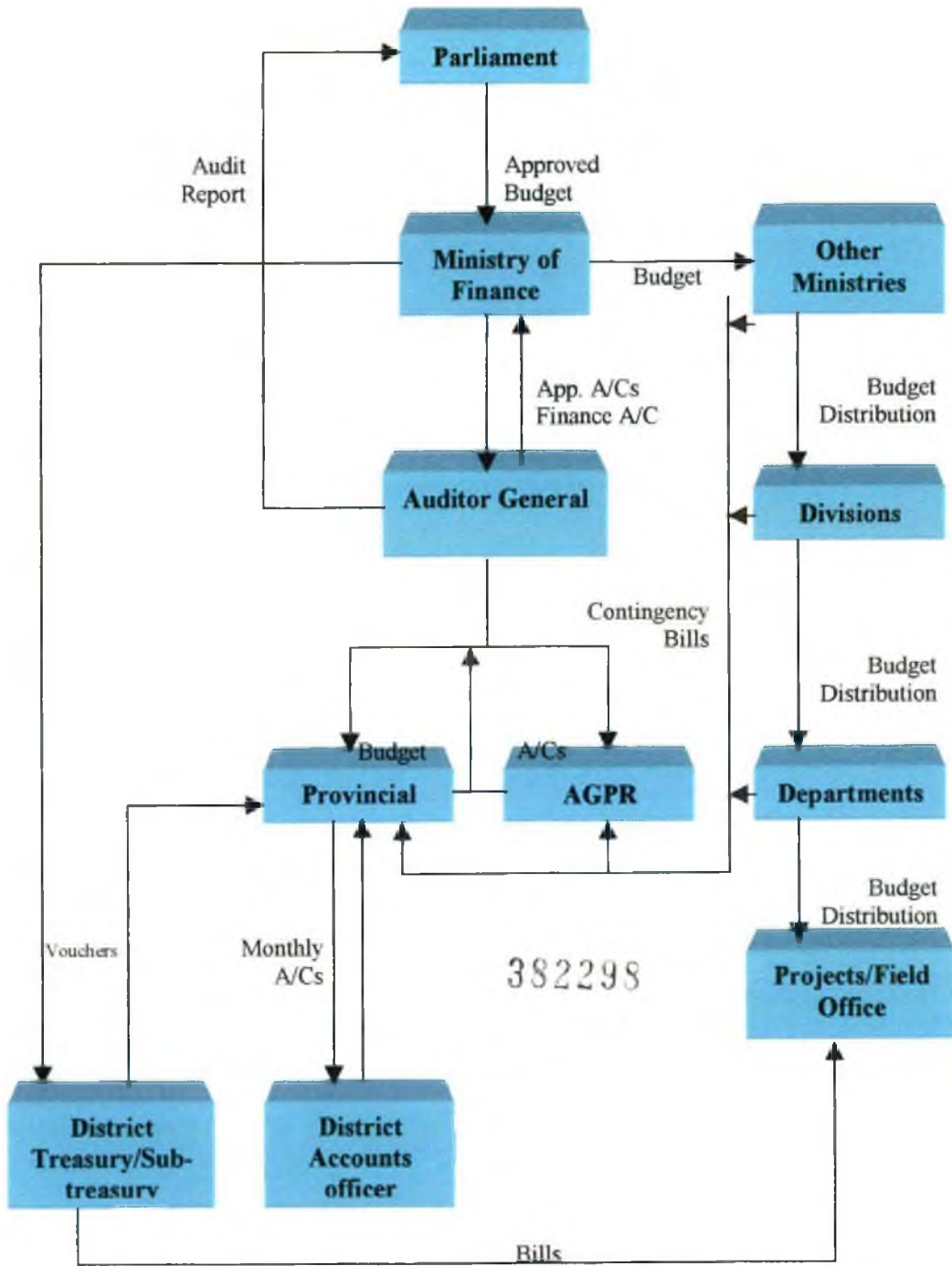
On the attainment of Independence in 1947 , the office of the Secretary of State for India was abolished . The Department of Finance was redesigned as the Ministry of Finance . It was organized into three wings ,such as Expenditure , Economic Affairs and Revenue . In 1949 it was organized in to two departments : (a) Revenue and Expenditure and (2) Economic Affairs. In 1955 it was reorganized into four departments such as

- (a)Department of Economic Affairs ;
- (b)Department of Revenue ;
- ©Department of Expenditure ;
- (d)Department of Company Law Administration .

In September , 1963 , a new Department of co- ordination was set up in the Finance Ministry . In November , 1964 , the Department of Company Affairs and Insurance was set up which took over the work relating to Company Law Administration . In January , 1966 the Department of Company Affairs and Insurance was abolished . In June , 1967 , the Department of Co- ordination was abolished . Now there remained only three Departments under the Ministry of Finance , viz the Department of Revenue and Insurance , Department of Expenditure and the Department of Economic Affairs . In August , 1969 , a Department of Banking was added in the Ministry of Finance . Thus the Ministry of Finance at present is organized into the following four departments.<sup>23</sup>

- (a)Department of Revenue and Insurance ;
- (b)Department of Expenditure ;

FIGURE -2  
FINANCIAL ADMINISTRATION OF PAKISTAN



Source : Ministry of Finance of Pakistan

ঢাকা বিশ্ববিদ্যালয়  
বেঙ্গালুর



©Department of Economic Affairs and

(d)Department of Banking .

### **FUNCTIONS OF THE FINANCE MINISTRY**

In India ,the role of the Ministry of Finance is very important .The Ministry of Finance is responsible for the following functions :

(a).The administration of the finances of the central Government and dealing with financial matters affecting the country as a whole .

(b).Raising the necessary revenues for carrying on the administration and regulating the taxation and borrowing policies of the government .

(c).The administration of problems relating to banking and currency , and in consultation with the Minister concerned arranging for the proper utilization of the country's foreign exchange resources .

(d).Controlling the entire expenditure of the Government in co- operation with the administrative Ministries and departments concerned .

The Ministry of Finance is under the charge of a Cabinet Minister .Sometime he is assisted by a Minister of State and a Deputy Minister . At present there is no State or Deputy Minister in that ministry.<sup>24</sup>The role of Ministry of Finance in India is very significant for various reasons .India has got atomic power investing huge amount of money . The financial policies of the Indian government are very practical oriented . Without national benefit they never spend a single penny .The Ministry of Finance is very conservative in spending government funds . However , for a large population , India has deficit budget . The financial administration of India is very effective and efficient in order to develop their financial condition . Although they have many other problems but for their effective financial administration ,India is emerging as an economic power in the South east Asia . Figure -3 shows the structure of Financial Administration of India .

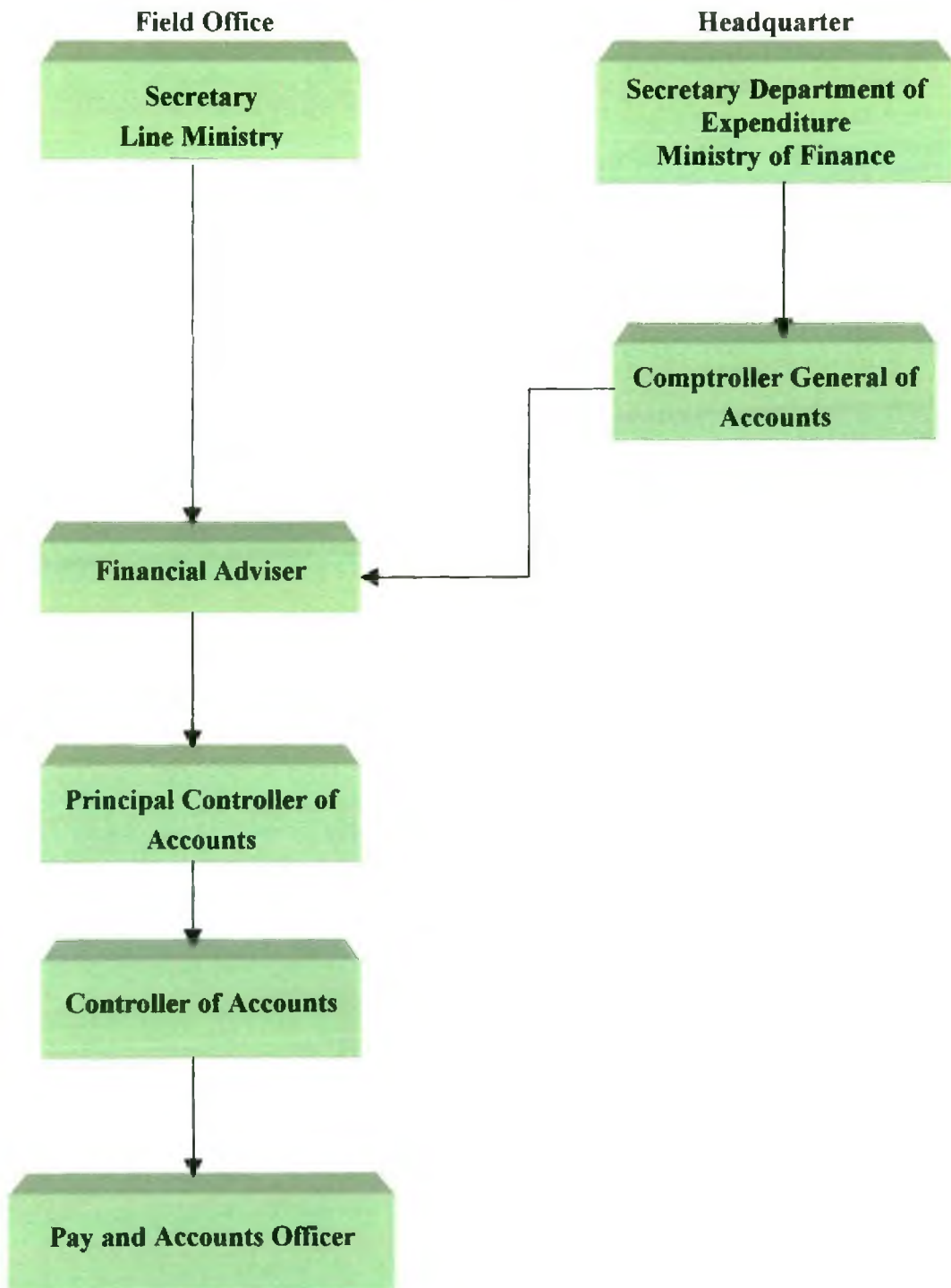
## **FINANCIAL ADMINISTRATION IN BANGLADESH**

From Public Administration point of view, the Ministry of Finance of any country is the Financial Administration. Because all financial aspects of a state is controlled, managed, administered by the ministry of finance. The role of financial administration in a modern state is very vital and also ever-changing. The responsibilities of financial administration are broadening and becoming more important to the States overall development. In the past these responsibilities were confined mainly to keeping accurate records of disbursement, preparing reports, maintaining central Banks cash position, preparation of budget, raising of funds and finding of sources of new funds. But in the recent years, the influence of the financial administration has expanded far beyond these limited functions. The financial administration has been playing pivotal role in sound administrative system. The fact remains that both are inseparable. The need of sound financial administration was fully well realized both during the ancient and medieval periods. Without money all policies and programs remains just on a piece of paper. If a government does not spend efficiently and economically it is bound to meet its doom and earn the displeasure of the tax payers and the citizens. It is likely to wreck any and every form of government. Need for sound financial administration has become imperative because government expenditure has very much increased and in many developing countries so much money is pouring that their economy cannot bear it. Moreover it is financial spending of the government which very much influences socio-economic system, industrialization and economic growth rate of the society. Day by day financial administration is becoming complex. It includes raising, spending and accounting of funds collected from the tax payers, the funds are needed by the executive, granted by legislature, spent by the Ministry of Finance and audited by the comptroller and auditor General. In the words of Hoover commission, financial administration involves the machinery and methods by which funds for the support of public services are raised, spent and accounted for.<sup>25</sup>

The financial administration is an integral part of public administration in Bangladesh. Finance is the fuel for the engine of civil administration. In our

FIGURE - 3

FINANCIAL ADMINISTRATION OF INDIA



Source : Government of India

country, it is often said that government is finance . Because money is the first requisite for the execution of any policy or plan of the government . The main function of financial administration is to make funds available for the governmental activities and to ensure the lawful and efficient use of the funds . But it has other functions also .The functions of the financial administration in any country are mainly

(a)Preparation of Budget, and getting the budget passed by the competent authority or the legislature.

(b) Implementation of the budget in all respect

(c) Treasury management such as safe custody of the funds collected and due arrangement for the necessary payment to meet the liabilities .

(d) Accounting and Audit of all government spending .<sup>26</sup>

But in modern government system ,it covers other financial aspects too.<sup>27</sup>

### **STRUCTURE OF FINANCIAL ADMINISTRATION IN BANGLADESH**

In Bangladesh , the structure of Financial Administration consists of six parts namely -

(1) Parliament .

(2) The Ministry of Finance .

(3) The Ministry of Planning.

(4) Audit and Accounts Department

(5) The National Board of Revenue

(6) Standing Committees of the Parliament.

The above mentioned organizations are directly connected to the financial matters including financial projects ,plans , programs and legal approval . These are discussed below .

#### **(1) THE NATIONAL PARLIAMENT**

National parliament performs the vital role as far as finance of the country is concerned. It would be discussed in the later chapter. For a brief understanding of the functions of the parliament in this connection are mentioned below : The two basic functions regarding finances are



(a) Appropriation of the public money through the annual budget for expenditure over Government activities .

(b) Authorization of taxes or charges in the rates of existing taxes and enforcing the financial accountability of the spending departments and agencies through controlling the accounts .

All these functions of the Parliament are , of course , performed under executive leadership . All demands for grants and all proposals for taxation come from the chief executive are approved by the parliament and the parliaments has no power to make increases in or additions to them . It may sometimes , makes reductions only. The Parliament ,however ,plays a pivotal role regarding financial aspects of the country.<sup>28</sup>

## (2) THE MINISTRY OF FINANCE

In Bangladesh , Ministry of Finance is the central department concerned with financial administration . The Ministry of Finance is responsible for -

(a) The preparation for the annual budget .

(b) Piloting it through the Parliament.

© Supervising its implementation by the various Ministries/ departments

(d).Collection of revenue

(e) Giving advice to administrative Ministries/ departments and for exercising financial control generally .

(f) Overall financial and economic responsibility of the country.<sup>29</sup>

As mentioned earlier , the Ministry of Finance is the highest executive authority in respect of sanction and control of expenditure. But there is a regular hierarchy of sanctioning and controlling authorities among the administrative officers of various ranks . The financial powers vested in each of them is graded according to the rank in the hierarchy . Because no expenditure can be legitimately incurred without the sanction of a competent authority as determined by the financial rules . regulation of financial powers , manuals and codes. Thus subject to the overall control of the Finance Ministry , the official head of the ministry or division and his principal

subordinates have financial duties and powers . The Secretary of the ministry or division is the Principal Accounting Officer of his ministry, division ,attached departments and subordinate offices in respect of expenditure incurred from the budget grants controlled by and receipts of his ministry or division . The Principal Accounting Officer of each ministry is responsible for ensuring that funds allocated to the ministry or division and its subordinate offices , are spent for the purpose for which they are allocated ,the funds are spent strictly in accordance with the financial rules and propriety and the actual expenditure does not exceed the sanctioned budget allocation made for the respective items or sub heads. No expenditure is incurred in anticipation of authorisation of an annual budget or supplementary grants without the prior concurrence of the Ministry of Finance .The Principal Accounting Officer is responsible for effective control and supervision over collection of stocks and inventories. He is to ensure that all payments and receipts are correctly classified under appropriate heads of accounts ,audit objections are promptly settled and all financial and accounting reports and returns are furnished correctly and in item. Heads of the departments or directorates under the ministries or divisions are declared by the government to be the controlling officers. As per provision of delegation of financial power, the controlling officers have the authority to incur the expenditure within the terms of the budget .They control expenditure relating to their departments.<sup>30</sup>

### **(3) THE MINISTRY OF PLANNING**

The Ministry of Planning is responsible for preparation of national plans, monitoring and evaluation of the implementation of development projects and also for matters relating to statistics . It prepares plans for annual and five years and perspective for the economic and social development of the country in accordance with the socio economic objectives of the Government of Bangladesh.<sup>31</sup>

### **(4) THE NATIONAL BOARD OF REVENUE**

The National Board of Revenue is the most important department under Ministry of Finance of Bangladesh . All activities of revenues collection are performed by the

Board of Revenue . However ,there are lot of questions regarding the performance of the National Board of Revenue of Bangladesh .

#### **(5) THE AUDIT AND ACCOUNTING DEPARTMENT**

In Bangladesh , audit and accounting functions are combined in the same organisation headed by the Comptroller and Auditor General . Its function is to exercise control over the drawing of the money from the public exchequer according to the budget and to maintain the accounts . It also points out to the parliament the cases of irregularities in the expenditure from the grants made by the parliament.<sup>32</sup>

#### **(6) STANDING COMMITTEES OF PARLIAMENT REGARDING FINANCIAL ASPECTS**

There exists a number of Standing Committees of the Parliament to assist it in its financial control namely-

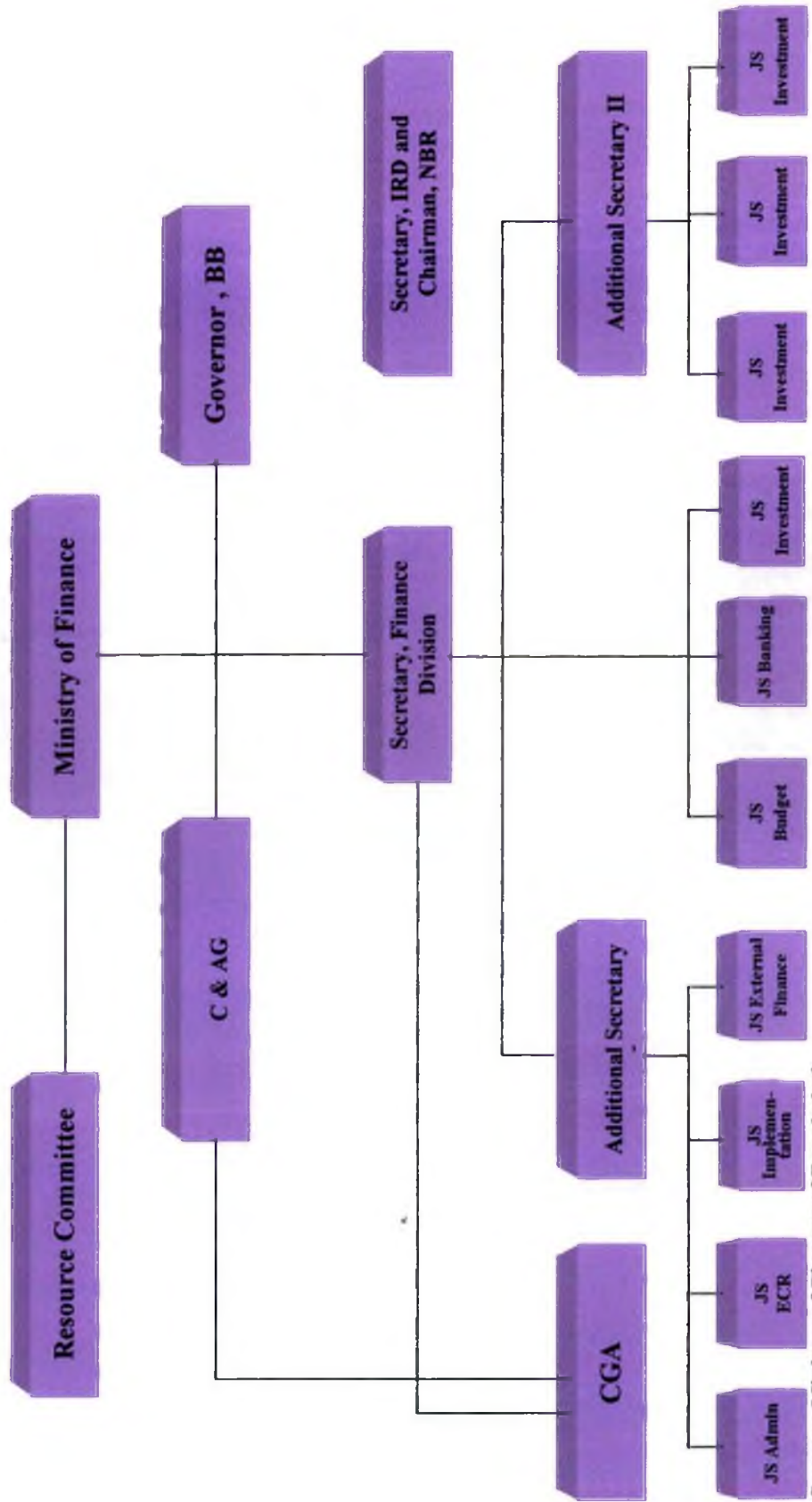
- (a) Public Accounts Committee
- (b) Estimates Committee
- (c) Public Undertakings Committee

The Public Accounts Committee examines the appropriation accounts in the light of the audit report of the Comptroller and Auditor General ,draws attention of the Parliament to irregularities and makes suggestions for preventing them in future while the Estimates Committee is intended to suggest economies in the estimates of the spending departments . Similarly the Public Undertakings Committee examines the financial matters of the various public undertakings pointing out the irregularity , if any.<sup>33</sup>

#### **ORGANISATIONS UNDER MINISTRY OF FINANCE**

The hard-core of all the functions of the Ministry of Finance is mobilisation and allocation of financial resources . All the divisions and agencies attached to the Ministry of Finance are , there fore , engaged in activities towards the discharge of this function. Figure -4 shows the Structure of the Ministry of Finance or Financial Administration of Bangladesh. At present the Ministry of Finance consists of the following three divisions:

FIGURE - 4  
FINANCIAL ADMINISTRATION OF BANGLADESH



Source : Ministry of Finance of Bangladesh



(a) Finance Division

(b) Economic Relations Division

© Internal Resources Division.<sup>34</sup>

The Ministry of Finance has, also, some attached departments or offices and financial institutions working under the respective divisions of the ministry. The office of the Comptroller and Auditor General has a statutory position. However, for some administrative matters relating to expenditure service rules etc. the office of the C& AG is attached with the Finance Division. The financial institutions namely Bangladesh Bank, the Nationalised Commercial Banks or the NCB, the Bangladesh Shilpa Bank, the Bangladesh Shilpa Rin Sangstaha, the Investment Corporation of Bangladesh, the Bangladesh Krishi Bank and the House Building Finance Corporation are directly under the administrative control of the Finance Division. Similarly the National Board of Revenue and the Directorate of National Savings are under the direct control of the Internal Resources Division for administrative purposes.<sup>35</sup>

#### **FUNCTIONS OF VARIOUS DIVISIONS**

The President, as the head of the State, has allocated the functions of the government relating to financial matters among the different divisions of the Ministry of Finance. The functions of each division has clearly been stated in schedule- 1 of the Rules of Business. Every division is placed under the administrative charge of a Secretary who acts as the official head of his division. Every division performs the functions allocated to it independently by maintaining co-ordination with other division. There is no common Secretary for the whole Ministry of Finance. However, the Secretary of the Finance Division is normally called as Finance Secretary of the country. The Minister of Finance acts as the co-ordinator among the various divisions and also as the executive head of the whole Ministry. But the role of Finance Minister in Bangladesh is not very dynamic. The Finance Ministers in the past in Bangladesh performed their duties by the guidelines and prescriptions given by the World Bank and ADB and other donor agencies.<sup>36</sup>

## **FUNCTIONS OF THE FINANCE DIVISION**

The Finance Division, being the central authority of financial administration, is responsible for formulation of fiscal and monetary policies economic surveys, audit and account of the GOB, budget and budgetary controls, scrutiny and approval of budget of autonomous bodies and corporations fixing of salaries and pay scales, leave rules, rules regarding pension and gratuity, government provident fund and expenditure control. The Finance Division also controls the major investment policy and sets up the credit conditions. The Division is also responsible for the preparation of foreign exchange regulations and exchange rate policy, currency and coinage, government borrowing and flow of market loans, examination of financial aspects of all the development schemes and administration of the public debt including foreign loans and aids. The Finance Division is also answerable for analysis of and research on financial policies. It is also the responsibility of the Finance Division to inspect and report to the government on the financial activities of government offices, autonomous bodies and corporations.

## **STRUCTURE OF FINANCE DIVISION**

At present, the Finance Division consists of twelve wings namely

- (a) The Budget wing.
- (b) The Expenditure Control and Regulation wing
- (c) The Development wing
- (d) The Banking wing
- (e) The Financial Adviser wing
- (f) The External Finance wing
- (g) The Investment wing
- (h) The Autonomous Bodies wing
- (i) The Inspection wing
- (j) The Economic Advisers wing
- (k) The Implementation wing and

(1) The Administration wing .

Each of the wings of the Finance Division is entrusted with specified functions. A brief description of the functions of the different wings are given below.

## **FUNCTIONS OF THE WINGS**

### **(a) The BUDGET WING**

The main function of the budget wing is the preparation of the national budget and the drafting of the budget speech . It's responsibilities also include supervision of the ways and means position of the government , co- ordination of the work of the budget , allocation of funds for unexpected expenditure , control of non- development loans grants and advances . It also issues orders sanctioning house building advances , motor car advances , motor cycle advances and commutation of pensions. The budget wing also deals with audit objections received from the audit offices regarding irregularities in the accounts of different ministries or divisions . Presentation of finance accounts and appropriation accounts received from the C & AG to the parliament for consideration is also the responsibility of the budget wing.

### **(b) THE EXPENDITURE CONTROL AND REGULATION WING**

The main function of the Expenditure Control and Regulation wing is to regulate and control the expenditure incurred or to be incurred by the Ministries or Divisions and all other offices subordinate to them . It also deals with cases relating to pay and allowances of government servants , their service conditions , pension , house rent , honorarium, rewards and matters relating to interpretations of rules and regulations . It examines the necessity of creating new posts or of temporary extension referred to it by any ministry or division .

### **(c) THE EXTERNAL FINANCE WING**

The External Finance wing prepares the foreign exchange budget of the government and reviews periodically the movement of total foreign exchange resources of the country. Its functions also include allocation , sanction and release of foreign exchange . It deals with matters relating to the formulation of exchange control

regulation , the export policy , the import policy and the Hajj policy of the government. Further, all proposals relating to trade and payment agreements are examined in this wing .

**(d) THE DEVELOPMENT WING**

The main function of the wing is the preparation of the Development Budget and related works program. The functions of this wing also include release of funds for development schemes and approval the development schemes . Again , it prepares miscellaneous analytical statements relating to release of development funds, re-imbursable projects and funds and also expenditures by various agencies .

**(e) THE AUTONOMOUS BODIES WING**

Autonomous Bodies wing of the Finance Division deals with the financial activities of the autonomous bodies . The major functions of this wing are scrutinising and compilation of the revenue budgets of the autonomous bodies , formulation of financial rules and regulations in regard to these organisations, streamlining their financial administration with a view to bringing uniformity , examination of their annual balance sheets, profit and loss account , revenue accounts and monthly statements of bank transactions , rescheduling of their loans and examination of cases concerning contribution to public exchequer .

**(f) THE IMPLEMENTATION WING**

The Implementation wing of the Finance Division was converted in to a Division in July ,1973 with a view to implement national unified grades and scales of pay . In May ,1982 the Division was again changed into a wing of the Finance Division . The main function of this wing is implementation of national unified grades and scales of pay and dealing with matters connected there with .



**(g) THE ECONOMIC ADVISERS WING**

The Economic Adviser wing of the Finance Division was created in 1972 with a view to keeping the government apprised of trends in the economy . This wing is responsible for analysis of and research on financial policies and collection of data relating there to . The wing publishes the Bangladesh Economic Review , resume of the activities of the financial institutions and the annual report of the Ministry of Finance .

**(h) THE ADMINISTRATION WING**

The Administration wing supervises and manages the overall administration of the Finance Division . With this end in view , this wing is to provide necessary support and assistance to all other wings through the supply of manpower by recruitment , promotion and transfer . This wing also deals with some administrative matters of the office of C & AG , an attached department of the Finance Division .

**(i) THE INVESTMENT WING**

The area of functions of the Investment wing are the following

- (a) Investment policy
- (b) Disinvestment policy
- © Industrial Credit policy
- (d) Agricultural Credit policy
- (e) Credit policy on Housing
- (f) Policy on Capital Market .
- (g) Capital Issues
- (h) Stock Exchange

(i) Development Banks and Specialised Financial Banks companies and their worker's profit and participation.<sup>37</sup> However ,the government has established National Investment Board with a view to attract foreign investment and to explore local investments too .

### **THE ECONOMIC RELATIONS DIVISION**

The ERD is headed by a full Secretary who reports to the Minister of Finance of Bangladesh. There are two Additional Secretaries whose functions are allocated to the area of organisational activities of Joint Secretaries or Section Chiefs. There are also five Joint Secretaries who are responsible for different wings of the ERD and report directly to the Secretary. The officers as economic ministers and economic councillors posted in some important foreign missions in abroad report to the ERD Secretary.<sup>38</sup>

### **THE ROLE OF THE ERD**

The main duties of the ERD are assessment, mobilisation and collection and allocation of external assistance. This calls for involvement in planning, budgeting, conduct of foreign relations and monitoring of development activities. The Planning Commission determines the investment levels and priority of projects and programs, ERD assesses the needs of foreign assistance on that basis and thus influences the Planning Commission where the IMED monitors implementation of the plans and does perform auditing for development programs. The ERD retains an interest in aid utilisation and thus gets involved in monitoring work. Budgeting is done by the Finance Division and the Planning Commission but like the IRD, the ERD gets involved as it mobilises external resources for the budget. The Ministry of Foreign Affairs conducts the foreign relations but the ERD is the bridge between donors and executive agencies. The ERD also has a special role in determination and execution of external economic policy and it also maintains the countries relations with international development agencies and development forum.<sup>39</sup>

### **FUNCTIONS OF THE ERD**

The Development Budget of Bangladesh to a very large extent is dependent upon external assistance. Therefore, the ERD has a very important function to perform in the field of countries development planning and project implementation. In the way of discharging of these responsibilities the ERD has to co-ordinate very closely with

the Planning Commission , Finance Division and Ministry of Foreign Affairs . The ERD is also required to have a special relations with the Ministry of Commerce ,Ministry of Food and Bangladesh Bank . The nature of its responsibilities impose certain specific burden . These are (a). The delivery of service has to be prompt.(b) The concern for co-ordination and connecting of views must govern its activities (c)Because of dealings with foreign agencies , a high level of efficiency and courtesy is expected .(d). An intellectual bias and international out look is expected of it .

The Economic Relations Division is a servicing agency of the government . It is concerned with the mobilisation of external resources . To perform its functions it is organised in to a number of wings , branches and sections. This Division of the Ministry of Finance operates as the channel through which foreign assistance such as project aid , commodity aid, food aid , technical assistance aid and various types of financial assistance are channelled in to Bangladesh for development purposes . Its main job includes assessment , mobilisation and allocation of external assistance to meet development requirements of various sector and agencies of the government . This calls for very close involvement in planning , budgeting , conduct foreign relations and monitoring of development activities . For smooth running of its activities the ERD has to co- operate very closely with the other government offices as already mentioned above. The functions of ERD as allocated in the Schedule- 1 of Rules of Business of the GOB are mentioned below :

- (a) Assessment of foreign exchange requirements on the basis of the five year plan
- (b) Annual development plan and negotiations for securing economic aid from foreign governments and organisations .
- (c) Assessment of requirements and negotiations for securing technical assistance for d.
- (d) Review of the utilisation of foreign aid and credit of aided projects .
- (e) Economic and operational matters pertaining to the Economic and Social Council of the United Nations ,World Bank , ADB, IDA and Islamic Development Bank .
- (g) Negotiation for and securing of external assistance and scrutiny of proposal for imports and allocation of foreign exchange resources from loans , credits , imports
- (h) Foreign Investment.

- (i) Service of foreign debts and maintenance or accounts there of .
- (j) Liaison with international organisations and matters relating to treaties and agreements with other countries and world bodies relating to subject allotted to this division .
- (k) All laws on subjects allotted to this division
- (l) Fees in respect of any of the subjects allotted to this division except fees taken in court.<sup>40</sup>

The ERD should be more dynamic and its initiative to collect foreign aid in various ways should be increased. The officer of the ERD should be more efficient ,well conversant in foreign languages .They should be smart and good-looking . But unfortunately , the officers with low calibre are getting posting in the ERD and the performance of the officers are not satisfactory. Most of the officers posted in the ERD ,are very much interested to manage training program in abroad and always look for foreign trip . They are less interested to bring financial benefit for the country. But in India ,in Srilankan , the officers of foreign relations department are more qualified and efficient .They are very efficient to motivate , exploit , and influence the donor agencies for the benefit of their own country. In Srilankan , having ethnic problems and political unrest ,the officers of the foreign relations departments are very active and dynamic in order to draw the attention of the donor countries for financial assistance .

### **THE INTERNAL RESOURCES DIVISION**

Previously the IRD was a wing of the Finance Division . It came in to existence as a separate Division in 1978 . This division of the Ministry of Finance is engaged in the function of mobilising domestic resources so as to provide funds for financing various development projects . Two operating agencies of this division are the National Board of Revenue and National Savings Directorate . The division is headed by a Secretary who is also the Chairman of the National Board of Revenue. In Bangladesh , the IRD could have played a very vital role regarding policy making of revenue collection and effective administration of that field . But unfortunately ,the role the IRD is not



very satisfactory. The Secretary of the IRD passes his most of the times with the NBR. So the IRD has become merely an idle division of the Ministry of Finance. In order to gear up the division a 'Revenue Division' may be introduced in stead of the IRD.

#### **THE NATIONAL BOARD OF REVENUE**

The National Board of Revenue (NBR) is placed under the Internal Resources Division or the IRD of the Ministry of Finance. The NBR is established under NBR order, 1972. It governs all the policy implementation matters with regard to Income Tax, Wealth Tax, Gain Tax, Corporate Tax, Custom and Excise duty Sale Tax and to keep liaison with international organisations etc. The NBR has the controlling authority for the different rules regarding these taxes as applicable to specific cases. The NBR is headed by a Chairman under whom there are nine members of the Board to assist him. The Secretary of IRD is the ex-officio Chairman of the NBR. Under the members there are posts of first secretaries, second secretaries and other staff. The revenue earning departments are classed under two main heads :

- (a) Direct taxes
- (b) Indirect taxes

There are a number of different departments placed under the NBR for the collection of taxes and duties as per the prevailing laws of the country.

#### **FUNCTION OF THE NBR**

Apart from what is said above, the NBR is also responsible for formulation and continuous re appraisal of tax policies and tax formulation, processing of legislation, preparation of the tax revenue budget, negotiation of tax agreements with foreign governments, agencies and institutions and participation in inter-ministerial deliberations on all economic policies bearing on taxation. The Board performs all functions and exercises all powers vested in the government by various tax laws and administers control over twenty two subordinated departments and directorates. The NBR is the main revenue collecting department of the country. About ninety eight of

the country's tax revenue is being administered by the NBR. Only two of the total tax revenue for example, land revenue and motor vehicle tax falls outside the purview of the activities of the Board. The major heads under which the bulk of revenues collected are: Customs and Excise, Income tax, including Corporate tax and Sales tax. In the matters where the provisions of the Customs, Tariff rules and other standing orders are not clear, the Custom authorities send the relevant cases to the NBR for their judgement. Similarly, the public implementing agencies, who are not satisfied with the decision of the Custom authorities, send their cases for reconsideration to the NBR and such letters to the NBR have to be written by not less than the rank of Chairman of Corporation. Following are some examples of the discretionary power of the NBR:

(a) Power to allow a bonded warehouse facility to an industry. This facility is available for raw materials for certain enterprises particularly those with export component e.g. the garment industries. The Board can exempt a case from duty totally or partially under special circumstances. Most of such matters are, however, decided by the government.

(b) Power to deliver certain goods without payment of duty in specific cases, especially matters requiring classification with regards to policies and tariffs.

Although the NBR does not encourage too many approaches made to them, but normally the officers are rather objective and approachable to listen to individual cases and thus provide for the projects a very important relief valve for the otherwise highly complex custom clearance process.<sup>41</sup> However, the NBR is not very effective and efficient organisation as far as revenue collections are concerned. The collection of revenue rate is not higher as per expectation in most of the years. However, in practice, there are many examples of mal practices of such powers which ultimately hamper the national interest.

#### **THE NATIONAL SAVINGS DIRECTORATE**

The National Savings Directorate or the NSD is the second important department for mobilisation of the domestic resources. It is entrusted with the task of mobilising

savings vitally needed for the country's development program through various national saving schemes . National Savings Schemes now in operation in the country are as follows :

- (a)Pratirakha Sanchaya Patra
- (b)Bonus Sanchaya Patra
- © Five Years Bangladesh Sanchaya Patra
- (d)Prize Bonds
- (e) Postal Life Insurance
- (f) Postal Office Savings Bank
- (g)Savings Stamps
- (h)Five Years Wage Earners Development Bond .

To increase the activities of this department, the government have established seven National Savings Bureau in the important industrial and commercial towns of the country . The NSD is responsible for sale and encasement of various national savings instruments under direct supervision and management of the NSD . But the overall performance of the NSD are not very satisfactory .Because the rate of national savings is not high and official activities of the NSD is not well known to the people .Only the people sometimes observe small advertisement through Television and thus the people could come to know about the existence of such organisation. For Bangladesh savings could play very vital role for restructuring national economy . The NSD have lot of scopes in this field to gear up the savings attitudes of the people .<sup>42</sup>

#### **THE NATIONAL ECONOMIC COUNCIL**

The National Economic Council or the NEC of Bangladesh is the highest political forum and authority for taking major decisions to economic development activities . It formulates the national policy and objectives for long term plans. The Planning Commission is entrusted with the task of preparing national plans and programs according to the directives of the ECNEC , the executive agency of the NEC . The ministries are responsible to adopt their plans and programs according to the

objectives set up by the NEC. The ECNEC is the critical decision making body in the Government of Bangladesh for clearing schemes and reviewing development issues. It is the main executive agency to observe the implementation of the policies decided by the NEC. It is the highest level examiner in the nation, which comes into contact with the approval of an individual project and is the ultimate approving authority. It also reviews the projects as reported by Implementation, Monitoring and Evaluation Division of the GOB.

### **COMPOSITION OF THE NEC**

The NEC consists of all members of the Council of Ministers and is chaired by the Prime Minister, the Head of the Government. The Governor of Bangladesh Bank is specially invited to its meetings. Members of the Planning Commission and Secretaries in charge of all ministries, divisions are expected to attend the meeting. The NEC may meet in committee as and when required. The attendance requirement depends upon subjects under consideration. The Planning Division acts as the co-ordinator and organiser of the meetings of the NEC.

Apart from the above, the following officials are required to attend the ECNEC meeting:

Cabinet Secretary.

Member ( Programming ), Planning Commission.

Member ( General Economic Division ) Planning Commission

Member, concerned Division, Planning Commission

Governor, Bangladesh Bank

Secretary, Economic Relations Division

Secretary, Finance Division

Secretary, Planning Division

Secretary, IMED Division

Secretary of the concerned Ministry.

The Secretariat services to the council is provided by the Planning Ministry. The Planning Commission co-ordinates the proposals to be placed before the ECNEC



meeting . But it has been observed that in most of the cases ,the proposals are placed by the pressure of the vested interested groups.<sup>43</sup>

### **FUNCTIONS OF THE NEC**

The NEC performs the following functions :

(a)To provide overall guidance at the stage of the formulation of Five Year Plans , Annual Development Programs and related economic policies .

(b)To finalise and approve plans programs and policies

(c)To review progress of implementation of development programme.

(d)To take such other decisions and actions as may be considered necessary for socio - economic development .

(e) To appoint such committees as deemed fit to assist the NEC in the due discharge of its responsibilities .

(f)To consider and approve development projects costing above Taka five crore .

(g)To consider and approve investment projects in the private sector costing above Taka fifteen crore

(h)To consider proposals for investment companies as private or joint ventures or with foreign participation

(i) To monitor the economic situation and review overall performance of the economy and related policy issues

(j)To consider performance of statutory corporations and specially their financial results.

(k)To consider rates , fees and prices of public utility services or products of public enterprises .

The ECNEC is a high level political policy forum for the existing government . It has been observed in the past that the role of the ECNEC was biased and motivated by the political decision maker rather than the economist of the country .In order to select the proposals ,no priority is given to the actual needs .It is rather selected on the basis of the desires of the donor agencies or the local business elite and interested policy makers .

### **THE THANA FINANCE DEPARTMENT**

In every Thana Administration of Bangladesh, there is a finance or treasury department. This department actually occupies a central position in the departmental structure in the local administration for mainly two reasons (a) It is in a unique position to counteract the forces of departmentalism. (b) It can be organised in such a way as to avoid the obsession with detail which is such a characteristic of committee level operations. In the Finance department of local Administration at least one officer is posted who is totally responsible for financial matters in the local level of administration. This is a common characteristic of local administration in developing countries throughout the world. In Bangladesh an officer of Bangladesh Civil Service (administration) was posted in the local administration for this purpose. The officer worked under the supervision of another senior officer of the government in the local authority who is also the head of local government.

### **GENERAL FUNCTIONS AND DUTIES OF THANA FINANCE OFFICER**

The local government Finance Officer who is known as Assistant Commissioner (Finance), responsible for overall financial management of local Thana administration. He is the representative of the central government in financial aspects. The duties of the Assistant Commissioner (Finance) or Thana Planning and Finance Officer of Bangladesh are discussed below:

- (1). (a) The Thana Finance Officer is responsible to help the elected Chairman of Thana Parishad in administering the Thana Parishad funds under the supervision of the Thana Nirbahi Officer or the TNO and to act as Financial Advisor to the elected Chairman of the Parishad.
- (b) He will help the Chairman and the Thana Parishad in preparing Annual budget of the TNO office.
- (c) To arrange for disbursement of funds on account of expenditure on local development projects after the Thana Parishad Budget is approved. This will need.

(2) To advise the Chairman of the Thana Parishad on authorisation of development and non development expenditures from the Thana Fund.

(3) To assist the Thana Parishad in obtaining releases from the government of development funds directly earmarked for development projects in the Thana .

(4) To assist the Thana Parishad in preparation of Thana Development Plans.

(5) To maintain progress and expenditure reports of development projects in the Thana

(6) To arrange for periodic reviews of development projects in the Thana by the Chairman , Thana Parishad or the TNO.

(7) To periodically carry out socio economic survey of the Thana in co-operation with officials of other departments .

(8) To help the Thana Parishad in formulation , appraisal, implementation , monitoring and evaluation of development projects in co-operation with officials of other departments .

(9) To carry out all administrative functions of the Thana Planning and Finance Office

(10) To assist in auditing the accounts of the Thana Parishad Fund by the appropriate audit department .

(11) To assist the TNO in his co-ordinating role as the development manager in the Thana.

(12) To assist the TNO in organising training programs for the employees engaged in development activities at the Thana level .

The working environment in local administration in Bangladesh is not very comfortable . The Thana Finance Officer faces many difficulties in order to administer his office. The local leaders are not co-operative and some time the central government also non-co-operative to this junior officer . Problems with the local elected leaders for the officers in local level is a common matter . When the local leaders find the Finance Officer very strict in financial rules and regulations of the government , they do not like him and try to transfer him from that locality. The government most of the times does hear this junior officer and for satisfaction of the political pressure groups , the government transfers the officer.<sup>43</sup> However ,

after abolishing the Upzilla system of local administration at the local level of Bangladesh, the government suspended the post of Thana Finance Officer. Now the Thana Accounts officer has been given the duties and powers of the local financial aspects of the government.<sup>44</sup> But undue interference of the local leaders are not derived. Again it is heard that the present government is going to revive the Upzilla System. So the post of Assistant Commissioner(Finance) may be reintroduced. But the government should take care of the problems of local administration finances for the sake of public funds.

### **PARLIAMENTARY COMMITTEE ON MINISTRY OF FINANCE**

In Bangladesh Parliament, there is a Standing Committee regarding functions of the Ministry of Finance. The Committee is authorised to review the activities of the Ministry of Finance in order to ensure transparency and accountability. The Standing Committee on Ministry of Finance of the seventh parliament has been formed after two years consisting fifteen members both from position and opposition party in the Parliament. The Committee had seventh meetings in total after formation. But unfortunately the Finance Minister did not attend to any of the meetings without any reason. The view of Finance Minister towards the Standing Committee is not very clear. It is assumed that the Finance Minister wants to avoid the meetings of the Committee. But in order to proof his integrity and ensure accountability and transparency, his presence is highly desired.<sup>46</sup>

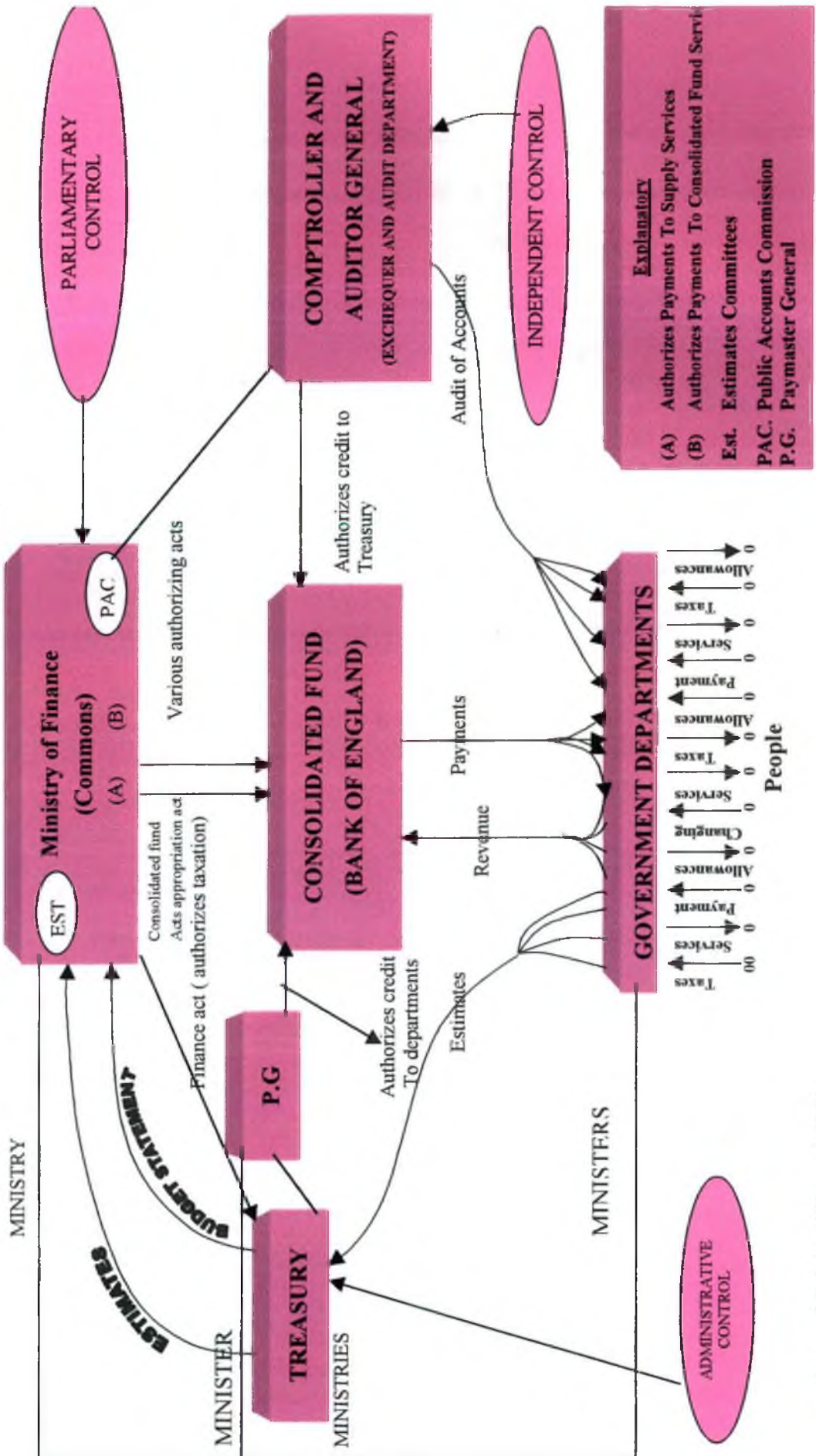
### **FINANCIAL CONTROL PROCESS OF THE GOVERNMENT**

All financial activities of the government revolve round the budget which is presented to the parliament. Figure-5 shows a general flow and control of public funds of the UK. Both Revenue and Development Budgets, though different in approach, call for efficient financial management in order that the funds provided in the national budget are properly and efficiently utilised. The financial control process has four main goals:

(a) Setting of Standard and Desired goals



**FIGURE - 5**  
**FLOW AND CONTROL OF PUBLIC FUNDS IN UK.**



Source : Ministry of Finance of UK

- (b) Comparing actual performance with the Desired goals .
- (c )Evaluating the results through measurement , analysis and reporting system and
- (d)Taking corrective measures and planning future course of action.

### **CONSTITUTIONAL CONTROL**

The elements mentioned above for effective financial control system are regulated directly or indirectly by all the three organs of the government such as the Executive , the Legislature and the Judiciary . But the basic source of financial control originates in the constitution of the Republic of Bangladesh . The Article 80 (3) allows the President to return any Bill passed by the Parliament with a request that the Money Bill or any particular provision thereof be reconsidered .However , the final disposal of the Money Bill rests with the Parliament . The Article 81 (1) elaborates the provisions of Money Bill which relates to the imposition, regulation , alteration , remission or repeal of any tax , the custody of the Consolidated Fund , the receipt of money on account of the Consolidated Fund or the Public Accounts of the Republic etc. The Article 82 provides that no Money Bill , nor any Bill involving expenditure from public money shall be introduced into the Parliament except on the recommendation of the President. The Article 83 provides that no taxation could be determined except by or under Act of Parliament .The Article 84 determines the form and manner with which the Consolidated Fund and the Public Account of the Republic are to be regulated .The Article 86 provides for the process of regulated payment into and withdrawal of public money from both the Consolidated Fund and the Public Accounts . The Article 87(1) and (2) provide for placement of 'Annual Financial Statement' before the Parliament which shows the sums required to meet expenditure charged by or under the constitution upon the Consolidated Fund and the sums required to meet other expenditures proposed to be made from the Consolidated Fund where the Article 89 spells out the procedures relating to 'Annual Financial Statement' .The Article 88 specifies the expenditure charged upon the Consolidated Fund whereas the Article 86 speaks of money payable to Public Account of the Republic .The Article 90 provides for Appropriation Act , the Consolidated funds of

all moneys required to meet grants made by Parliament and expenditure charged on the Consolidated funds etc.<sup>47</sup>

### **PARLIAMENTARY CONTROL**

The Article 91 provides for supplementary and excess grants whereas the Article 92 provides for Votes on Account , Votes on Credit etc by making room for a part of any financial year pending the voting of such grant in accordance with the provision of Article 90 , any grant for meeting unexpected demand upon the resources of the Republic and grant for exceptional situation etc .The Parliament acts upon the above financial instruments of the Constitution , so that the basic financial power of the state ment could originate from these provisions . The main principle behind the legislative control of public expenditure is that there must be legislative authorization behind all public expenditure . The Parliament also exercises financial control through examination of the Annual Finance Accounts .The Appropriations Accounts and Audit Reports as prepared by the Comptroller and Auditor General are submitted to the President who causes them to be placed before the parliament . The Public Accounts Committee ,the Public Undertakings Committee of the Parliament , consisting of members of both the ruling as well as opposition political parties within the Parliament examine and scrutinize these documents for final settlement by the Parliament . The Legislature also decides upon the level of public receipts in the form of government revenues and the price of the products and services of the enterprises keeping in view the social welfare goals of the government .The financial laws passed by the parliament by virtue of the Articles 80 to 92 of the Constitution , are put into force by the Executive Branch of the country such as the Cabinet headed by the Prime Minister with the help of the administrative machinery .The Ministry of Finance is mainly responsible for preparing the proposed financial policies including the national budget to be placed before the Parliament for ultimate enactment . Four Divisions in the Finance Ministry are engaged in these tasks with well laid jurisdictions .The Finance Division is responsible for formulation and review of fiscal and monetary policies , regulation of budget and means, appropriations and re-



appropriations, analysis of and research of financial policies , expenditure control , publications of documents like Economic Survey etc , offering advisory services relating to Export , Import policies administering affairs relating to Accounts and Audit , regulating the activities of Autonomous , Semi-autonomous and Nationalised bodies through the System for Autonomous Bodies Reporting and Evaluation or the SABRE , formulating Pay Scales and other Service rules relating to Leave , Pension , TA and DA , GPF, Group Insurance , Codal rules relating to Accounts and Audit , Money supply , Currency , Coinage .Legal Tender , creation of new posts, remuneration of Comptroller and Auditor General etc. The Internal Resources Division is engaged in raising necessary domestic revenues through the National Board of Revenue , handling matters relating to Taxes , Customs and Excise duties , Fees , Lotteries, National Savings, Stamp duties , liaison with other countries and international organisations relating to treaties and other subjects within its jurisdictions etc. The Economic Relations Division is responsible for assessment of foreign exchange requirements on the basis of economic plan and annual development plan , regulations for securing economic aid from foreign government and organisations, scrutiny of proposals for allocation of foreign exchange resources for example loans, credit , grants etc. assessment of requirements and negotiations for securing technical assistance for Bangladesh from foreign governments and international organisations, review of the utilisation of foreign aid and credit of aided projects, servicing of foreign debts and maintenance of accounts thereof , disposal of property of foreign nationals and foreign organisations , foreign exchange budgeting other than cash . The Banking wing deals with the matters of the administration and interpretation of the Bangladesh Bank (nationalisation) Order of 1972 , the Bangladesh Bank Order , the Specialised Banks and other matters relating to Banks and Government owned financial institution's regulation of share market , capital issue . credit rate policy , interest rate policy, review of investment policies and programs, public debt including loans and aids, institutional finance for development of industry , trade, agriculture , housing etc. <sup>48</sup>



All the matters mentioned above are the subjects of the parliament control through the ministry concerned. The financial aspects of the government are the most discussed issues in the parliament and the parliament extends its long hand to control the public money up to its level best.

#### **MINISTERIAL CONTROL.**

The Finance Ministry thus through budgetary and expenditure control and other financial evaluations is responsible for the overall financial administration and management of the country. On the basis of the laws enacted by the other ministries the Finance Ministry have to ensure good financial management through proper adherence to budgetary allocations and observance of stringent financial discipline. The Secretary as Principal Accounting Officer or the PAO of respective Ministry or Divisions is responsible for expenditure control pre-verification of claims against budgetary provisions, payment against passed bill of claims and compilation of appropriation accounts. Thus, the Principal Accounting Officer is accountable for all expenditures incurred within respective Ministry or Division. He is assisted by the Chief Accounts officer or CAO as far as pre-verification of claims of payment, and compilation of classified monthly accounts are concerned though the CAO is under the administrative control of the C & AG through the Controller General of Accounts or CGA as far as his placement, transfer, promotion and disciplinary matters are concerned. The PAO is in a position to monitor expenditure control of all big subordinate departments through the monthly classified accounts that he prepares with the help of the CAO. The PAO is also able to assess the status of development projects under his ministry/ division in the same process. He has to account for the spending out budget of his ministry or division and make report of the objectives, time frame and economy of the budget to the Finance Ministry at regular interval and to the Public Accounts Committee. He is also answerable to such other committees of the parliament as and when asked for on the basis of Finance Accounts, Appropriation Accounts and the Audit Reports placed to the President by the C&AG.

The executive authorities of the ministries regulate financial discipline in the realm of administration through various rules , regulations , codes and manuals.<sup>49</sup>

### **ACCOUNTING CONTROL**

In a broader spectrum , the financial control process of the government is subject to other two kinds of important controls , namely the accounting control and the auditing control .The Articles 127-132 provide for the office of the Comptroller and Auditor General of Bangladesh appointed by the President assigning him the responsibilities to keep public accounts of the Republic in such form and manner as prescribed by him with the approval of the President and audit the public accounts of the country and all authorities and offices of the government with access of himself or any person authorized by him to all records , books vouchers , documents , cash, stamps, securities, stores or other government property in the possession of any person in the service of the country . The Comptroller and Auditor General ( Ad Functions ) Act , 1974 and the Comptroller and Auditor General (Additional Functions Amendments) Act 1975 enable the C & AG to keep the accounts of government commercial undertakings, statutory public authorities , public enterprises having fifty government share and prepare the appropriation accounts . The Comptroller and Auditor General (Additional Functions Amendments) Ordinance,1983 allows the government to keep the public accounts of the country by other persons responsible for keeping public accounts facilitating the introduction of Departmentalised Accounting System in 1985. Under the new arrangement the former offices of Accountant General (civil), Accountant General (PW), Accountant General ( PT&T) and Ad, Accountant General ( Foreign Affairs ) were reconstituted in to twenty Departmental Accounts Offices called the Chief Accounts Offices and three Audit Directorates called Directorate of Audit ( Civil), Directorate of Audit ( Works ) and Directorate of Audit (PT&T ) subsequently renamed as Directorate General in 1995 . A central accounts office of the Controller General of Accounts or the CGA holding equivalent scale of an Additional Secretary was set up for preparation and consolidation of the Finance Accounts and the Appropriation Accounts of the Republic and for submission of the

same to the government through the C & AG . The Thana Accounts Offices and District Accounts Offices forward the classified monthly accounts of both Consolidated Fund and Public Account to Regional Accounts offices who consolidate the same and transmit the accounts pertaining to the Consolidated Funds to the CAG and the accounts belonging to the Public Accounts to the CGA. . The CAO submit the classified accounts major head wise on the basis of the accounts received from the Regional Accounts Offices or the RAO and the accounting units in Dhaka city to the CGA after necessary consolidation . The CGA consolidates the same along with the debit- credit memo , the bank closing statement and small coins account received from Bangladesh Bank , exchange account between the CGA & CGDF and settlement account between the CGA and the Railway . Thus the civil accounts is prepared . The monthly civil accounts flow from the grass root to the CGA and the C & AG and the Ministry of Finance .The Military Accounts system was re-organised by reconstituting the office of the former Military Accountant General or the MAG in to the office of the Controller General , Defence Finance or the CGDF with equivalent scale of an Ad. Secretary and Director , Audit (Defence Service ) , now known as Directorate General , with the introduction of the revised system of financial management for the Defence Forces in 1982 . The CGDF heads the central accounts office of the defence services . The Senior Controller ( Army ), the Senior Finance Controller ( Navy) ,the Senior Finance Controller ( Air), the Senior Finance Controller ( Defence purchase ) , the Senior Finance Controller ( Defence works ) , the Finance Controller (log area), the Finance Controller ( miscellaneous ) , the Finance Controller(Pay-1) the Finance Controller(Pay -2) and other and other subordinate Pay offices and Area Finance Controller offices send monthly classified accounts directly to the CGDF with copies to the respective controlling offices . However ,the Finance Controller (miscellaneous) sends the same only to the CGDF and does not have to send copy of the monthly accounts to any other office since it is directly under the control of the CGDF . After consolidation of the accounts , the CGDF forwards the monthly classified accounts of the defence services to the CGD and information copies to the Ministry of Finance , Defence, three Defence Services head offices and the Arms Forces Division .After



the abolition of the Railway Division , the Bangladesh Railway Authority was constituted recently . But the accounting system so long practised in the Railways with the CGA responsible for compiling the Railway Accounts has been retained. The Ad. Director General ( Finance ) of Bangladesh Railway Authority holding the equivalent scale of an Ad. Secretary , heads the Railway accounting responsibility and reports to the C & AG through the CGA as far as the Railway Accounts are concerned. The Ad.DG( Finance ) collects monthly classified accounts of the Railways from the Financial Adviser and Chief Accounts Officer (west), the DFA of Paksey , the DFA , Chittagong (workshop division) ,the Central Locomotive Factory of Parbatipur ,Central Workshop ( Pahartali ) etc and centrally compile the same along with his own accounts . The monthly Railway Accounts are submitted by Ad. D.G ( Finance ) to the CGA with information copies to the Ministry of Finance and Ministry of Communication. The FA & CAO( project) since included in the development budget, send its monthly classified accounts directly to the CGA .The CGA is responsible for preparing the Finance and Appropriation Accounts of Civil and PT & T , the CGDF of Defence and Additional D.G( Finance ),Railway . The CGA finally prepares the Finance Accounts on the basis of his own accounts and the accounts he receives from the CGDF and the Additional D.G(Finance)Railway. Though the government's departmentalisation of accounts system has been introduced but practically the CAO has been working under the respective Secretaries or the Principal Accounting Officers . The Thana Accounts offices , the District Accounts offices and the Regional Accounts offices are operating both functionally and administratively under the C & AG through the CGA.<sup>50</sup> So the principle of separation of accounts is not functioning in practice .

#### **AUDIT CONTROL**

The pre- audit functions of these outlying offices are controlled by the C & AG .The auditing control forms another very important aspect in the financial control process of the government . As stated earlier the Article 128(1) empowers the C & AG to audit all authorities and officers of the government and to have access to all records ,



books , vouchers, documents, cash, stamps , securities , stores or other government property . Audit reports so prepared by the C & AG have to be submitted to the President for onward placement in the parliament . The Public Accounts Committee and Public Undertaking Committee decide on the audit objections on the basis of the audit reports by allowing hearing to the Principal Accounting Officers or Secretaries and place their report to the e House of the Parliament for final settlement.<sup>51</sup>The C & AG carries out post audit on test check basis of the accounts of the country through various Directorate General of Audit as mentioned below :

(a) DG(Commercial Audit) audits all Autonomous and Semi-autonomous statutory bodies , Government Commercial Undertakings , Public enterprises having minimum fifty percent government share, nationalised banks and nationalised financial institutions etc.

(b) DG( Local and Revenue Audit) carries out audit of all local bodies , the secretariat and civil administration departments ,universities , port authorities and revenue earning departments including the National Board of Revenue etc.

(c ) DG (Works Audit) is responsible for auditing all departments of Public Works , Roads and Highways , Bangladesh Water Development Board , Power Development Board , DESA etc.

(d) DG(PT&T Audit) carries out audit of all the Postal and Tele- communication Departments including the T & T Board .

(e) DG( Railway Audit) is responsible for auditing the Railway Authority including its subordinate offices and its accounting aspects .

(f) DG(Foreign Aided Project Audit) audits all projects with foreign aid and the GOB contributions . But the executing agency or office belonging to revenue budget is audited by D.G.( Local and Revenue Audit) .

(g) DG( Defence Services Audit ) carries out audit of defence service establishments the CGDF and its subordinate departments and offices .

(h) DG( Civil Audit) is responsible for auditing the CGA and all the Thana , District or Regional and Chief Accounts Offices .

(i) DG( Mission Audit) audits all Bangladesh Embassies , High Commissions and overseas offices of Biman , Bangladesh Shipping Corporation , Sonali Bank and other government organisations in abroad .<sup>52</sup>

#### **SUPREME AUDIT CONTROL**

Statutory Audit or Supreme Audit that the C & AG carries out covers pre -audit , post audit concurrent audit and special audit . It has been already mentioned that in view of the Departmentalisation of Accounts Order , 1985 the Secretary or the Principal Accounting officer get the pre-verification of Bills done through the CAO in the Presidency such as Dhaka City whereas other accounts offices outside Dhaka city, all pre- audit Bills of claims under the control of the C & AG via the CGA . The C & AG carries out post audit of the accounts of the Republic through the DG of Audit as mentioned earlier .The C & AG also places concurrent audit parties on request to government departments and other statutory organisations against audit fees payable to the government . There are concurrent audit parties in most of the universities and some other organisations . The C & AG also carries out special audit on request of the ministers or departments and other Government organisations or on his own . The Finance Accounts and the Appropriation Accounts are the products of pre-audit or pre- verification of all payments and the audit reports are the products of post audit or special audit of the above mentioned accounts of the Republic.<sup>53</sup>

The auditing methods followed by the audit department are still traditional in the sense that the main emphasis of audit continues to be on regularity and propriety of financial transactions rather than on their efficiency , economy and effectiveness . Through the parliamentary financial control system , attempts have been made to gradually institutionalise performance or 'Value for Money' audit so that it can become an effective tool to establish accountability at all levels of the government . This would however call for far reaching reforms in the audit department and adequate co- operation from the auditors and offices to be audited .

### **AUDIT CONTROL IN AUTONOMOUS BODY**

A considerable portion of public money is spent for the Autonomous or Semi-autonomous and other public enterprises as well as the nationalised institutions some of which are surviving on regular government subsidies . Their efficient management forms an integral part of financial management process of the government . A strong in built internal control system side by side with efficient government control mechanism could ensure together towards appropriate spending of public funds by these organisations .Internal audit for bigger organisations is an important tool used by the management to detect problems , obtain recommendations for proper rectification and enhance the delivery system . Some of these government owned commercial organisations are also subject to external audit however , are both subject to supreme audit for example the C & AG audit covers during the normal audit program of the C & AG. The development projects are also subject to the same process of audit by the Comptroller and Auditor General.<sup>54</sup>

### **JUDICIAL CONTROL**

The judiciary is indirectly involved in the financial control process of the government offices or public enterprises since it takes care of the rights of any individual who may be deprived by the public office of his legitimate financial claims and it protects the rights of the public office in respect of the financial losses or irregularities committed by any individual or individuals. The judicial control system functions on the basis of the principle that every person should be allowed to go to a court to protest against the public servant when the latter does not adhere to the constitution and the ordinary law of the state . This is equally true for the public office or enterprise when any individual does not adhere to the law and thereby incurs losses or commits financial irregularities . The Court may decide to award different punishment or financial recovery or fine or both in order to ensure the rule of law . There are, however , some limitations of the judicial control process. The legal procedures are usually very lengthy and cumbersome and nature of case handling is very expensive . Besides Act



of Commission can be challenged in the Court of Law , but Acts of omission for example failure to act in most cases can only be enforced on moral grounds.<sup>55</sup>

### **MEDIA CONTROL**

Mass media like Newspapers , Magazines, Radio ,T.V etc may also be potential sources of information that could be effectively used by the government and the parliament in the financial control process. In democratic countries they play important role in forming public opinion against corruption, malpractice, nepotism, inefficiency and unnecessary spending and put pressure upon the government to do away with the financial mismanagement. The Parliament Members are also interested regarding the role of the media in this regard.<sup>56</sup>

### **CRITICISM OF CONTROL PROCESS**

The financial control system of the government is a controversial matter . The system is criticised from different corner.<sup>57</sup> Numerous problems are encountered at different levels of the financial control process . The whole bureaucratic machinery of the government is involved with problems mostly due to its enormous size and larger volume of transactions . The huge task of budgetary allocation , accounting and auditing ranging over hundreds of public organisations suffer from the drawbacks of too much impersonality resulting into wastefulness , negligence and indifference to the interest of the people at large. The big size of government organisations is an inherent problem which cannot be easily solved .But recent moves of decentralisation of powers and functions are well for better financial management . This would ensure close supervision and vigilance effecting better financial control as well as higher efficiency of performance . Owing to bureaucratic complexity and job security, the decision making process badly suffers in many cases. Too many formalities and complicated rules and procedures have to observe in procuring and spending funds, pricing of products or services and disposing of cases of financial irregularities. Similarly long time is taken in settling the audit objections raises by the audit department . Although the Audit Manual prescribes time limit within which replies to



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#### **PROBLEMS OF FINANCIAL ADMINISTRATION OF BANGLADESH**

Bangladesh as a developing country has many problems in different areas of its development activities . So the financial administration is not free from problems. It has some structural problems as well as conceptual problems . These are discussed below :

(a)The main conceptual problem of financial administration of Bangladesh is the selection of a Minister for Finance .The Minister of Finance must be knowledgeable and well equipped regarding economics and financial aspects of his country . He should have vast idea about economic progress of the World and latest developments in the field of economics . Unfortunately the Ministers of Finance of Bangladesh did not have that quality . Only Mr Saifur Rahman was the successful one . But all other Ministers were not efficient and successful . Some of the Finance Ministers of Bangladesh were politician and had no experience regarding financial matters , some were retired bureaucrats , one was retired army personnel too which was quite funny. The present Finance Minister was a career diplomat .

He passed his thirty years of diplomatic service life outside the country. Once he was a student of economics but last thirty years he had no connection to any economic discipline or activities. It is therefore impossible for him to contribute anything better in the field of economic affairs of the country. This is a major conceptual mistake by the present government. In Bangladesh this type of mistakes are being done repeatedly.<sup>59</sup>

(b) The second conceptual mistake is about the appointment of Finance Secretary. The Secretary of Finance has no academic qualification in economics. He has a Masters degree in history which is not relevant degree to run the Finance Ministry. Now-a-days specialisation of administration has become an important aspects and many governments in the developed countries has been putting stress on it. It has been telling by the scholars that the coming century will be the century of specialisation and technology will take places of all development activities. So administration and especially financial administration will have to be more advanced and dynamic. So if the Finance Secretary of developing countries do not have sufficient background in finance or economics it may not be possible for that country to compete with the other world in various fields of development<sup>60</sup>. This is very much true for Bangladesh.

(c) In the Finance Ministry, the officers are posted not on the basis of academic qualification or background in economics or finance but by personal choice of the senior officers. The Ministry of Establishment has been giving the posting without judging the qualifications and standard of the officers without consultation with the Secretary of the Finance Ministry. For this reasons low calibre officers are being posted often and the outcome of the work of the officers cannot reach up to the desired level.<sup>61</sup>

(d) The Ministry of Finance is functionally too much clerical in nature. The clerks are the dominating force inside the ministry. The inefficient officers are dependent on the senior clerks of the ministry.

(e) For the dominance of the clerks, the trade unionism among the clerks are deeply rooted. The trade union is very strong and the clerical leaders often interfere on the day to day business of the Ministry.

(f) In the Ministry too many officers are posted which in fact make the environment uncoordinated. Officers having no specific duties could only disturb the working environment and actually the same has been happening in the inside of the ministry.

(g) There is a tendency in the Ministry of Finance to be non co-operative to the people or the employees of other departments. The Ministry has no good co-ordination system. It suffers from indecision, wrong decision. In many matters the ministry could not give due attention in time for which the whole nation suffer.<sup>62</sup>

(h) The officers are not properly trained and the officers after getting training from abroad are supposed to work in the ministry for certain period. But they are being transferred from the ministry by the order of the Ministry of Establishment without prior approval of the authority of the Ministry of Finance.

(i) The Ministry of Finance has many field offices. It is very difficult for the Ministry to control all these field offices. Too many field offices in fact create a situation of "everybody's business is no body's business". Hence, the ministry has no effective control on the field offices.

(j) The Ministry of Finance does not have sufficient information regarding economic development of the world and records of the past activities of the ministry. The Ministry could not produce necessary documents, circulars, ordinance in connection to the financial activities of the country.

(k) There is a conflict between the Minister and the Secretary of the Ministry. This is a common picture of Bangladesh administration and popularly known as politician administration dichotomy. In most of the ministries the relation between the Political Minister and the Secretary are not good.<sup>63</sup>

(l) In Bangladesh, like other developing countries, the Finance Ministry is not free from undue political interference. The party in power have the scope to



interfere in the activities of the Ministry . Mainly the leaders of the ruling party try to influence the ministry to get business benefit including bank loan , import export licence and other related facilities . This in fact make the ministry embarrassed and most of the times the ruling party men compel the ministry to do undue favour to them .

(m) In the Finance Ministry there are no post of experts in financial aspects or any post of financial analyst .This is a big problem for Bangladesh Finance Ministry . The Financial Analyst or Experts in economics are able to present the real picture of economic situation with sufficient data . In the developed countries and many developing countries the role of a financial analyst is very important.<sup>64</sup>

## **ASSESSMENT**

The Ministry of Finance is the heart core of financial activities and it is also the financial administration of the country . Both government and non government financial activities are controlled or directed by the Ministry of Finance . Financial conditions of the country are measured by the efficiency of the financial administration of the country which is in Bangladesh ,the Ministry of Finance. Generally speaking the Ministry of Finance of Bangladesh has failed to gear up the economic activities effectively and also failed to achieve the economic goals of the nation . As a Finance Ministry of a developing country ,the role of Bangladesh Finance Ministry could have been more vital ,fruitful and target-oriented . The Finance Ministry could have shown the nation a new way of development . But the country is very unfortunate in this regard . Practically ,the role of the Ministry of Finance as 'Financial Administration' is not satisfactory in comparison to other Finance Ministries of the developing countries . The organisations and departments under the Ministry of Finance have suffering from lack of initiatives ,proper instructions ,appropriate policies and decisions . The Ministry of Finance also suffer from indecision regarding many aspects of national interest .



The World has advanced very far .In the field of financial administration and economic management ,new ideas , conceptions are coming forward and taking places . The techniques of political economy and financial management are being changed quickly . In this arena of competition ,Bangladesh must have to survive . So the Ministry of Finance can not sit idle in this situation. The Financial Administration have to come forward to lead the nation to face the challenges of the next century . If the Pakistan and India can progress and can make atom bomb by their own funds why not Bangladesh would be able to do it after certain years . It is up to the Ministry of Finance and the political policy makers to take decisions for any sort of betterment of the country including make stronger the country from military point of view . It should be remembered that the country in the coming century must look for an 'Economic Leader' not only a 'Lectured Leader' . So the Ministry of Finance of Bangladesh as 'Financial Administration' have to be serious regarding all financial activities of the country . In fact it is the high time to restructure , reorganise the financial system by eliminating old methods of works or back dated rules of procedures as well as introducing new ideas in the field of financial administration of Bangladesh .<sup>65</sup>

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## CHAPTER-FOUR

# FINANCIAL ADMINISTRATION AND FISCAL ADMINISTRATION

### INTRODUCTION

Proper management of government budgeting is an important and vital aspect of overall public financial administration. If the budget or fiscal aspects of the government is seen from any corner, the importance of the budget is found in the centre point. For the modern governments, the budget shows economic merit and political foresight. The developed countries, in the process of their national budget making, consider the impact of budget on national economy while the developing countries think about immediate satisfaction of the people. So management of fiscal matters or budgetary aspects are not only a systematic procedure, it is rather a matter of government financial policy and proper management<sup>1</sup>. In the field of financial administration, budget administration or fiscal administration is a dynamic process involving a continuous chain of operations which includes (a) a statement of revenue and expenditure required for a fiscal year of the country (b) securing legislative sanction for these estimator and (c) execution of revenue and expenditure operation. The whole chain also includes the legislative accountability of the operations. It means there are three main parts of budget or fiscal administration. These three parts of fiscal administration or budget are (a) Preparation of Budget (b) Legislation of Budget (c) Execution and Audit of Budget. In its broadest aspects, fiscal administration includes the procedure through a determination is made of the amount and direction of public outgo and intake. It also includes the machinery of executing these decisions. More specifically, it includes budgetary planning, collection of public revenue, management of public loans and the custody of public funds.<sup>2</sup> Some of the scholars point out fiscal administration as vital or integral part of the whole financial administration system of the country. In fact when fiscal administration considering budget making as its principal soul division followed by

the formal act of appropriation , proper supervision of expenditure control , the accounting as well as reporting system , treasury management , revenue collection administration and audit, then no one can deny the role of fiscal administration in order to make the financial administration effective.<sup>3</sup> The best known machinery for financial administration is the budget system . The financial administration is based on budgetary process of a country . The whole budget system of a country either developed or developing is the core of financial administration. So it is necessary here to move towards discussion of budget as a whole . The term budget is defined from a French word 'Bouget' meaning a leather bag or wallet . This word came in England by the year 1793. The Chancellor of Exchequer of England used to have a leather wallet to carry papers etc. to the House of Commons . So when he sets off to place his financial plan before the House of Commons, he used to open his budget that is the bag . The term was used in its present sense for the first time in 1733 in a satire entitled , "Opened the Budget pointed against Walpoles financial plan for that year ". Since then the term began to be used for financial scheme or statement . By the passage of time it has developed in to an elaborate system of financial management.<sup>4</sup> Today this includes not only a plan for public revenue and expenditure but the entire situation or picture of material finances as disclosed in the ministerial statement placed before the legislature and the orderly administration of the financial affairs of the government . It is not only given an account to the year's book keeping and the year to come so far as the State machinery is concerned , But it is the basic to control of the financial affairs of the country regarded as a house . It sets in motion , a continuous chain of events of great importance in the every work of the government . The budget or fiscal is the nucleus of national financial activities . It is both the merit and scale of all the financial operations . On the other hand budget is the financial statement of receipts and expenditures involving a process of preparing and carrying out financial plans for a particular period or time . In most of the cases the period is annual which is called fiscal year or financial year . But budget may also be half yearly , quarterly , monthly, fortnightly, weekly or daily.



During the nineteenth century the problems in public financial administration appeared in a gigantic scale. The problem arose owing to the growth of the functions of the State craft in multi directions. The establishment of parliamentary control over public finance, the necessity of check in financial administration to prevent fraud and waste, to gain the highest possible results from public expenditures, the financial administration had to take several initiatives. The growth in credit operation which resulted in the creation of central bank as the banker of the government was one of the important step to improve the crisis. In order to solve these problems, a new system was developed called Budgetism or the budget system which was fully unknown to the world financial field before nineteenth century.<sup>5</sup>

#### **MEANING OF BUDGET**

The Budget has been defined by many schools from different point of views. One Scholar says that it is or should be at once report, an estimate and a proposal. It is or should be, a document through which the chief executive comes before the fund raising and fund granting authority and makes full report regarding the manner in which he or his subordinates have administered affairs during the last completed year in which he exhibits the present condition of the public treasury. On the basis of such information sets for the entire program of work for the year to come and the manner in which he proposes that such work shall be financial<sup>6</sup>. According to Dimock, “Budget is a financial plan summarising the financial experience of the past stating a current plan and progressing it over a specified period of time in future.” Budget is a plan of financing for the incoming fiscal year. This involve an itemised estimate of all revenues on the one hand and expenditure on the other<sup>7</sup>. According to Taylor, “Budget is a financial plan of a government for a definite period”<sup>8</sup>. Actually budget is a financial statement prepared in advance of the opening of a fiscal year about the estimated revenues and proposed expenditures of the given organisation for the coming fiscal year

### **ELEMENTS OF BUDGET**

From the above definitions of budget, the elements of budget can be found . But it should be remembered that the meaning of budget is no longer confined for a mere statement of estimate of revenue and expenditure . In modern economic or financial era it is now given wider meaning . However the following can be considered as the elements of budget (a) It is a statement of expected revenue and proposed expenditure. (b) It requires some authority to sanction it (c) It is for a limited period , usually it is annual (d) It also sets forth the procedure and manner in which the collections of revenue and administration of expenditures is to be executed .<sup>9</sup>

### **NECESSITY OF BUDGET**

Today budget has become one of the principal instruments of financial administration .It is the part of whole public administration system of a Country . Budget is the master financial plan and picture of the government . It brings together estimates of anticipated revenues and proposed expenditures implying the schedule of activities to be undertaken and the means of financing these activities . Actually every administrative activities has its financial implications .

So finance occupies a very important place in administration . There are several factors that enter in to the problem of official administration .But among the problems ,financial problem of administration has greater importance than any other problem of administration . Finance is the fuel for the engine of administration But is also the key core of democratic government . In the words of scholars of financial field , the objectives of Budget should be to implement democracy and provide means which will be helpful in the process of execution of the functions and services of the government The budget is a device for consolidating the various interests, objectives, desires and needs of the common people and a program whereby they jointly provide for their safety convenience and comfort .The budget is the most single current document relating to the social picture. <sup>10</sup> The budget lays emphasis on the need for state programs to be executed as efficiently as possible so that maximum out put are obtained for the money spent on them . In one word , the whole budget system can be

said as a single objective for the attainment of economy and efficiency, the determination of how the countries scarce resources can be best served by the diversion of scarce resources through taxation and other methods from private to public and by the allocation of those resources among various government programs. This sort of determination in fact, covers both the questions regarding nature of program and the way to execute the programs. The administration or the management of state affairs are mostly involved in this basic matter. Because the people are always satisfied when their budget is satisfactory. An orderly finance is a very pivotal or influential statement of social and economic policy for any country of the world<sup>11</sup>. Budget is now used for welfare purpose of the common people because modern states are welfare states. The concept of welfare states has occupied the field of economic goals and aspirations of the common people. In the days of laissez faire budget was a simple statement of estimated income and expenditure. But today, in modern socio-economic life, it has become an instrument of promoting socio-economic life of common people. The people of any country of the world have the interest regarding their national budget.<sup>12</sup> The people of developing or developed countries are greatly influenced by the national budget declared by the existing government. The people of these states are mainly low income people. For the limited income they want proper and affordable price level of commodities. It happens most of the time in these state that after declaration of national budget the price level of necessary commodities goes high. So the budget plays a vital role in the economic field of the state, and every citizen is interested in it. From the budget the people can also know what benefits they will get and how much taxes they will have to pay for the coming years. The taxation policy of the government in the Budget may lead to narrowing down of the class distinctions and inequalities. The production policy as reflected in the budget may help in removing poverty unemployment and mal-distribution of wealth. It can check inflation and make able the people to live in safety with comfort and happiness<sup>13</sup>. So budget has tremendous and fruitful implications in the societies of modern states. Lloyd George in his book 'Peoples Budget' mentioned first about the potentialities of the fiscal instrument for social well



fare According to him four spectres crash the poor . (a) oldage (b) accident (c) sickness (e) unemployment . This things have been affecting social and economic life of the people of any state . In the developed and socialistic states there are many social programs in order to save the people from the above mentioned four spectres .But in the most developing or less developed states such social programs are not introduced due to insufficient funds for their national budget . So it is very much required to strengthen the national budget in order to consider it as an instrument of social and economic policy .<sup>14</sup> The social and economic policies of Bangladesh is undoubtedly guided or influenced by it's national budget . The hopes or aspirations of the common people and the economic goals or targets of the government are not well reconciled and well co-ordinated . The government by it's nature and character can make the budget for the particular interest of the vested interested group of the State . And it has been happening since our independence .It is also a fact that the government can not make the budget only through the total hopes and aspirations of the common people . In Bangladesh the law makers are the representatives by character from different classes. Some times they influenced the government to make the budget for their own interest or for their class interest . But they can not totally make the budget by denying common peoples interest . This is a reality for Bangladesh and also for developing countries.<sup>15</sup>

### **BUDGET AND PLANNING**

Planning for any management is an urgent and basic requirement. Planning ahead is an important strategic issue in fiscal administration . The relation between planning and budgeting is very close . Without a forward view financial events that could have not been anticipated , come unexpectedly . Contingency plans cannot be model and decision making lack perspective . It becomes reactive in stead of proactive , response are adhoc rather then considered and the guilty of decisions often dangerous . So the relation between planning and budgeting are so close which can be only described as the relation between husband and wife . The marriage of planning and budgeting must begin at the grass roots level in the respective departments and again without



planning a budget can be made but can not be executed or can not achieve the national goals . A simple example of these would be a government that takes hasty decision to raise an expensive loan which if it had known more about expected expenditure and receipts , it could have opted for a less expensive alternative . Another example could be a government sets a figure for development expenditure , higher than it's annual resources and when the government eventually becomes aware that resources are tighter than had been assumed , it makes sudden unexpected cuts in development expenditure with severely disruptive effects on project implementation . So budgeting is therefore an instrument for short-term as well as long-term planning . In serious sense budgeting is planning . The primary concern of both the agencies is to facilitate the formulation and selection of policies and programs which are likely to achieve the goals of the government . Always it should be remembered that debatable programs must drooped from the planning in order to make the budget effective and fruitful.<sup>16</sup> In most developing countries the frame work for the preparation of the annual investment and current budget in the five year development plan is structured under the guidance group of planning staff of a Planning Commission or the ministry or department of national development and economic planning or the Ministry of Planning . In Nepal and Bhutan five year plan is prepared by the Planning Ministry when in India and Pakistan , it is done by the Planning Commission . But Bangladesh is one step more in this aspect . Bangladesh has the Ministry of Planning headed by one Minister responsible to guide the planning commission , which is liable to prepare annual development plans as well as five year development plan . However , whatever the structure or form of the organisation, essentially perform the same functions . In order to allocate funds more realistically , Bangladesh have adopted annual development plans with in the framework of five year plans that serve as the bridge to the annual development budget. It is quite a leap to more from a five year plan to annual budget in view of the host of unforesecable factors that tend to make fixed plans and budgets rapidly obsolete .<sup>17</sup>

## PRINCIPLES OF BUDGET

In order to discuss the conceptual basis of fiscal management or budgetary process, it is necessary to talk in details about the principles of budget. The principles of budget must be dynamic as well as realistic. The budget, guided by the perfect principles can bring about the expected goal. The principles of budget are more or less same in most of the countries of the World. The more important budget principles are the following.

(1) **EXECUTIVE PROGRAMMING** : The budget as recommended, reflects the program of the chief executive. When enacted it becomes the work program of the government affecting all government responsibilities and activities in their political economic and social aspects. As the chief executive is responsible for running administrative functions he is in the best position to say what funds are required for his organisations. Budget formulation therefore must be geared closely and directly to the formulation of chief executive's programs as a whole.<sup>18</sup> The budget is an instrument of legislative control and executive management. Budgeting and programming are the twins of the same mother. Both must be under the direct supervision of the chief executive or one hand. These principles hold true for all government control agencies of federal, state, province or local. Budget framing is a hard task and the chief executive, therefore, must be aided and advised by a body of specialists. In United Kingdom, the Treasury, in United States of America, the Bureau of the Budget, in India and Bangladesh, the Ministry of Finance help the respective chief executives in the budget planning. In parliamentary form of government there exists a well accepted principle that no demands can be made except on the recommendation of the executive of certain department. The principle also makes it clear that it is the function of the Executive alone to prepare the Budget. The parliament can decrease or refuse the demands presented to it by the Executive. But it can not increase. This principle is based on a philosophy that Chief Executive being the actual expending authority is the better judge or better informed of how much money is required for a particular project or purpose and if more money is given the only chief executive can ensure the proper utilisation of that money. If the chief executive is not concerned or connected

with the budget the more money given for the organisation would obviously lead to wastage and extravagance . In Bangladesh this principle is strictly followed . But in United States of America the principle is not followed strictly. Because in United States of America there is a principle of separation of powers and all legislative functions including those of money bills are the jurisdiction of the Congress which is as per law competent or appropriate authority to decrease as well as increase expenditures and taxation .<sup>19</sup>

**(2) EXECUTIVE RESPONSIBILITY :** The executive responsibility is the basic requirement for any organisation as far as financial matters are concerned. The appropriation ordinarily authorises it, does not divert on agency to spend money . The executive branch is devoted to fulfil the function established by law or implied in the language of the appropriation measure . It should be remembered that the appropriation is not a blank check or mandate to spend the appropriation, does not establish a vested right of agency to make budget or to take decision regarding financial matters . The agency always is responsible under the direction of the chief executive for executing the budget for the interest of the legislation in the most economical manner .The chief executive for his part , has the responsibility of seeing that whether the agencies are performing the task as per rule with legislative intent and are executed with the greatest possible economic way .<sup>20</sup>

**(3) FLEXIBILITY IN TIMING :** The Budget should contain provisions which permit immediate adjustment to changing economic conditions with which fiscal policy must cope .Flexibility in timing can be accomplished if the legislature appropriates funds for certain construction and development programs for extended period , say for example five years . Timing of the program can be then be adjusted by the executive in accord with economic necessities .<sup>21</sup>

**(4) EXECUTIVE FINALIZATION:** Effective and economical management may be hampered if appropriation items are narrowly defined . The budget document must contain a great amount of details for the information of the legislature and the guidance of the executive . It is desirable that the appropriations should be made for broadly defined functions of an agency or subdivisions of an agency in harmony with



legislative determination of the current objectives of the government . The executive branch should be given sufficient powers to create the effective means of operation to achieve the purposes set forth by the law . It should possess the power to make re-appropriations from one minor head to another . It should also have the power and means to meet financial emergencies. The provision of contingency fund in India , in the name of President to meet financial emergencies is a good example of executive discretion. <sup>22</sup>

(5) **BALANCED BUDGET** : Financial aspects always needs to be balanced .Therefore, budget should be a balanced one .This principle helps the budgetary process in many ways. The Balanced Budget means the estimated expenditure should not exceed the actual revenue or income .The Balanced Budget means the expenditure and revenue in the proposed Budget are equal or realistic . If the expenditure is lower then the anticipated budget it is called Surplus Budget . But when the expenditure is higher than the anticipated revenue it is called Deficit Budget .The balancing of budget is the important requisite of financial stability . It occupies the same place in the financial administration as the maintenance of law & order in the general administration . On the other hand unbalanced budget are bound sooner or later to weaken the faith of investors and to create monetary inflation which if uncontrolled will terminate in national disaster .. An occasional deficit budget however need not cause worry . The newer thoughts in the field of Finance or Economics consider deficit budget in certain situation not only excusable , but also necessary . It is now recommended that a deficit budget can cure the ills from which the modern capitalists suffer . Deficit budget has now become a common phenomenon of the developing countries in order to meet the huge cost of development plans . But it should be remembered that it is not safe and comfortable to indulge in deficit budget beyond certain point for the case of developing countries. <sup>23</sup> For Bangladesh deficit budget is not good medicine for financial development .

(6) **ESTIMATES SHOULD BE ON A CASH BASIS** : The principle of the cash basis of the budget means that it should be prepared on the basis of actual receipts and expenditure expected during the year and not on the basis of receipts which is



considered in that year but is likely to be incurred in the next financial year , For example , if certain sums on account of arrears of tax relating to the year 1990-921 are realised in the year 1992-93 , they should be shown in the receipts estimates of the later year and not of the former . Similarly , if the liability for any payments was incurred in the former year but was actually met in the later year, it should be shown in the expenditure of the later year only. One advantage of having cash estimates is that the public accounts can be closed very much earlier than when they are prepared on a demand and liability basis . In some European countries , where the later practice is followed , the determination of the final surplus or deficit requires years and even decades .Delayed accounts , lose much of their value for the purposes of financial control . The French Budget for 1920 was finally closed in the beginning of 1937. <sup>24</sup>

**(7).BUDGETING SHOULD BE DONE ON THE BASIS OF GROSS AND NOT NET INCOME** : Budget should present a clear cut picture of the gross and not the net income of the country . Both the receipt and expenditure should be fully shown in the budget and not merely the resultant net position . For example , if there is a department with an estimated expenditure of Taka 45 lakhs and receipts of Taka 35 lakhs , it should show in the budget both the expenditure and receipts and not merely Taka 10 lakhs only .If the department prepares the estimates on the net basis , it would mean that it would approach the legislature for grant of Rs . 10 lakhs only and hence deprive the legislature of its control over the expenditure of Rs . 45 lakhs, which it out of its receipts . Gross budgeting is, therefore essential to ensure complete financial control of the Legislature <sup>25</sup>.There are exceptions to this general rule of gross - budgeting . In India some of which are only apparent but some are real .The main exception to this rule is the estimating and accounting of land revenue collections . The Lambardar or Tahsildar , from time immemorial , is paid , in lieu of his services for the collection of land revenue , five per cent on the revenue he collects . This is known as pachotra which he deducts from the gross collections made by him <sup>26</sup>

**(8).ESTIMATING SHOULD BE , AS FAR AS POSSIBLE , EXACT** : Estimates provided in the budget should be , as far as possible , exact . There should be neither too much of over estimating nor under estimating . While money should be provided for all

necessary expenditure , the amount provided for should be the absolute minimum . If there is over estimating of expenditure, people are unnecessarily heavily taxed and if there is under estimating , the whole budget may be thrown out of gear when it comes to execution . It is a tendency on the part of the departments in Bangladesh and also in developing countries to under estimate their income and over estimate their expenditure . Although there are clear instructions to the Head of all concerned ministries that and they should try to achieve economy and avoid waste as far as possible . The tendency to over estimate spending capacity arises from two causes . Firstly it is assumed that the Finance Ministry in any case will reduce the allotment requested and therefore it is better to ask for more and secondly , the inclusion of schemes and large provisions creates both politically and administratively an impression of efficiency and energy in the sponsoring ministries .However, close and exact estimating can be achieved by taking past three average figures of the receipts and expenditure under various heads as the starting basis and making appropriate variations due to special circumstances which can be foreseen . Thirdly , estimates should be itemised, that is the detailed estimates should be divided into major heads , minor - heads and sub- heads and detailed heads of revenue and expenditure .Close budgeting also means that the services for which provision has been made and the particular items included in any vote should be specified and that no demand of lump sum amount under any head should be granted . Of course in some departments in Bangladesh , such as Public Works Department , block grants cannot be avoided because the department does not have definite assessment of the amount likely to be spent on repairs and maintenance of government buildings , canals or roads etc. But subject to these exceptions the general rule should be that no demands for lump sums for unspecified purposes should be sanctioned . Such demands escape parliamentary control of public expenditure and should be granted only in very exceptional cases .<sup>27</sup>

**(9) ANNUALITY OF THE BUDGET :** The principle of annuality is one of the most important principles of budget . It means that the budget should be prepared on an annual basis . In other words, it means that the legislature should grant money to the Executive for one year . A year is a reasonable period of time for which the

legislature can afford to give financial authority to the executive . It is also the minimum period which is necessary to execute the financial program. But annuality of the budget does not mean that there should be no long term planning . All those countries which have adopted the policy of planned development do have long term budgeting , but these long term plans do not involve actual using of appropriations for the entire period of the plan by the legislature though it may be called to approve the plan in principles and broad outlines as is done in the case of our Five Years Plan of Bangladesh.<sup>28</sup>

(9) **RULE OF LAPSE** : The annuality principle of budgeting also implies that money left un spent during the year for which it was sanctioned must lapse to the Public Treasury and the government cannot spend it unless get re sanctioned for the next year budget . This rule of lapse is essential for effective financial control . If the un spent balance of one year could be carried out for expenditure in future years , it would make the departments independent of the control of the legislature till the time their accumulated balances are spent .But this rule is defective from the point of view of economical planning of expenditure . The departments , knowing that if they do not utilise grants , they shall lapse and they will have no incentive for economy . Therefore , towards the end of the financial year , they spend it lavishly with little regard to its urgency or utility . In Bangladesh it is very true.<sup>29</sup>

(10) **TREASURY CONTROL** : The legislature authorises the government to spend money but it does not direct them how to spend it . It means the job of the government itself can be directed by the legislature .The treasury function of the government are the functions on the basis of treasury rule combining the political and fiscal policy . The best system of direction and internal control can be seen in the working of the British Treasury where it concerns itself not only in regard to the preparation of budget but also exercises day to day supervision over the flow of money and employment of personnel , managerial control over the operating departments.<sup>30</sup> However , in most of the countries in the World including Bangladesh , a budget cycle is normally followed . So the budget cycle is a very



important mechanism to observe the flow of funds .(Figure-6 shows the Budget Cycle )

**(12) THE FORM OF ESTIMATE SHOULD CORRESPOND TO THE FORM OF ACCOUNT :**

This principle means that the budgetary heads should be the same as those of accounts.This facilitates budget preparation , budgetary control and keeping of accounts.<sup>31</sup>

**(13) REVENUE AND CAPITAL PARTS OF THE BUDGET SHOULD BE KEPT DISTINCT :**

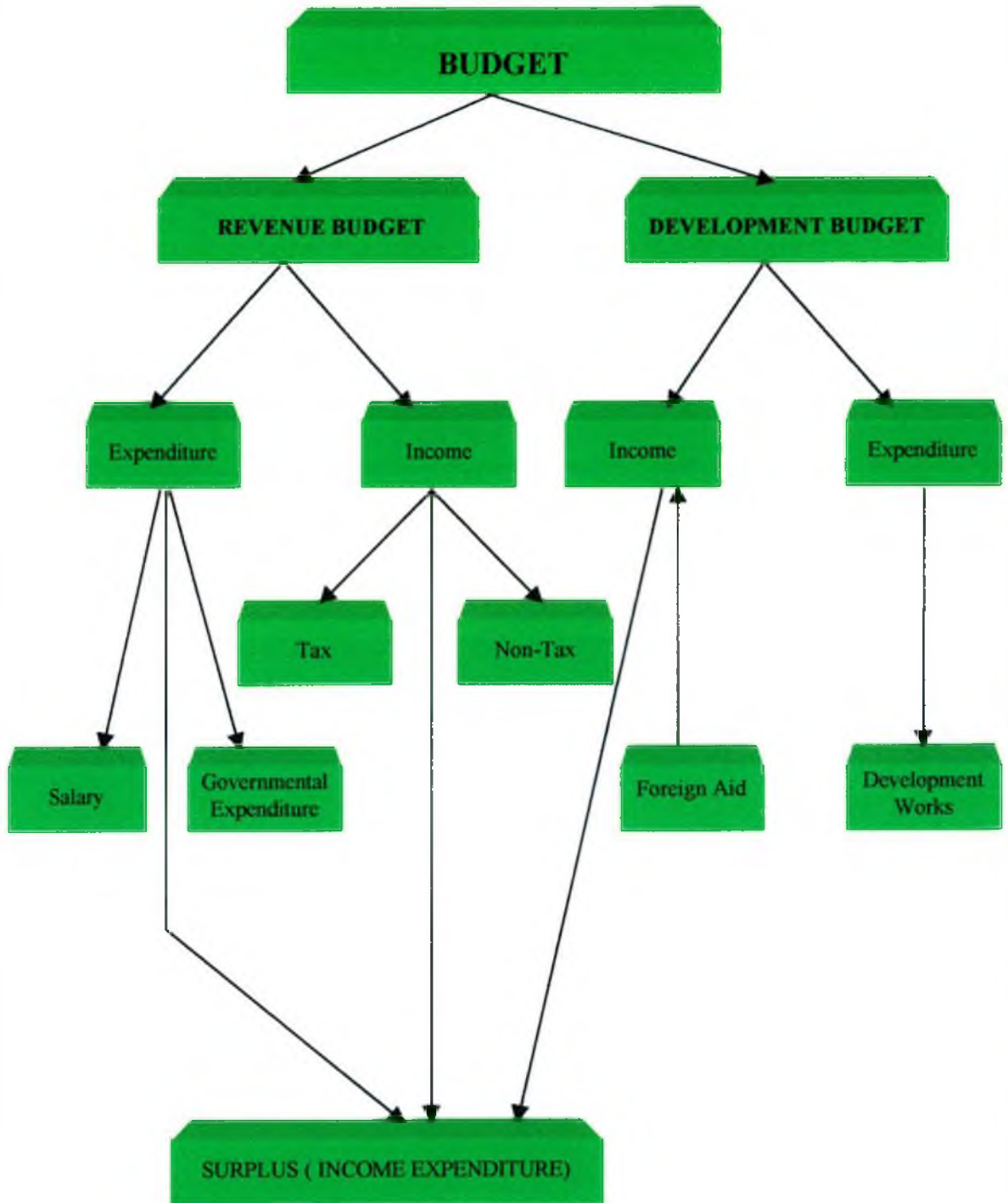
This principle means that overall surplus or deficit may be found out by taking both into account .<sup>32</sup>

**(14) SINGLE BUDGET :** Lastly it is also an important principle of budget making that the government should have a single budget incorporating all revenues as well as expenditures of the government . A single budget presents to the people a clear cut picture of the financial transactions of the government as a whole . But if there are a number of department wise budgets some of them may show a surplus and others a deficit .It will not thus be possible to know the net financial position of the government as a whole without calculations and adjustments . This principle is not very logical also to prepare extraordinary budgets for special purposes .An exception to this principle of unity of budget is however some- times made in some countries including India when separate budget is prepared for commercial enterprises such as railways . India has had a separate budget for railways since 1924 . The railways are free to keep their profits for their own development after they had made their own contributions to the general revenue.<sup>33</sup>In Bangladesh , the system of separate budget for railways have been postponed after 1980 .

The principles of budget mentioned above are not applicable in all developing countries .It also differs from country to country . But one thing is very applicable and that is the will of the political leadership. If the policy makers or the decision makers of such countries want to follow the basic principles of the budget for the greater interest of the nation ,they can easily do it . But it is unfortunate for the poor ,developing countries that for lack of sincere will of the political leadership ,for lack of experts and for lack of proper understanding of the financial situation , such



**FIGURE - 6**  
**BUDGET CYCLE IN BANGLADESH**



Source: Ministry of Finance of Bangladesh.

countries could not go forward with a vision or mission. Bangladesh is the best example in this regard.

## **FISCAL ADMINISTRATION IN DEVELOPED COUNTRIES**

Budget in developed countries in fact based on the domestic and international policies. For internal purposes, their budget must fulfil the needs of the economy of the country but for international purposes it is mostly related to the policies of external assistance, aids, military intervention and other international emergencies. In order to understand the budgetary process of developing countries, we would like to discuss in brief about the budget or fiscal administration of some developed countries like United Kingdom, United States and Singapore.

### **THE UNITED KINGDOM**

In the U.K. the work of preparing the budget is begun in the autumn of each year when a circular from the Treasury is sent to all departments asking them to furnish figures concerning their probable requirements for the ensuing financial year. When the estimates are all received by the Treasury, it checks them with the figures of the preceding year. The treasury officials may meet the officials of the various departments with a view to getting reductions by mutual agreement. Meanwhile the departments prepare the estimates of revenue. Generally, the estimates of expenditure exceed the estimates of revenue and so the need is either to reduce the expenditure or else to find some new sources of revenue. The Chancellor of Exchequer being satisfied makes up his mind as to the wisest course and then lays the budget before the cabinet. The Cabinet of the United Kingdom after hearing him and examining on the main provisions of the budget and later having a full discussion of the various problems involved, gives the budget a final shape and authorises the Chancellor of Exchequer to lay the budget before the parliament. The Chancellor of Exchequer presents the estimates of expenditure to the House of Commons sometime in the second or third week of February. A little later he makes an elaborate speech to the House sitting in the Committee of the Whole in which he reviews the

finances of the past year and highlights the policy for the next year.<sup>34</sup> After the estimates of expenditure have been presented to the House of Commons, the House converts itself into the Committee of Supply and takes up the consideration of the estimates. These estimates are considered in separate groups termed votes corresponding to distinct services. The votes are presented by the heads of departments individually. The votes are debated but it is interesting that the debates are seldom devoted to financial matters. These debates are general and extend to the governmental policy. The members may propose to strike out or reduce any item of expenditure. But they have no right to add or increase any amount. In practice the proposal to reduce or strike any expenditure is not carried because the ministers decline to accept a reduction. The result is that the estimates are passed without any alteration. The debates on the estimates must be concluded within twenty-six days. All votes become subject to the closure at the expiration of the said time limit. When providing revenue, the House sits in a Committee of the whole House in Ways and Means. This committee functions throughout the same period of time as the Committee of Supply. The proposals of revenue are detailed as per serial and after adoption are reported to the House in the form of resolution. After the estimates of expenditure have all been voted by the House Session in Supply and the various revenue proposals have been approved by the House Session in Ways and Means, the whole is then embodied in a Finance Bill and Appropriation Bill. The Finance Bill deals with the new taxes or changes in the old ones. The Appropriation Bill deals with expenditures. Both these bills, which are money bills, are put before the House and therein they pass through the usual stages of first, second and third readings. After the House of Commons has passed both the bills, they go to the House of Lords which has no choice but only to pass them without amendment. Under the Act of 1911 if the Lords receive money bills at least one month before the end of the Session, it is sent for the Royal assent irrespective of whether the Lords concur with it or not. The British budgetary system is in fact the guide for most of the developing countries of the World. It is also known as traditional budget but very effective till today.<sup>35</sup>

## **THE USA**

The Budgetary system of United States is not very old . It is only the aspect of beginning of the century . There was no coherent executive budget before 1921 . The various departments of the States used to prepare their estimates , sent them to the department of Treasury which consolidated them and sent them to the Congress without any scrutiny or co-ordination.<sup>36</sup> . The consideration of the estimates by the Congress was not well organised . The whole system was in a chaotic situation . It was the Budget and Accounting Act of 1921 which placed the budgetary process in the USA on a unified and co-ordinated basis . By the Act of 1921 a Bureau of the Budget was set up for the purpose of preparation of the Budget.<sup>37</sup> The fiscal year in the USA begins on July 1, and ends on June 30. During the summer the Bureau of Budget requests the various spending agencies to submit their estimates of appropriation for the ensuing financial year .The Bureau receives these estimates by the mid of September . The estimates forwarded by the agencies are examined by the Bureau . The Bureau calls the official representatives of the various agencies , gives them a hearing and after such revision and review , as it thinks fit , produces a unified and coherent budget . This budget is transferred by the President as his executive budget.<sup>38</sup> The President submits this budget to the Congress usually in the first week of January .When the House of Representatives has received the budget from the President , it is referred to the Committee on Appropriations . There is no budget speech , because on account of separation of powers , the American Executive is not represented in the Congress.<sup>39</sup> The Appropriation Committee refers the various groups of items to several committees for detailed study and public hearings .These sub committees are organised on departmental lines . They work on the figures and if necessary call the various executive officials to explain their respective needs . Those opposing an appropriation may also be heard . When the sub committees have finished their work ,each sub committee drafts its own bill and reports to the appropriation committee . The later examines these bills and co-ordinates them if there is any conflict with one another in the matter of policy or program. Thereafter , the Committee sends the various Appropriation Bills to the House . The House



debates the bills and can make any changes in the estimates , but in practice this is not done . The Bills go through without a great deal of change .<sup>40</sup> After the House has passed the Appropriation Bills the are sent to the Senate . The Senate also may propose any changes . The Senate normally consider the reported Bills . But if the senate has made any changes the Appropriations are sent back to the House , for concurrence , failing which they are referred to a Conference Committee consisting of representatives from both the Senate and the House of Representatives.<sup>41</sup> The revenue measures as prepared by the Bureau are considered by the Ways and Means Committee in the House .<sup>42</sup> The House considers the Bill reported by the Committee and after passing it is sent to the Senate where it has to pass through the Senate Finance Committee and later the whole Senate . The differences are resolved in the Conference Committee .The execution of the budget is looked after by the General Accounting Office headed by the Comptroller General who enjoys freedom from the executive control<sup>43</sup>.To conclude it may be said that the budgetary process in the USA is largely disintegrated and un co-ordinated . Instead of a single Appropriation Bill and a single Finance Bill , there are several such Bills . The separate Bills make it difficult for the Congress to view the years program as a whole . Secondly , any member of the Congress may propose an addition to expenditure . This is not so in India or Britain or Bangladesh . The Parliament can refuse or reduce a demand but it cannot increase a demand . The result is that when the budget emerges out of the hands of the Congress , very little of the original plan on which it was drawn in the Bureau of the Budget may be left in it . Thus the financial system of USA ,U.K , Bangladesh and India differ in several respects on account of their different political systems.<sup>44</sup> However ,the USA being a big as well as rich country having a complicated political system and financial system still could not produce a well co-ordinated fiscal administration for the whole country . Although they have a system which is called a developed system but in practice the system contains many problems.<sup>45</sup>

## SINGAPORE

Singapore, being a developed country in Asia, has been undergoing through many changes for their fiscal aspects. From last April 1996 Singapore has embarked on a process of financial management reform called Budgeting for Result or the BFR. During the last two decades Singapore experienced several reforms in financial management system.<sup>46</sup> Up to 31 March 1978 Singapore followed Line Item Budgeting. From 1st April 1978 Program Budgeting was introduced in Singapore. Block Vote Budgeting system was in existence in Singapore from last April 1989 to 31 March. The main features of each type of budgeting are described below for comparison.

The Singapore budget system have some specific characteristics. One of the characteristics is line item budget. The contents of this system of budget are (a) Budget of each department of a Ministry expressed in terms of the kinds and quantities of goods and services to be purchased. (b) Ministries had to keep expenditure within the amounts approved for each object. (c) It is very effective in ensuring financial control. (d) It has adequate basis for allocating limited resources at a time when government activities were limited. (e) The system is rigid and unable to cope with rapidly changing priorities and circumstances. (f) It has no linkage with things to be done.<sup>47</sup>

Program Budgeting is the fiscal policy of Singapore. The Program Budget emphasises mainly the things to be done within the framework of the fiscal policy. It systematically identifies the programs and activities necessary to achieve the goals and objective of each Ministry and place funding based on resources required to undertake each program. For this purpose more flexibility has been given to Ministries compared to Line Item Budgeting. But it ensures greater awareness of goals and objectives to be achieved. With the expansion of existing programs and the introduction of new ones there was no mechanism to ensure that the overall expenditure would not outgrow revenue collection.<sup>48</sup>

In the Block Vote Budgeting system, the Cabinet approves of Budget priorities and aggregate allocations but Ministries are given flexibility in managing allocations. It

controls through published workload and Performance Indicators and Zero base reviews . It also ensures a balanced budget for Government expenditure as a proportion of GDP. The system also helps the Ministries responding speedily to changing priorities which improve the effectiveness and efficiency of Government operations . In this system the senior civil servants are responsible and accountable for expenditure budget.<sup>49</sup>

The Government of Singapore has introduced the BFR policy in order to strengthen the whole fiscal management .The features of BFR include (a) Pre specification of outputs and performance targets .(b)Output based funding allocations .(c) Provision of incentives for meeting targets .(d)Granting financial and personnel management flexibility .Under the present BFR System , funds are allocated and greater managerial autonomy granted to a Government Organisation in exchange for clearly defined pre-specified outputs . The existing Financial Management System of Singapore is aimed at making public servants more focused on the outputs to be delivered and more customer oriented . Through BFR process in the identification of output and performance targets , the Government of Singapore confident that clearly defined outputs and performance targets shall in turn lead to greater accountability and value for money for the government organisation .

In this regard the role and functions of Budget Division of Ministry of Finance of Singapore should be discussed . The Ministry of Finance has allocated rules of business for the budget division .These are to :(a) ensure that Public Funds and Manpower are allocated and managed properly so that public sector programs and projects are in line with national priorities and undertaken prudently and efficiently without waste or extravagance .(b) keep the public sector lean and trim so as to free more manpower and financial resources for the private sector .(c) contain total operating and development expenditure at a level that can be financed by operating revenue .(d) focus government's expenditure on basic public services and in areas which yield lasting returns , principally education, basic health care , housing , infrastructure development and security (e) preserve the real value of Governments reserves over time and(f) institutionalise Financial Regulations and Procurement



Policy to check on extravagance in expenditure .A financial year is defined by the Financial Procedure Act as a period of twelve months ending on 31st March in any year . The financial year in respect of which the financial statements are prepared covers the period 1st April to 31st March.<sup>50</sup>

### **FISCAL ADMINISTRATION IN DEVELOPING COUNTRIES**

Fiscal or budget administration in developing countries are not efficient ,well coordinated and well disciplined . Most of the developing countries suffer from lack of sufficient funds as well as proper planning . The developing countries also suffer for unnecessary expenditure in running government administration and they also could not mobilise domestic resources properly , for which these countries have to depend upon the foreign assistance . It is true that dependence on foreign aid for national budget is a curse for a nation . Even though the countries are taking foreign aid ,loans in order to make their national budget . However , in the following paragraphs we would like to discuss fiscal management or budgetary management of some selected developing countries in this research work such as Nepal ,Bhutan ,Pakistan and India .

### **FISCAL ADMINISTRATION IN NEPAL**

Nepal is a developing country which has been trying to improve her socio economic condition through many reforms . Her financial system including fiscal management or budgetary management has recently got a new shape .The highest body of Nepalese Financial Administration is the Protinidhi Shabha representing the term 'House of Representatives' or the 'Upper House of the Parliament' . The Parliament is the final authority to discuss , increase , decrease or approve the budget . The Ministry of Finance collects budgets prepared by every spending unit , department or the ministry itself sends the budget proposal to the Parliament after scrutiny and discussion with the organisations . The Ministry of Finance , after getting the approved budget from the parliament allocates it ministry wise in turn, ministries allocate it department or project wise . Departments again allocate departmental budget up to the district level offices.<sup>51</sup>



All budget proposals are prepared by individual spending units and after processing by parent ministries these proposals are sent to the Ministry of Finance . All project proposals are submitted by the concerned departments with action plan to the planning Commission . The Planning Commission after scrutinising and evaluating the proposals send those to the Ministry of Finance . Ministry of Finance , after necessary review sends all the budget proposals to the Protinidhi Sobha ( Upper House ) or the Parliament for discussion and approval . After the approval of the budget by the Parliament , Ministry of Finance allocates it to each Ministry and authorises the Financial Comptroller General ( FCG) to release funds for the respective Ministries . In turn the FCG delegates his authority to all the District Treasury controllers to release funds.<sup>52</sup> Nepalese budget has two components (1) Regular and (2) Development . Development Budget again has two components (1) Development Budget Central and (2) Development Budget District . All revenue income and expenditure are incorporated in the Regular Budget . Development expenditure is incurred by ministries and organisations centrally and the remaining 70% is incurred through District Development Committees which are elected local bodies in the Districts . Nepal used to have two separate budget presentations for these two types of budget and there two separate budget documents<sup>53</sup>. But in the financial year 1995-96 integrated Regular Budget and Development Budget before the Parliament was introduced . Nepal has now one budget but figures of Regular and Development Budgets are shown side by side . Regular and Development codes have been integrated and the various levels of development expenditure have been integrated and retained . Regular codes identify the structure of an organisation . Nepalese financial year follows the Nepalese calendar year which begins on 15 July and ends on 14 July of the next year . New computerised budget classification has been introduced in Nepal from the 1996-97 financial year<sup>54</sup>.The classification consists of a nine digit code which covers all the expenditure heads . These codes were made permanent to facilitate year to year comparison of expenditure but were structured to accommodate the creation of new organisations , divisions and projects . The 1996-97 budget introduced the main expenditure codes consisting of the Head and Sub Head . Detail

expenditure codes were retained unchanged , but the principle of classification into the categories or personnel capital and other charges was adopted .Funds are spent by Ministries and Organisations and the new accounting codes follow the structure of the government to facilitate management by the spending units . The nine digit accounting code may be analysed in the following ways .The first two digits are for Ministries and Organisations . Every spending Ministry and Organisation has individual code No 11 and ending with Miscellaneous Ministry of Finance which has code No 95 . The third digit identifies the level of expenditure such as whether the expenditure is of regular or of development budget again if the expenditure is development budget , whether it is central budget or of district budget . Code for regular budget is 3 code for development budget central is 4 code for development budget district is 5. The subsequent three digits (4-6) identify sub-head of expenditure . In case of Regular Expenditure digits 4 and 5 identify the departments of an organisation and digit 6 identifies divisions within a department .Development expenditure uniquely identifies projects within ministries and organisations Blocks of numbers have been allocated within each ministry to identify the projects run by departments within the ministry . Each project number is unique and as new projects are formulated , the next consecutive number within the block would be allocated to the new project . Used number would not be allocated to new projects even if the original project has been completed . The explanation about the codification of Development project is that digits 4,5 & 6 such as there digits are kept for each project under each Ministry or each Organisation , that is, any ministry or organisation may have upto 9 projects and the experts in the Ministry of Finance think that the number is quite sufficient to accommodate code numbers for new projects for another 15 years . Digit 7-9 identify expenditure details codes. Revenue receipt codes are presently defined by economic sector . Newly introduced Budget classification.<sup>55</sup> did not incorporate new codification for revenue receipt but the proposal for codification was exactly the same as the expenditure Budget . The 9 digit code allocates first two digits for ministry or organisation, three digit for level of receipt , subsequent three digits (4-6) for department and division and the last three digits (7-9) for detail level receipt .<sup>56</sup>

Budget presentation before the Parliament was introduced in Nepal only 30 years ago . Nepal has got no Budget Manual yet . There was no Financial Management Information System or no proper accounting or financial rules . There was no systematic plan for budget allocated for development expenditure . Utilisation of budget was not adequate and its proper monitoring was absent in the whole process . The total budgetary process was purely on adhoc basis and there was no systematic budget classification or accounting codes . The Ministry of Finance of Nepal with the technical help of British Overseas Development Agency made a feasibility study on the whole budgeting and accounting process of the government and took up a project named Financial Management Project to bring about needed reforms.<sup>57</sup> The project is being financed jointly by the Royal Nepalese Government and the British ODA. The terms of reference of the financial management project was to prepare a new coding system , introduce new budget classification , prepare a budget manual , bring in changes in the existing rules and regulation process , create a financial management information system, etc. To work on the terms of reference four project teams were established , namely , (1) Rules , Regulations and Format Team, (2)Budget Manual Team, (3) Financial Management Information System Team and (4) Project Accounting Team . The overall activities of the project are looked after by a Steering Committee headed by the Finance Secretary.<sup>58</sup>The Financial Management Project has a small computer installation .Under the Financial Management Project new format for accounting and separate accounting for construction , inventory and revenue were proposed .All they need the approval of the Auditor General .The proposals are now under the active consideration of the Auditor General .The budget wing of the Ministry of Finance has been computerised to produce only computer printed budget . The FCG Office has a small computer set -up to do accounting work and also to train staff of FCGs department . Nepal does not have sufficient amount of computer settings for field offices. Out of seventy five District offices ,only five offices have computer facilities.<sup>59</sup>



## FISCAL ADMINISTRATION IN PAKISTAN

Pakistan was a part of British Indian colony before independence in 1947. So the fiscal administration is a legacy of British system and a very few changes have taken place in this regard since its independence. In Pakistan all budget proposals are prepared by the respective departments. The Revenue Budget is sent to the Ministry of Finance through the parent Ministry.<sup>60</sup> The development programs are chalked out by the respective Ministries and sent to the Ministry of Finance through the Planning Commission. To scrutinise project proposals and monitor the progress of on going projects the Ministry of Finance has two committees. The priorities Committee to select project proposals on priority basis and the Annual Plan co-ordination Committee to co-ordinate and monitor the progress of on going projects. After receiving the approved project proposals from the Planning Commission the priorities Committee arranges the proposals on priority basis for implementation. Budget proposals of all the Ministries are then sent to the Parliament for discussion and approval. After the budget is approved by the Parliament it is the responsibility of the Ministry of Finance to allocate the budget Ministry wise.<sup>61</sup> In Pakistan Demands for Grants for both Revenue and Capital are incorporated in a single document. The estimates of current and development expenditure are shown according to the newly introduced classification i.e. functional cum objective classification. The Demands for Grants and Appropriations have been divided into three parts as follows :

Part I. Demands for Current Expenditure

Part II. Demands for Development Expenditure .

Part III. Appropriations Charged upon the Federal Consolidated Fund .

The Demands for all Ministries are shown in Part I and Part II and they are again bifurcated into two sections :

(I) Expenditure on Revenue Account and

(II) Expenditure on Capital Account .

A functional prefix has been assigned to each Demand in accordance with the nature of expenditure in the Demand. The functional prefix is as under :-

Current Expenditure on Revenue Account .



Current Expenditure on Capital Account .

Development Expenditure on Revenue Account and

Development Expenditure on Capital Account .

Part 111 comprises whole of the Charged expenditure . The expenditure shown in Part 1 and Part 11 comprises both Charged as well as other than Charged expenditure . Pakistan has introduced a computerised new budget classification system in the federal government.<sup>62</sup> The classification was done Functional as well as Objective wise . For this purpose , whole expenditure scheme of the government was divided in to nine sectors or nine major functions and five digits were allocated for the codification of these functions. Each Major Function is again classified Major Object wise and each Major Object was allocated five digits for codification .The Receipt Budget is classified as Major and Minor , primarily the receipt heads are arranged in three Major Groups : (1) Tax Revenue (2) Non - Tax Revenue and (3) Capital Receipts and each group has more than one major classification . Under each major classification there are two or more Minor Classifications . The three major groups have unique identification number of seven digits . Tax Revenue has classification code 0000000, Non- tax Revenue has classification code 1000000 and Capital Receipts has classification code 2000000.The major group tax revenue has two major classifications (1) Direct Taxes (on Income and Wealth ) having major classification code 0100000 and (2) Indirect Taxes ( on commodities and transactions) having Major Classification code 0200000.The Major group Non-tax Revenue has four Major Classification (1) Income from Property and Enterprise having Major Classification code 1100000, (2) Receipts from Civil Administration and (3) other Functions having major classification code 1300000 and (4) miscellaneous adjustment between federal and provincial governments having major classification code 1400000. Pakistan has computerised the budget wing of the Ministry of Finance about a decade back . The Ministry of Finance has been using mini computer since then . They are now using IBM system 34 and IBM system 36 for the budget preparation , monitoring and analysis of budget trends.<sup>63</sup> But still the budgetary system has not been fully modern and the procedural aspects of fiscal management is not satisfactory .The officers

and staffs are not well co-ordinated and the mentality of the concerned personnel are not adjustable with the fiscal policy . Misuse of funds ,corruption , lack of control are the characteristics of fiscal administration of Pakistan.<sup>64</sup>

#### **FISCAL ADMINISTRATION IN BHUTAN**

Among the developing countries in South-Asia ,Bhutan may be good example for its developed Budgetary system . Though the country was not a democratic one till the last decade ,but the ruler of the Bhutan had been trying to develop it's financial system. Bhutan being a poor and developing country had a fiscal system which not very effective and modern before 1972. The evolution of a financial management system in the Royal Government of Bhutan had its grass roots in the efforts of the third hereditary king (1952 to 1972) to expand and modernise the structure of government and of society itself .The financial administration and organisations in the government of Bhutan are concentrated in the Ministry of Finance under the representative of His Majesty.<sup>65</sup>

The Budget process in Bhutan covers the preparation , submission and approval of a detailed estimated expenditures by each ministry and the estimated revenue receipts of the government .The expenditures were classified under three broad categories , namely .(a) Maintenance expenditure , which includes expenses for salaries and allowances , investments necessary to continue a particular program or scheme , maintenance of existing buildings and equipment etc (b) Spill-over expenditure which constitutes that part of expenditure committed from previous years (c) Schedule of new demands which constitutes that part of expenditure pertaining totally to new schemes , projects , programs on which no expenditure had been incurred in previous years (d) Broad-sheet tabulations were prescribed and centrally printed by the Ministry of Finance for the purpose.<sup>66</sup> Through the years , there had been changes in the structure of the government to keep up with changing conditions and the furtherance of its of finance to enhance and strengthen the financial management system . In April 1985 , the Royal Audit Department was declared an autonomous agency and renamed as the Royal Audit Authority .In December 1986 , the Ministry of Finance introduced a Program Budget Model effective from 1st April

1987 , coinciding with the launching of the sixth five year plan. A Manual for the preparation of the budget estimated was issued on 29 December 1986 . The program Budget Model aimed to facilitate the budgetary process , rationalise budgetary estimates on a program basis and improve the accounting system , preparing the way for its eventual computerisation . Budget forms are prescribed . The new budgetary system was explained and discussed with administrative heads, and the budget and accounting personnel concerned , to ensure proper, uniform and prompt compliance with requirements .The Program Budget Model is integrated in the Financial Manual 1988 which supersedes the Financial Manual , 1974 and the then existing financial rules and regulations.<sup>67</sup>

The aims of the Financial Manual 1988 are (a) to enhance the efficiency and effectiveness of the financial management system of the Government .(b) to streamline budgeting and accounting and reduce and simplify working procedures emphasising accountability and responsibility :(c) to ensure uniformity and standardisation among all government agencies in accounting and discharging financial transactions , with a view to ensuring proper receipt and optimum utilisation of government funds .Government agencies , however, may have their own manuals prescribing their working procedures according to their respective functions , provided that they are consistent with the Financial Manual 1988.The Manual provides that autonomous or semi- autonomous corporations fully or partly owned by the government may have separate rules and regulations for the management of their finances . Those that have none are governed by the Manual . It may be mentioned that a Financial manual for corporations was completed in June 1988 and submitted for review or approval .The succeeding parts of this paper cover the current financial practices and requirements , primarily in the central government and the dependent and annexed budget agencies , as well as the local government units or districts.<sup>68</sup>

The budget is regarded as the governments comprehensive financial program for the fiscal year which commences on 1 July . It covers both the central organisation of the government and the districts or local government units .The present budgetary system requires the presentation of proposed programs , projects , activities of the



Government and details of : (a) estimated and actual revenues , receipts and expenditures of previous periods in order to : (i) permit a meaningful comparison of what has been accomplished in relation to plans and programs. (ii) serve as one of the bases for the budget of the ensuing fiscal period ;(b) propose revenue sources both internal and external and estimates of revenue and receipts from taxation , fees , licenses etc to meet proposed appropriations (c) propose appropriations for current and capital expenditures for the government's programs, subprograms and activities, projects , giving due consideration to priorities set under the five year plan while budgeting is concerned with limiting money spent to money received . It is also concerned with providing funds for programs , sub-programs activities , projects essential to the welfare of the kingdom . Hence , the program Budget Model recognises the importance of the work to be done or the services to be rendered and also expresses the financial data under objects of expenditure . It also recognises the need for control and accountability as it defines the responsibilities and the goals of the various agencies at various levels . Their broad objectives being translated in to work plans for each program, subprogram, activity or project.<sup>69</sup> The budget calendar covers the annual budget cycle of the government , which consists of four phases Preparation, Authorisation ,Execution , Accountability. The calendar has been prescribed to provide ample time for the effective implementation of the budget cycle .The budget preparation phase has three stages which cover the many aspects and involvement of the government agencies . The budget call issued by the Ministry of Finance and the circular issues by the Director of the Department of National Budget and Accounts for the budget proposals contain all the necessary instructions . reference is made to the Budget proposals contain all the necessary instructions. Reference is made the budget call and the circular prescribe a budget calendar which ensures the timely completion and approval of the national budget.<sup>70</sup>

The objectives of expenditure control and monitoring of both expenditures and revenue receipts may be the summed up as follows:(a) Limit money spent to money received (b) Determine or assess all revenues or receipts due, collect and remit the same to the authorised government depository.(c) See that funds are available for



programs or subprograms and activities, projects included and schemed on a sector and priority basis (d) Ensure the implementation of the five year plan so as to achieve continuity of essential services and the attainment of planned targets. The Ministry of Finance, especially the Department of National Budget and Accounts, the department of revenue and Customs, and the authorised government depository play a key role in this endeavour and several mechanisms help to match funds with progress, and provide general controls. The Five year Plan provides tentative allocations to agencies based on policy directives and an order of priorities of programs, subprograms and activities, projects. It also requires agencies to adhere to the given out lays, in no case exceeding the tentative allocations given. The Budget Manual introduces the program Budget Model. It prescribes the basic budget forms and attachments, objects of expenditure, a budget coding system, and general rules and regulations on expenditure control. Financial manual 1988 among others, aims to streamline the budgeting and accounting system of the government, emphasising accountability and responsibility. It provides the procedures and regulations to control and monitor expenditures and revenues to ensure optimum utilisation of government funds and other resources. Letter of Credit system of Bhutan is an effective tool in budgetary aspects. This is a system for the release of appropriations by the Ministry of Finance to the authorised government depository and its branches, specifying the limits up to which the withdrawal of funds shall be allowed to respective agencies and their subsidiaries. The regulations governing the system are detailed in chapter 6 of the Financial Manual.<sup>71</sup> 1988, covering the government bank account, namely government current account, principal account with the Royal Monetary Authority, through which the daily cash position is ascertained and reported. The budget cell reiterates the need (a) to control and curtail expenses of a wasteful or unproductive nature, especially current expenditures. (b) to forecast agency requirements based on actual needs, conditions and actual existing personnel (c) to observe the previous years budget call and the provisions of the Budget Manual. The budget notification cell notifies the agencies concerned of their final approved budget. It appeals to them to be judicious in their spending and to keep their expenditures strictly within budget

provisions . It contains supplementary instructions on how the agencies should carry on their respective functions , programs , subprograms, activities or projects within their fund allocations .The government mid yearly reviews the budget execution through the Ministry of Finance and the Planning Commission to determine excesses or savings in each agency and to facilitate reallocation of funds , if necessary . Agency heads are involved in the review in so far as their agencies are concerned . The status of the programs, subprograms and projects are assessed in the review process . The review also seeks to establish the fiscal and policy implications of government activities .Financial reporting and accounting system of Bhutan emphasises the submission of monthly and annual accounts to the Department of National Budget and Accounts for the purposes of controlling and monitoring expenditures and revenues . Moreover , the submission of monthly accounts is required as a condition for the release of funds through letter of credit . This system has been integrated in the Financial Manual .The role of the authorised depository bank is also important .Under its charter , the bank acts as the national treasury of the government and maintains the bank accounts of the government for all its expenditures , and a separate account for all revenue and miscellaneous receipts collected by agencies . The head office of the bank also maintains a control account of government transactions in order to consolidate periodically and regularly all government accounts maintained at its head office and its branches. At mid- month and the end of the month , the Bank sends to each agency a bank statement for each government account maintained and to the Ministry of Finance a consolidated statement of the principal accounts of the government .The bank statements are reconciled monthly with the respective records of the agencies and of the Department of National Budget and Accounts , to determine (a) whether limits of expenditure are observed and (b) whether all collections have been remitted to and acknowledged by the bank .Preparation of bank reconciliation statements is the responsibility of the accounting units of agencies at the agency level, and the Department of National Budget and Accounts at the overall government level .The important role is being played by the Royal Monetary Authority. .As per its charter , the Royal Monetary Authority acts as the banker , fiscal agent , adviser to the

government on monetary and financial matters and depository of government funds. It also acts as a consultant on budget and credit operations . However in conclusion it can be said that being a back ward country Bhutan has good intention to form a better budgetary system . To some extent , Bhutan has been able to introduce a time adjustable budgetary system for its country.<sup>72</sup>

### **FISCAL ADMINISTRATION IN INDIA**

India is a federally administered country like Pakistan . It has twenty five States and nine Union Territories . At the centre there is the Union Government directly administering the union territories and at the states there are twenty five State Governments administering the states . It also inherited like Pakistan all its administrative ,budgeting, accounting and other systems for running a government from the British rulers.<sup>73</sup> At the Union Government level Audit and Accounts are fully separated but at the state level Audit and Accounts are still unified as a single service . The process of separation of Audit for Accounts at the central government started in 1976 and fully separates in 1980 . Since then a mixed structure of unified Indian Audit and Accounts Service at the state level and separated Indian Civil Accounts Service at the Union government has been functioning in paralleled .Comptroller and unified Audit and Accounts Service . Controller General of Accounts ( CGA) is the controlling authority of the Civil Accounts Department at the central level.<sup>74</sup> there are state level Accounts Offices headed by Accountant General (AG) and Audit Offices headed by Accountant General (Audit) having different establishments . All the Accounts and Audit Offices at the States are under the CAG. CAG recruits all the Indian Audit and Accounts Service (IA&AS) officers and CAG recruits all the Indian Civil Accounts Service (ICAS) officers through the Public Service Commission . Like Nepal and Pakistan , the Parliament is the highest body for the Indian Financial Administration. The Ministry of Finance is responsible for the preparation of the national budget and to submit it before the Parliament. After debate , the Parliament approves the budget according to the Demands for Grants of each ministry sent to the Ministry of Finance for incorporation into the national budget.<sup>75</sup>



Under Article 112 of the Constitution of India<sup>76</sup> statement of estimated receipts and expenditure of the Government of India has to be laid before Parliament in respect of every financial year which runs from 1st April to 31st March. The statement is known as the Annual Financial Statement and this is the main Budget document. The Annual Financial Statement shows the receipts and payments of Government under three parts in which government accounts are kept. The three parts of the Annual Financial Statement are : (i) Consolidated Fund, (ii) Public Accounts and (iii) Contingency Fund. All revenues received by Government loans raised by it, and also receipts from recoveries of loans granted by it, form the Consolidated Fund and The system is that no amount can be withdrawn from the fund without authorisation from Parliament. In respect of certain transactions which enter into Government accounts, the Government of India acts as the custodian of the money or more as a banker such as money received from transactions relating to provident funds, small savings collections, other deposits, etc are kept in the public account and the connected disbursements are also made therefrom. To meet unforeseen urgent expenditure pending authorisation from Parliament the President of India has an right to allocate of Rs 50 crore. This money is kept in the Contingency Fund. Parliamentary approval for such expenditure and for withdrawal of an equivalent amount from the Consolidated Fund is subsequently obtained and the amount spent from Contingency Fund is recouped to the Fund.<sup>77</sup> These Funds and Accounts exist separately for the government of India and for each state of Indian Union. Under the Constitution, the budget has to distinguish expenditure on revenue account from other expenditure and so, government Budget is divided into two parts (i) Revenue Budget and (ii) Capital Budget. Revenue Budget consists of the revenue receipts of the government which includes tax revenues and other revenues and the expenditure met from these revenues.<sup>78</sup> Capital Budget consists of capital receipts and payments. The estimates of receipts and disbursements in the Annual Financial Statement and of expenditure in the Demands for Grants are shown according to the accounting classification prescribed under article 150 of the Constitution.<sup>79</sup> Under the Constitution certain items of expenditure are charged on the Consolidated Fund and are not required to be voted



by the Parliament. These expenditures are known as charged expenditure includes salaries and allowances of the Chairman and Deputy Chairman of the Rajya Sabha and the Speaker and Deputy Speaker of the Lok Sabha, salaries, allowances and pensions of CGA, India etc. The other expenditures which are required to be voted by the Lok Sabha are known as the Voted Expenditure. The estimates of expenditure from the Consolidated Fund included in the Annual Financial Statement and required to be voted by the Lok Sabha are submitted in the form of Demands for Grants in pursuance of Article 113 of the Constitution<sup>80</sup> Generally, one Demand for Grant is presented in respect of each Ministry or Department. Larger Ministries or Departments present more than one Demand for Grants. Each Demand normally includes the total provisions on account of revenue expenditure capital expenditure grants to state and Union Territory Governments and also loans and advances relating to the service. In regard to Union territories without a legislature, a separate Demand is presented for each of the Union territories. Where the provision for a service is entirely for expenditure charged on the Consolidated Fund, a separate Appropriation, as distinct from a demand is presented for that expenditure and it is not required to be voted by Parliament.<sup>81</sup> All the departments and spending units prepare their own budget and send it to the Financial Adviser of the department for scrutiny. Financial Adviser after scrutiny sends the budget proposal of the department to the Ministry of Finance through the secretary of the department. All ministries send development programs to the Planning Commission for scrutiny. development budget is endorsed by the Planning Commission to the Ministry of Finance after reviewing development programs received from all ministries. Ministry of Finance after scrutiny lists all the priority programs, makes provision for money and sends the proposals to the Parliament for discussion and approval.<sup>82</sup> The above procedure of budget preparation is fully computerised. For better management and computerisation a fifteen digit classification code has been introduced. The fifteen digit code describes six levels. The first four digits form the first level which identifies major head. Major Head represents major function. Subsequent two digits form the second level which identifies sub major head. Bigger Functions have more than one divisions or sub

function represented by sub major head under the major head .Subsequent three digits form the third level which identifies minor head . Minor Head conforms to various programs .Subsequent two digits form the fourth level which identifies sub head . Sub Head conforms to schemes .Subsequent two digits form the fifth level which identifies Detail Head . Detail Head conforms to sub schemes .The last two digits form the sixth level which identifies Object Head . Object Head conforms to the Objective of the expenditure or the primary unit of appropriation . Nine numbers are allocated against the first digit to identify the budget as Revenue Receipt Revenue Expenditure , Development, etc. Numbers 0 and 1 as the first digit represents Consolidated Fund Revenue Receipt Head on Revenue Account .Numbers 2 and 3 as the first digit represents consolidated Fund Expenditure Head on Revenue Account .Numbers 4 and 5 as the first digit represents Consolidated Fund Expenditure Head on Grants in Aid and Numbers 8 and 9 as the first digit represents Contingency Fund and Public Accounts .One example is given below to explain the classification: 22021103020131 Grants -in-Aid.<sup>83</sup> This 15 digit code shows up to the Object Head or the Primary Unit of Appropriation . Number 2 as the first digit indicates the code as Expenditure Head on Revenue Account of the Consolidated Fund .2202 is the Major Head General Education .01 after 220201 represents Minor Head Assistance to Bodies for Primary Education under Sub Major Head Elementary Education 02 after 220201 represents Sub Head New Delhi Municipal Committee under Minor Head Assistance to Bodies for Primary Education .01 after 22020110302 represents detail Head grants-in-aid under sub head New Delhi Municipal Committee.31 after 22020110302 represents object head Grants -in- Aid under detail Head Grants -in - Aid . Receipt Heads have 13 digit code up to detail head with no object heads .The classification has been simplified further . If there remains any vacancy in any level of the six level code that level is represented by zeros , it means under any Head at any level , there is no subordinate Heads that subordinate level is shown as zero . If there is no Sub Major Head under any Major Head, it indicates the second level to be vacant and the 5th and 6th digits are shown as 00, if there is no minor head under sub major head , it indicates the three level to be vacant and the 7th .8th and 9th digits are shown as 000

and so on.<sup>84</sup> The entire budgeting system of the Ministry of Finance was computerised many years ago . The National Information Centre in the Ministry of Finance is the highest authority to make policy decision on all computer related matters .This centre examines the need for computer , software requirement , its development either in house or through any outside body and their installation in any organisation under the Ministry of Finance. This centre also helps the CGA to prepare the monthly accounts and to conduct Information Technology (IT) training courses . This centre has a good number of IT experts to carry out huge tasks of the Ministry and the CGA . The centre uses main frame computer for all its budgetary activities .The entire accounting system of the CGA office and all Pay and Accounts Offices have been computerised<sup>85</sup> For this purpose various software packages were developed in house . The software package now being used in CGA office is known as GAIS or Government Accounting Information System . This package is for consolidation of accounts in the CGA office . At the Principal Accounts Office software package CONTACT or Controllers Accounting is being used . At the Pay and Accounts Offices software package IMPROVE or Integrated Multi-module Processor for Voucher Entry is being used . A significant step in the Computerisation Project is the Voucher Level Computerisation which enables capture of data at source , for example from voucher . The software improve system is used for capturing data at source . All the Pay and Accounts Offices rendering monthly accounts have been covered under the Voucher Level Computerisation Project . The objective is that after direct data entry from the source document each Pay and Accounts office would generate IMPROVE output which in turn would generate CONTACT, for example , the monthly accounts for the ministry or department . The program CONTACT enables generation of the monthly accounts of the Ministry or Department on computer and its transmission to the CGA on floppies . The final processing of the accounts consolidation is done at the CGA office using software GAIS . This facilitates processing of the monthly accounts of the Government of India within a day on the Main Frame at the National Information Centre in the Ministry of Finance.<sup>86</sup> As a big democratic country having overpopulation ,India has progressed in many ways including its financial



management system . Although there are lot of social ,political and economic problems in the country but it has been able to introduce a better system in the financial field especially in fiscal management . The personnel involved in the budgetary process are very sincere and very much alert about their national interest.

## **FISCAL ADMINISTRATION IN BANGLADESH**

### **HISTORICAL PERSPECTIVE**

Budgetary practice in Bangladesh , like many other political and administrative institutions is a legacy of British Administration . The India Act of 1833 might be regarded as the beginning of evolution of government budgeting in modern sense of the term,. This Act made compulsory the placement of Indian Budget by the ruling East India Company to the British parliament . The system reached its culmination when by the Government of India Act<sup>87</sup>, 1859 , the administration of the Indian Subcontinent was taken over by Her Majesty , the Queen of England and the Secretary of State for India was made responsible for placing the budget for the Parliament of England . In 1860 , Sir James Wilson , the first Finance Member of the Executive Council of Viceroy of British India introduced for the first time a comprehensive budget . All financial transactions of British India irrespective of the level of administration were included in the budget and had to go through the finance Department of the Government of India. <sup>88</sup>The Government of India Act<sup>89</sup>, 1919, which created two Chambers in Indian legislature , enhanced the role of the legislature with respect to budget . The Act laid down that the Governor General of India in Council would lay before both the chambers the estimated annual expenditure and revenue of India .The Government of India Act<sup>90</sup> , 1935 , made further improvements in the financial procedures . The discussion of charged expenditure was allowed in this Act except that on account of the salary and allowances of the governor General . This discussion of Charged expenditure was not permissible in the Government of India Act ,1919. Very little change or improvement took place during the period when this country was under Pakistan rule ( 1947-1971) . A few innovations like distinction



between recurring and non-recurring expenditures and declaring Secretaries of the Ministries at the Pakistani period were effected. Bangladesh emerged as an independent sovereign country in 1971 and got a Constitution in 1972 which incorporates detailed provisions for budget and financial administration. Generally speaking, the budget was originally conceived as an instrument of legislative control over the executive. With the attainment of political independence and taking over of major responsibilities by the government for rapid economic and social development, the Budget has become a most significant tool of economic policy and management of the nation.

### **THE BUDGET STRUCTURE**

The Budget structure of Bangladesh is broadly defined and prescribed in the constitution. The provisions laid down in Article 48 to 88 of the Constitution of the country and subsequent adoption of the UN system of classification of government transactions in 1983 provide for the structure of budget in Bangladesh. In the Article 87 of the constitution the budget has been referred to as Annual Financial statement which is a statement of estimated receipts and disbursements.<sup>91</sup> The structure of national Budget includes as mentioned below. (Figure -7 shows the structure of Budget)

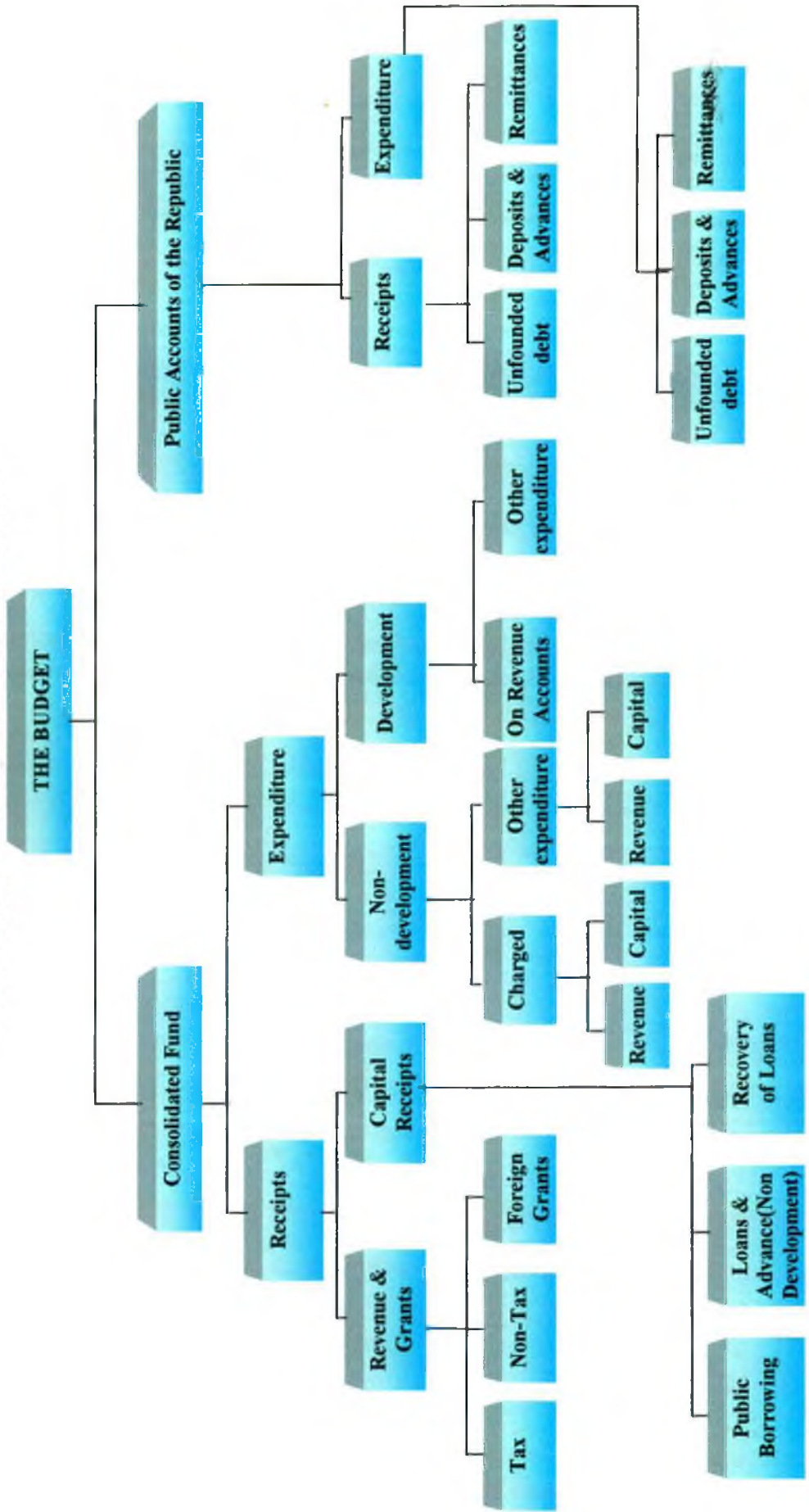
#### **(a) THE CONSOLIDATED FUND**

According to Article 84(1) of the constitution all receipts of the Government on account of taxes, income from assets, borrowing repayment of loan etc are credited to the consolidated fund. No money can be withdrawn without vote by the Parliament and the Appropriation Act. In certain cases the government may withdraw money from the Consolidated Fund with the approval of the President such as excess expenditure on a service for which the Parliament made inadequate provision subject to subsequent approval of the parliament.<sup>92</sup>

#### **(b) RECEIPTS OF THE FUND**

All taxes, fees, duties departmental receipts for services rendered, loans raised in the market as well as abroad and recoveries of loans will constitute the receipts of the consolidated fund.<sup>93</sup> The funds receipts are classified into Revenue receipts and

FIGURE -7  
STRUCTURE OF BUDGET OF BANGLADESH



Source : Ministry of Finance of Bangladesh

Receipts outside the Revenue Account. Revenue Receipts and Receipts Outside the Revenue Account. Revenue Receipts fall into two sub categories Tax and Non Tax Revenues. Similarly receipts outside the Revenue Account are sub divided in to loans and Recoveries of loans given . Tax revenues which are shown in the annual Financial statement by Major Heads of Accounts come from the following sources (a) Customs (b) Excise duties (c) sales Tax (d) Income Tax (e) Land Development Tax and (f) Other Taxes , Magistration (g) Railway (h) Post Telegraphs and Telephone (i) Forests (v1) Debt services ( interest ) (v11) Civil Administration etc. The second principal category of the Funds receipts consists of the loans raised in the market as well as abroad . it is exhibited under the head Public Debt . The last category of receipts are the recovery of loans placed to local bodies autonomous bodies , government servants etc. This category of receipts is shown under a section entirely loans and advances.<sup>94</sup>

**(c) DISBURSEMENT OF THE FUND**

The budget disbursements are distinctly grouped into (a) Non development Expenditure and (b) Development Expenditure .This classification is not an obligatory requirement of the constitution but a part of pragmatic discipline . Non development expenditure as shown in the budget by major heads of account comprises the orient expenditure on goods and services by the government administrative departments and expenditure of departmental commercial undertakings and transfer of payments in the shape of relief grants subsidies etc. Non development expenditure is exhibited in the budget under two sub categories (a) expenditure on revenue account and (b) expenditure outside the revenue account i.e. other expenditure . Expenditure on revenue account comprises expenditure on all policy making and administrative departments of the government where as other expenditure includes government loans , repayment of government borrowing capital outlay on state trading in foodstuff etc. while expenditure on revenue account is consumption expenditure , other expenditure is connected with the acquisition of physical or financial assets or the reduction of existing liabilities .The development expenditure shown by major heads of account in the budget is the reflection of annual development program of the year commonly



abbreviated as the ADP . This is a capital expenditure incurred with the object of either increasing concrete assets of permanent nature or for reducing recurring liabilities . It needs be noted that certain items of development expenditure are also shown as expenditure on revenue account . However , with reference to revenue budget, all development expenditure is implicitly relegated outside the revenue account.<sup>95</sup>

**(d)CHARGED AND OTHER EXPENDITURE**

Another subdivision of expenditure of the Consolidated Fund , as indicated in the constitution, deserves special mention. This is the distinction between expenditure charged upon the Fund and expenditure other than charged expenditure . They are distinguished by the difference that charged expenditure may be discussed in the Parliament but not voted on while other expenditure is discussed as well as voted on . As laid down in the Article 88 of the Constitution ,<sup>96</sup> the expenditures placed under the charged category includes -

- (a) the remuneration payable to the President and other expenditure relating to his office
- (b) the remuneration payable to the Vice President and other expenditure relating to his office
- (c) the remuneration payable to
  - (1) the Speaker and Deputy Speaker .
  - (11)the Judges of the Supreme Court
  - (111) the Comptroller and Auditor General
  - (iv) the Election Commissioners
  - (v) the Members of the Public Service Commission.
- (d)the administrative expenses of including remuneration payable to officers and servants of Parliament . the Supreme Court , the Comptroller and Auditor General , the Election Commission and the Public Service Commission .
- (e) all debt charges for which the government is liable including interest sinking fund charges , repayment or amortisation of capital and other expenditure in connection with the raising of loans and the service and redemption of debt.:



(f) any sums required to satisfy a judgement degree or award against the republic by any court or tribunal : and

(g) any other expenditure charged upon the Consolidated Fund by the Act of Parliament .

**(e) OTHER EXPENDITURES ON CONSOLIDATED FUND**

All other expenditures other than the charged expenditures are discussed in the Parliament and are subject to vote by Parliament . The bulk of government expenditure belongs to this Article 88. <sup>97</sup>

**(f) THE PUBLIC ACCOUNTS THE COUNTRY**

As per Article 84(2) , the Public Accounts of the Republic is that part of the Annual Financial Statement or Budget which comprises all receipts and expenditures other than those of the Consolidated Fund. The Public Accounts relates to transactions in respect of which the government acts as a custodian or banker. The government holds these receipts in a trusteeship capacity such as General provident Fund , Benevolent Fund , Postal Saving Deposits , various saving instruments issued by the government etc. The government pays interest on these funds excepting on sale proceeds from food aid ,depreciation and renewal of reserve funds of certain departmental enterprises etc. The government does not have any automatic claim on the money in the Public Accounts of the Republic but can borrow from it to meet expenditure.<sup>98</sup>

**KINDS OF BUDGET**

In Bangladesh , Budget may be divided in three categories on the basis of its application.

(a) Revenue Budget includes all administrative expenses of the government grants and subsidies , grants in aid, interests repayment on domestic and foreign loan etc.

(b) Capital Budget includes expenditures of capital nature with the object of reducing recurring liabilities namely loans, advances, investment debt servicing .This expenditure is outside the revenue account .

(c) Development Budget relates to investments involving both short and long range programs to enhance the generating capacity of the economy .The yearly estimates of

development budget is done through the Annual Development Program which shows the development out lay allocation for each sector , a complete list of projects and allocation for each project from local resources as well as external aids . Development Budget includes head wise allocation of project & is divided in to Revenue Account & Development Account. However , the Development Budget is put to vote of the Parliament , not ADP.<sup>99</sup> Under functional classification government expenditure is divided into Ministry , Division, Department and Operational units . Development projects are treated as unique operational units . Economic classification incorporates current expenditures that are grouped mainly as pay and allowances , supplies and services , repairs and maintenance etc.<sup>100</sup> (Table-3 shows the structure of development budget)

### **BUDGET STAGES IN BANGLADESH**

Like other developing countries the budgetary process have three stages in Bangladesh These are

(i) Preparation of Budget (ii) Legislation of Budget and (iii) Execution of Budget .

#### **(1) PREPARATION OF BUDGET**

The Finance Division of the Ministry of Finance of Bangladesh is responsible for preparation of the budget and it's submission to the Parliament .The Finance Division receives estimates of expenditure from all the spending agencies of the government and estimates of receipts . Theses estimates are discussed , finalised and then consolidated in to the budget presented to the parliament .The time prescribed for this process described also as the budget cycle covers about eight months , in practice with slippage it may extend nine months or slightly longer . Sometimes discussions are left incomplete because no more time is available but the proposals are picked up and continued through the financial year.<sup>101</sup>) Although a typical budget calendar in Bangladesh is made to follow. (Table -4 shows the structure of Budget Calendar)

#### **(a) BUDGET ESTIMATION**

The Budget estimation process starts on the basis of the first three months expenditure. At the time of budget discussion data on expenditures for six months are

TABLE – 3

**STRUCTURE OF DEVELOPMENT BUDGET  
(PROJECTS/SCHEMES CATEGORY IN THE DEVELOPMENT BUDGET)**

| <i>Category</i>         | <i>Project</i>                                                                                                                                                                | <i>The authority competent to approve the Projects/Schemes.</i>                                                                                                                                                                                                                                                                                                                                                                                                                                           |
|-------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>"A"<br/>Category</b> | All Project/Schemes costing up to Tk. 2.00 crore, except feasibility study for the Projects and Planning Cell Projects irrespective of their costs.                           | Minister in Charge of the concerned Ministry on the recommendation of Department Project Evaluation Committee. The sponsoring Ministry/ Division of Course, requires submitting to the Planning Commission all such Projects/ Schemes along with evaluation reports within a week of acceptance as technically sound. If there is any deviation from the standard methodology of project evaluation or the project contain serious flows, the Planning Commission whose decision is final in this regard. |
| <b>"B"<br/>Category</b> | All Project/Schemes costing over Tk. 2.00 crore and up to Tk. 5.00 crore.<br><br>All feasibility studies for Projects and Planning Cell Projects irrespective of their costs. | Minister in Charge of Finance on the recommendation of the Planning Commission Project Evaluation Committee.                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>"C"<br/>Category</b> | All Projects/Schemes costing more than these included in 'B' category                                                                                                         | Executive Committee of the National Economic Council on the recommendation of the PC/PEC and Minister in Charge of Finance.                                                                                                                                                                                                                                                                                                                                                                               |

Source: Ministry of Finance of Bangladesh.



available ; In some cases more up to date data are available , which are not always confirmed by the Chief Accounts Officers . Estimation of expenditures on the basis of actual expenditures incurred during the first three or six months can at best reflect the needs of a routine and predictable nature they cannot adequately capture seasonally or lumpy expenditures the latter having a tendency to cluster towards the end of the year.<sup>102</sup> Estimation of expenditures for the next year follows basically an incremental method i.e. given the structure and size of a government unit and the activities that it performs , upward adjustment of expenditure is made on the basis of some historical trend increases in personnel cost , and admission of some new activities or expansion of the existing activities of a minor nature. Major changes in allocation of resources are associated with policy decisions . Ideally , all decisions involving significant expenditure should be taken after considering carefully the financial implications and sustainability , the principle is more honoured by breach . In case of some categories of expenditure entitlements or the units are defined in commodity quantity terms , allocations need to be adjusted for price increases in all these cases , though not always so done . Budgeting on the basis of some physical volume becomes difficult in times of fiscal constraint and rising prices . if there is not enough revenue the government demand may be forced to raise public debt, at the time of price rise higher government demand may stoke further the price spiral and finally it has the effect of indexing public expenditure . Preparation of expenditure budget under resource constraint may produces immediate expenditure displacement and expenditure compression effects and subsequently a problem of catching up . Allocation may not be adequate even for all genuine demands or needs . Some of the needs are then displaced in favour of others within the context of the overall compressed expenditure budget .The purposes or services which receive inadequate allocations tend to deteriorate , restoring term to the required level of efficiency and maintenance would require more resources in the subsequent period . The catching up problem rises presumably while the short supply of resource continues . The assets already built deteriorate fast because of inadequate maintenance, the cost of rehabilitation or rebuilding most often exceeds the capitalised value of maintenance neglected .The



**TABLE-4**  
**BUDGET CALENDAR IN BANGLADESH**

|           |                                                                                                                                                                                    |                               |
|-----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------|
| <i>a.</i> | Printing and distributing of Budget estimation forms to estimating controlling authorities.                                                                                        | End-August                    |
| <i>b.</i> | Distribution of forms to the Controller General of Accounts for obtaining reports of actual expenditure for three months and estimates.                                            | End-September                 |
| <i>c.</i> | Receipt of forms incorporation information from estimating/controlling authorities by Finance Division.                                                                            | End-October                   |
| <i>d.</i> | Receipt of information from C.G.A. by Finance Division.                                                                                                                            | End-January                   |
| <i>e.</i> | Distribution of first edition of the Budget to other Ministries by Finance Division (i.e. Finance Division's estimates of the revised requirement for the year and for next year). | Mid-February                  |
| <i>f.</i> | Budget Discussions with Ministries/Divisions etc.                                                                                                                                  | March through early/mid April |
| <i>g.</i> | Finalization of Budget                                                                                                                                                             | Mid/late April                |

Source : Ministry of Finance of Bangladesh

budget prepared by the Finance Division is based on estimates and demands received from the Ministries , Divisions and the estimating authorities . The Finance Division checks the correctness of the estimates, admissibility of new and additional demands consistency in estimates and demands common to several spending units and finally affordability of the total demand for expenditures received from the various units . The Finance Division has some notion of the total expenditure which can be financed by the projected revenues , relative priorities of the various sectors and demands and how balance among them can be achieved within the context of political administrative decision making process.<sup>103</sup>

**(b) DOMESTIC RESOURCE MOBILISATION**

Domestic resource comprises tax revenues such as Custom and Excise , Income tax, VAT, other minor taxes and non tax revenues such as profit or dividend from public enterprises , ferry and rates charged etc. Trade related taxes still constitute the major portion of the total government revenues . The estimates of revenue receipts are done concurrently with estimates of expenditure . The need for additional resources are established after expenditure estimates are finalised . The balance between the two is maintained on pragmatic consideration . Taxes have a low elasticity which have been showing a downward trend; so the government have had to take discretionary measures to rise more revenues . Such discretionary measures may meet the short term need for additional resource but tend to create greater distortions . The tax administration also is weak . A broad based and elastic tax system is likely to address better the long term needs of the economy by reducing the distortions and loopholes . The relationship between tax and expenditure needs to be recognised for improving overall performance of the economy as well as improving revenues of the government. Revenues collected by the government have contradictory effects on the economy which can be offset by reallocation of those resources for growth or development supportive expenditures . On the other hand , if tax revenues are reallocated to expenditures whose growth or development impact is insignificant or non existent over time a fiscal crisis is likely to make the economy stagnant while the government needs more resources . So the government may have to extort more money from the

economy which would further worsen the situation or it may have to turn increasingly to external assistance which deepens dependence on aid and future burden of debt repayment.<sup>104</sup>(Table-5 shows the Arrangement of Budget).The performance of public enterprises has been anything but satisfactory .Except for the financial institutions and a few public sector corporations . A very little contribution is received from the public corporations side by side among the financial institutions , the contribution by the Bangladesh Bank has been by far the largest which results only incidentally from the central banks policy driven interventions . The manufacturing of public enterprises continue to large sums requiring frequent capital restructuring and equity infusion by the government . The public sector enterprises which make contributions to the governments resources such as telecommunications and petroleum trade in most cases have monopoly positions and follow administered prices.<sup>105</sup>

#### **(c)EXTERNAL ASSISTANCE**

Foreign aid received as grants or conditional loan from multilateral agencies or bilateral sources provides the bulk of the resources for financing the development program. Commodity and food aid provides balance of payments support and the sale proceeds are used to supplement government own resources for meeting local components of development programs . Aid is a non inflationary method of meeting the gap between revenue and expenditure on the one hand and between export and import on the other hand . It helps maintain macro economic balance .The Government had structural adjustment programs under SAF and ESAF during 1980s which continued into 1990 s. The major aims of the programs included stabilisation , sustainable public expenditure and balance of payments positions adequate growth and poverty alleviation. The macroeconomics objectives were supplemented by sectional adjustment measures some of which pre-date SAF or ESAF and have been carried on further during the adjustment programs which stabilisation goals of adjustment programs were achieved , but growth objectives were not met stagnated at the historical low trend around five percent annually . During the 1980s policy reforms have been in the forefront of donors aid policy signifying a shift from the

**TABLE-5**  
**ARRANGEMENT OF BUDGET IN BANGLADESH**

| Components of Receipts in Revenue Budget                                                                                                                                                           | Components of Receipts in Development Budget                                                                                                                                                                                                                                                         |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>1. Domestic Receipts</b><br>a. Tax<br>b. Non Tax                                                                                                                                                | <b>A. Public</b><br><br>1) Domestic<br>a. Revenue Surplus<br>(Revenue receipts minus Expenditure)<br>b. New Measures, if any (New Tax)<br>c. Net Domestic Capital<br>d. Extra Budgetary Resource<br><br>2) Foreign<br>a. Project Aid<br>b. Counterpart Fund from Commodity Aid<br>c. Net of Food Aid |
| <b>2. Foreign Grants</b>                                                                                                                                                                           |                                                                                                                                                                                                                                                                                                      |
| <b>3. Capital Receipts</b><br>(foreign loans)                                                                                                                                                      |                                                                                                                                                                                                                                                                                                      |
| <b>4. Domestic Capital (net of current receipts and Expenditure of Public Accounts)</b>                                                                                                            |                                                                                                                                                                                                                                                                                                      |
| <b>5. Extra budgetary Resources.</b><br>a. Debenture of autonomous bodies<br>b. Self financing of autonomous bodies<br>c. Accumulated balance of autonomous bodies<br>d. Use of materials at stock |                                                                                                                                                                                                                                                                                                      |
| <b>6. Domestic Loan and Advances (net)</b>                                                                                                                                                         |                                                                                                                                                                                                                                                                                                      |
|                                                                                                                                                                                                    | <b>B. Private</b><br>a. Direct Private Investment<br>b. Borrowing from Banking system and<br>c. Foreign Private Investment                                                                                                                                                                           |

Source : Ministry of Finance of Bangladesh.



earlier predominantly project aid approach to program and policy based lending which tries to address distortions of the economy and improvement or stability of policy environment. The conditions not always an unmotivated debt, have been criticised on non economic grounds, for example, erosion of sovereignty, imposition of donors concept of good society etc as well as economic grounds, for example, it applies undifferentiated prescriptions ignoring the structural peculiarities and problems specific to the country, the emphasis on policy reforms and institutional capacity enhancement is predicted to grow stronger in future. The macro economic rational for aid is closing the gap between domestic saving and investment ( required investment being larger than saving ) on the one hand and export and import ( import exceeding export ) on the other hand, closing the gap between government revenue and expenditure was not explicate recognised as an argument in the case for foreign aid. However the government turned out to be the major recipient and user of aid for two reasons: first, the developing countries required large public investment Which exceeded their taxation capacity as well as domestic saving. The government also engaged in many activities which could be taken up and perhaps done better by the private sector such as supply of energy distribution of agricultural inputs, large industries beyond the investment and managerial capacity etc. Secondly donors had to deal with national governments and could not lend to anyone else directly. These perceptions are changing fast. The economic role of the government may shrink and progressively be confined to regulation and policy, the private sector will play a larger part including activities which fall in the grey zone of congested public goods, club goods etc. and private foreign investment will increase. In the changing context, the government may have to act more as a conduit for transfer of money to the private sector and facilitator of private flows. But the country is not yet prepared to play effectively those new roles unless these capacities are increased, both flow and absorption of foreign resource are likely to suffer.<sup>106</sup>

#### **(e) DEVELOPMENT PROGRAM**

The Planning Commission is responsible for preparation of the development program and scrutiny of the viability of the projects. In the recent years there have been

procedural changes shifting the responsibility of examining the projects from the Planning Commission to the administrative Ministries.<sup>107</sup> ECNEC approves project concept papers ; the details of the projects developed on the basis of the approved concepts are considered and approved by DPEC - an Inter Ministerial Committee headed by the Secretary and including representatives of several ministries and agencies such as Finance Division, Planning Commission , IMED , ERD etc . The planning and programming capability of the administrative ministries have not been enhanced matching their new responsibilities . The new procedures may help accelerate approval of projects . However unless the planning capacity of the ministries is enhanced they will not be able to ensure good quality of projects .The Planning Commission has been preparing Three year Rolling Investment Program or TYRIP since 1990-91 . The fifth and the latest TYRIP covering the period 1995-97 was issued in October 1997. The aim of TYRIP is to match development expenditure programs to resource envelope - a learned name for the amount of resource available . It tried to combine fiscal discipline in terms of limiting expenditure to available resource with a degree of flexibility in choice of projects . The program can be reviewed every year and new projects included , provided that the resources are not spread too thin resulting in time over run and associated cost over run . Some flexibility for inclusion of new projects is justified in that the government agencies may come up with good project ideas during the course of an on going TYRIP or new needs may arise.<sup>108</sup> However , it seems that TYRIP has not been effective enough in establishing fiscal discipline .The government announced the 'Participatory Perspective Plan for Bangladesh' 1995-2021 ( PPPB) in July 1995. It emphasises participation by broad groups of people in preparation as well as implementation of development programs. The long term perspective plan sets out a vision for Bangladesh and the potential for growth. It differs from the conventional programs or plans that we are familiar with in that it does not identify specific projects . Realisation of the long term goal and vision would require specification of policies , strategies and programs in the years to come. Pursuit of long term goals , however , requires broad societal consensus on both objectives and strategies in addition to

appropriate institutions . On all these counts , the government has yet to do a lot .As in the past , the government still prepares Five Year Plan or FYP and some programs for realisation of the goals set in the Plan . The TYRIP and PPPB have shifted attention away from the Five Year Plans and in any case with other plans and investment programs in place , FYP no longer enjoys its earlier importance.<sup>109</sup> (Table-6 shows the Development Budget calendar) .

#### **(c) CO-ORDINATION OF BUDGET**

The Budget seeks balance among the following elements : between program of expenditure including development outlay and total resources available for financing the same , between domestic resources and external assistance , between allocation of resources for current expenditure and development outlay within the revenue budget among allocations to different service accounts and items of expenditure and within the development program the allocation of resources among the various sectors and projects . Within the revenue budget the priority are based on some implicit assumptions , not necessarily wide off the mark because they are not based on explicit formal and technical criteria. The priorities of the development programs in developing countries especially in Bangladesh are based on more formal and explicit technical criteria . For effective co-ordination of budgetary aspects, a 'Budget Monitoring and Resources Committee' or BMRC , headed by the Minister for Finance of Bangladesh , provides a formal institutional structure for co-ordination of the overall resources and expenditure programs of the government . The Committee includes representation from the major ministries and government agencies having critical roles in the overall performance and management of the economy such as Finance Division , Internal Resources Division , Ministry of Commerce , Ministry of Industry , Ministry of Food, Bangladesh Bank , Programming Division and General Economics Division of the Planning Commission, Ministry of Planning and Tariff Commission . The BMRC is assisted by a Technical Committee or TC/BMRC headed by an Additional Secretary of the Finance Division , responsible for budget and expenditure control and includes representatives of Planning Commission (programming ) , the IMED, the NBR , Ministry of Food , ERD and Bangladesh Bank.



**TABLE-6**  
**DEVELOPMENT BUDGET CALENDER OF BANGLADESH**

| PERIOD                | ACTIVITY AID<br>MEMORIES/<br>DOMESTIC<br>RESOURCE                                                                              | PROJECT<br>IDENTIFICATION<br>PLANNING AND<br>APPROVAL                                   | ADP ANNUAL<br>DEVELOPMENT<br>PROGRAM                     | ADP ANNUAL<br>DEVELOPME<br>N<br>T<br>BUDGET |
|-----------------------|--------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------|----------------------------------------------------------|---------------------------------------------|
| July/August           |                                                                                                                                | New projects identified; PCP submitted; Approval Arrangements made by EC/NEC/ Ministers | Continuous                                               |                                             |
| November/<br>December | Aid Memorendum prepared by ERD/ Planning Commission; Circulated for comments by Ministry, Domestic Resource Projection NBR/IRD |                                                                                         |                                                          |                                             |
| January/<br>February  | Domestic Resource Estimate Made; Aid Memoir Drafted                                                                            |                                                                                         |                                                          |                                             |
| March/<br>April       | Cabinet Approval Sought                                                                                                        | Continuous                                                                              | Revisions Starts and completed                           |                                             |
|                       |                                                                                                                                | Sectoral Approval                                                                       |                                                          |                                             |
| May                   | Resource position finalised for R/E Budget                                                                                     |                                                                                         | Programming Committee Finalise eligible projects for ADP | Revised Development Budget Finalised        |
| June                  |                                                                                                                                |                                                                                         | NEC approves the ADP                                     | ADP Converted to Development Budget.        |

Source : Ministry of Finance of Bangladesh.



The government set up a Council Committee on Finance of Economic Affairs chaired by the Minister of Finance which includes among, others the Ministers for Planning , Commerce , Industry , Agriculture , Food etc. The Committee met more often than most other Council Committees except ECNEC & Purchase Committee , during the last few years . The Committee reviews broad areas of economic policies including fiscal operations and monetary policies.<sup>110</sup> But the decisions of the ECNEC in many cases are not practical oriented .

#### **(f) POLICY AND TECHNICAL ASPECTS OF BUDGET**

The Budget has two dimensions (a) technical accounting aspect and (b) policy judgement aspect . The technical aspects need skills which is acquired over time by training and application . The policy judgmental aspects are the more critical elements of the budget which reflect government policies as well as their impact on the performance of the economy and behaviour of economic agents . Technical analysis contributes to budget is not a perfect substitute of judgement .The preparation of the budget requires decisions on details - sometimes every minor detail - which together constitute the fiscal instruments for implementing government policies and realising the declared objectives.<sup>111</sup> Formal technical analysis are not always available , while such analysis may be done on the major issues , the minor details are not amenable to such analysis and even if that were possible it would be too expensive and time consuming .It may be mentioned here that the U S A abandoned PPBS because of the enormous demands for data and analysis. . Whoever prepares the budget needs to have a feel of the relationship between policies and the macroeconomics objectives on the one hand and the host of the small decisions on the other hand . The Scholars now described it as budget judgement . Such a feel develops through experience and is enriched by familiarity with the formal or technical literature and interaction with the economic agents .An excessive pre-occupation with expenditure control ignorance of the qualitative aspects of resource allocation and resource redirection may result in certain Budgetary malfunctions. For instance ,if aggregate expenditure is not maintained at an adequate level and appropriately distributed , the economy may get adverse situation and may cumulatively deplete the economics capacity for growth or

development . Preparation of budget , particularly choice of taxation measures and expenditure control , makes tremendous demand on the time , energy ,patience and skills of the persons involved in budgeting which creates a kind of inter personal relationship or communication over riding hierarchical relationship . On the other hand those from the spending agencies who are aggrieved because all their demands were not met eventually reconcile to the budget decision as something unavoidable . Arbitrary decisions by the budget makers help little to resolve the differences with the spending agencies.<sup>112</sup> The later have a better understanding of the technicalities of their operations and the social benefit they generate . The makers of budget are gained by sharing their perception and knowledge . In the final analysis a budget enriched by the departmental knowledge of the technical details and economic judgement of the Finance Ministry does the nation better than an arbitrary cap on expenditure imposed by Finance Ministry . Preparation of budget involves technical skills , administrative capacity as well as political policy . Even a minor official who participates in Budget preparation has to have these skills and be sensitive to administrative capability and political judgements .They can not perform their task unless they enjoy the confidence of the government. The officers of Budgetary preparation must have the political support and perception of the genuine policy obligations of the government . It is important to make the distinction between partisan obligation and policy obligation .<sup>113</sup>

#### **(g) BUDGET DOCUMENTS FOR PARLIAMENT**

The government submits to the parliament a number of documents.<sup>114</sup> They fall into two categories , those which are required under provisions of the Constitution and are approved by the Parliament and those which provide background information but are not required for approval by the Parliament such as review of economy, annual development program etc. Important documents belonging to both categories are mentioned here .Detailed estimates of revenue and receipts present estimated total receipts of the government from all sources including taxes , non tax revenues capital receipts income from assets and enterprises external assistance etc. The bulk of the tax revenue is raised from taxes administered by the National Board of Revenue . A

variety of other taxes each accounting for relatively small amount, are collected by several other agencies. The Parliament takes into account the receipts in judging balance between expenditure and receipt only new taxes and enhancement of rates are subject to approval of the parliament.

Demands for Grants and Appropriations ( Non Development ) present estimated revenue or recurrent expenditure of the government. These estimates are organised by major heads minor heads and detailed heads. The Parliament can discuss the estimates under each of these heads and introduce cut motions separately. These demands are subject to approval by the parliament except charge expenditure. The heads of account are determined by the parliament except charged expenditure. The heads of account are determined by the Comptroller and Auditor General which link the format of budget with accounts maintained by the government. Demands for Grants and Appropriations ( Development ) represent the outlay for the Annual Development Program. The expenditure proposals are shown for different sectors organisational units as well as projects including projects financed by external assistance. The international contents of development budget are the same as ADP. Organisation of development budget by major minor and detailed heads do not conform with the list of heads approved by the Comptroller and Auditor General. However the national budget which contains estimated expenditure for each major head - provides the basis for grant for development expenditure. The Annual Financial Statement also described as Budget Estimates incorporates in summary form the receipts of the government from all sources including external assistance amounts available from the public Account of the Republic as well as expenditure for each major service account category expenditure on account of the development projects etc. all expenditures which are paid out of the Consolidated Fund. It is to be noted that this particular document is described as Annual Financial Statement a term which is used in the Constitution. The term budget occurs in the Rules of the Parliament not in the Constitution.<sup>115</sup>

Budget summary statements include twelve separate summaries representing overall budgetary position result of fiscal operation translation of expenditure into economic



categories etc., There are overlaps and duplication in the various summary statements. Economic character of expenditure is not obvious from the budgetary terminology the quality of economic classification depends on the ability of the officials to interpret economic and accounting data . These format and statements have been adopted at different times to meet particular needs, for example , Budget at a Glance, Summary of Budgetary Operations , Summary of Food Budget, Foreign Loan and Grants ( receipts ) Financing Annual Development Program.<sup>116</sup>

#### **(h) ECONOMIC REVIEW**

In formulation of national Budget economic survey provides an assessment of the performance of the economy , implementation of development program, fiscal and monetary data , some critical real sector data such as production of rice , jute export fertiliser , etc. The government replaced it by Economic Review when presenting the budget for 1995-96 . The Economic Review is shorter and has some policy analysis , however thin, which was absent in the former Economic Survey . The Economic Review and the former Economic Survey provide critical background information. Annual report of the financial institute provides information on the current and historical performance of the public sector financial institutions . Sometimes the report on the financial institutions are circulated separately but during the budget session . These reports have not proved very useful in presenting critical assessment of the conditions of the financial institutions .Budget of the autonomous bodies show the operational programs and the related revenue implications of the non financial public sector enterprises . Budgets of selected autonomous bodies are prepared on the basis of a program approach , this particular format is confined to the public sector which provide market goods and services . In reality the outcome of the operations of the corporations diverge widely form the budget forecasts. Annual development program shows the total development outlay allocation for each sector , a complete list of projects and allocation for each project from local resources as well as external aids . The ADP is the main document showing development outlay . The development budget is put to vote of the parliament , not ADP for execution of projects , however , ADP is used more extensively.<sup>117</sup>



## **(2) LEGISLATION OF BUDGET**

In compliance with Article 87 of the constitution which says ,there shall be laid before Parliament in respect of each financial year , a statement of the estimated receipts and expenditure of the government for the year in this part referred to as the Annual Financial Statement.<sup>118</sup>The Budget is presented to the Parliament on the basis of President's recommendation .The President's recommendation is of course , preceded by discussion and approval of the budget by the Cabinet .Proposed expenditure from the Consolidated Fund as distinct from charged expenditure described earlier is submitted to the vote of Parliament in the form of separate Demands for Grants . The such expenditure submitted to the Parliament for approval by vote is called voted expenditure as distinguished from charged expenditure which is referred to as non voted expenditure .The treatment of the Demands for Grants on their submission to Parliament is regulated by the provision Article 87 (2) of the constitution which lays down that Parliament shall have power to assent to or to refuse to assent to any demand or to assent to it subject to a reduction of the amount specified therein . All receipts of the government on account of taxes , income from assets ,payment of loan , etc are credited to the consolidated fund. No money can be withdrawn from the Consolidated Fund except on the basis of the emergency approved by the parliament and the Appropriation Act . The government may withdraw money from the Consolidated Fund with approval of the President - such as excess expenditure on a service for which the parliament made inadequate provision- subject to subsequent approval of the parliament. All other money received by the government official and not credited to the Consolidated Fund has to be credited to the Public Accounts of the Republic . The government holds these receipts in a trusteeship or Fiduciary capacity- e.g. Provident Fund, Benevolent Fund , Postal Saving Deposits , various saving instruments issued by government etc. . The government pays interest on these funds. There are a few exceptional deposits in the Public Accounts on which interest is not paid- such as sale proceeds from food aid , depreciation and renewal reserve funds of certain departmental enterprises etc . The government does not have any automatic claim on the money in the public grants as vote on account. This procedure allows the

parliament to debate the budget proposals and the policies of the government without interrupting normal operations. Traditionally in Bangladesh the government seeks votes for expenditure . A separate Appropriation Act is passed for the amount of vote on account. The parliamentary practice in the UK allows vote on account for up to 45% of the estimated expenditures for the year.<sup>119</sup>The government often rushes the budget through the house to get approval within June under the wrong impression that it must be done before the financial year is over , thus cutting short the time for debate .The constitutional provisions for supplementary grant and excess grant allow the government to incur expenditure in excess of the provision in the approved budget as well as for services for which no budget provision exists . There is a difference between supplementary and excess expenditures . When no grant exists in the approved budget , the government has to seek supplementary grant , when the approved budget contains authorisation of expenditure but the amount is inadequate , the government has to seek excess grant . According to practices in all parliamentary governments , prior approval is obtained for supplementary grant while post facto approval is in normal excess expenditure . Excess expenditure , however , can be sanctioned by the president but has to be placed before the parliament early . The budgetary practice in Bangladesh does not make any distinction between supplementary grant and excess grant both are treated as excess expenditure which is contrary to financial accountability of the government . Budget discussion in the Parliament takes place in three stages (a) general discussion on the budget as a whole(b)discussion of charged expenditure and (c) voting on demands for grants relating to other expenditure . During the general discussion , the House is at liberty to discuss budget as a whole or any question of principle involved therein . The Finance Minister has a general right to reply at the end of the discussion . But at this stage neither a motion is allowed to be moved nor is it allowed to the vote of the House . Then the discussion of Demands for Grant relating to charged , expenditure commences but they are not submitted to the vote of the Parliament .At the third stage , voting on demands for grants relating to other expenditure takes place .A separate demand is ordinarily made in respect of the grant proposed for each Ministry The

Finance Minister, of course can include in one demand grants proposed for two or more Ministries or Departments make a demand in respect of expenditure which cannot readily be classified under a particular Ministry. Each demand contains first a statement of the total grant proposed and then a statement of the detailed estimate under each grant divided into items. Motions are allowed to be moved to reduce a demand for grant but not to increase a grant or to alter the destination of a grant. No amendment to motions to reduce any demand or grant is permissible, Further motions cannot be moved for reduction of any charged expenditure.<sup>120</sup> However, reduction of demand may be discussed in any of the following ways.

**(a) DISAPPROVAL OF POLICY CUT:**

A member giving notice of such a motion indicates in precise terms the particulars of the policy he proposes to discuss. The discussion is confined to the specific point or points mentioned in the notice and it is open to members to advocate an alternative policy.<sup>121</sup>

**(b) ECONOMY CUT :**

In this kind of motion notice, a member suggests that the amount of the demand be reduced by a specified amount. Such specified amount may be either a lump sum reduction in the demand or omission or reduction of an item in the demand. The notice indicates briefly and precisely the particular matter on which discussion is sought to be raised. In this case speeches are confined to the discussion as to how economy can be effected.<sup>122</sup>

**(c) TOKEN CUT :**

Token cut motion is moved with a view to ventilate a specific grievance which is within the sphere of the responsibility of the government. Discussion on such a motion is confined to the particular grievance specified in the motion. All motions for reduction should be related to one particular Demand for Grant and not to any Charged Expenditure. It may be noted that while proposals for expenditure from the Consolidated Fund is dealt with by the House in the manner described above, expenditure side of the Public Accounts of the Republic does not require a similar treatment.<sup>123</sup>



**(d) APPROPRIATION ACT :**

As soon as Parliament has completed discussion on Charged Expenditure and voted on the Demands for Grants, a bill known as Appropriation Bill embodying both the charged expenditure and other expenditure is introduced in Parliament in pursuance of the Article 90 of the constitution . The charged expenditure included in this Bill must not exceed the demands originally shown under this category in the Annual Financial Statement . Likewise the voted expenditure included in the Bill must be identical with the grants already voted by the Parliament .The procedure in regard to the Appropriation Bill is the same as for other bills with such modifications as the Speaker considers necessary except that it cannot be referred to any committee . Proposal for amendment to the Bill which has the effect of varying the amount of any grant made by the House or altering the purpose to which it is to be applied or varying the amount of any expenditure charged on the Consolidated Fund is not allowed . The debate on the Appropriation Bill is restricted to matters of public importance or administrative policy implied in the grants covered by the Bill which have not already been raised while , the relevant demands for grants were under consideration . After adoption by Parliament , the Appropriation Bill is presented to the President for his assent . With the assent of the President ,it becomes the Appropriation Act and creates the basis for all withdrawals from the Consolidated Fund for the coming financial year.<sup>124</sup>

**(e) FINANCE ACT**

Finance Bill is presented to the Parliament during the Budget session in pursuance with the Article 83 of the constitution which lays down that no tax shall be levied or collected except by or under the authority of an Act of Parliament . Finance Bill , embodying the new tax measure is interdicted in each year to give effect to the finance proposals of the government for the following financial year . The salient feature of the Finance Bill often constitute the central point of interest in the Finance Ministers budget speech . This Bill is dealt with by the parliament through a procedure of consideration and debate comparable to that leading to the Appropriation Bill . During consideration any member may discuss matters relating to general administration ,



local grievances within the sphere of the responsibility of government or monetary or financial policy of the government. On adaptation by parliament Finance Bill is presented to the President for his formal assent . With the assent of the President it becomes Finance Act and is published in the gazette as an Act of Parliament . Non tax revenue receipts do not however require a treatment of the kind that taxation requires . Receipts into the Public Accounts of the Republic reflected in the Annual Financial Statement, are also exempted from such treatment.<sup>125</sup>

**(f) ADDITIONAL EXPENDITURE**

The estimates of expenditure embodied in the Annual Financial Statement as approved by the parliament are supposed to represent government need for additional funds may arise within the financial year for purposes not provided for in the current budget or a purpose for which the existing budget provision has been exhausted . To meet such pressing emergencies which cannot be accommodated within the provision available , the following procedures are adopted (a) Re-Appropriation of Funds (b) Provision for Unexpected Expenditure and (c) Supplementary Budget.<sup>126</sup>

**(g) RE-APPROPRIATION OF FUNDS**

Ministries , Divisions and Heads of Departments are empowered to re- appropriate funds between budget provisions on certain items within same Demand of Grant subject to certain general restrictions as specified in a booklet entitled Delegation of Financial Powers published by the Finance Division . One general rule in this regard is that an authority shall not meet by re-appropriation an expenditure which he is not empowered to meet by appropriation .The Finance Division of course can sanction any re- appropriation within a grant from one major, minor or subordinate head to another . But no re- appropriation from one Demand of Grant is admissible under statutory rules even Finance Division is not competent to make such a re- appropriation as Demands for Grants are voted by the Parliament or authorised by the President. Non- appropriation is also admissible from a charged head to a voted head as the voted grant cannot be increased except by the parliament .Furthermore , appropriation from a voted to a charged head is admissible but the Finance Division can sanction supplementary funds for any charged service against earmarked savings under

specified voted grants , provided that executive orders are issued to the authority controlling the specified voted grants to restrict the expenditure within the reduced figure.<sup>127</sup>

#### **(h) PROVISION FOR UNEXPECTED EXPENDITURE**

Under Article 92 (b) of the constitution<sup>128</sup>there is a provision for making a grant for meeting an unexpected demands upon the resources of the Republic when on account of the magnitude or the indefinite character of the services the demand cannot be specified with details ordinarily given in the Annual Financial Statement . In pursuance with this provision of the constitution in every financial year a lump sum amount usually Taka 50 crore is provided in the Revenue Budget as a separate Demand for Grant for Unexpected Expenditure . For any fund from the head Unexpected Expenditure the administrative Ministry or Division requires to send a self contained proposal to the Finance Division well in time . In this proposal besides giving a justification for the proposed additional expenditure and the reason why it could not be foreseen earlier and provided for in the original Budget , the administrative Ministry or Division has also to give (a) the recurrent expenditure if any that will have to be admitted in future years if the proposal is accepted (b) an analysis of the Budget Grant to which the expenditure is debatable indicating inter alia the expenditure already incurred under the various sub heads and(c) the reasons why the proposed expenditure cannot be partly or wholly accommodated within the balance of the provisions under these sub heads by effecting appropriate economy . On receipt of such a proposal the Finance Division in the first place examines the proposal in respect of its justification and magnitude and thereafter allocates the additional funds considered admissible and feasible .

#### **(i) SUPPLEMENTARY BUDGET**

The more important constitutional method of meeting unavoidable need or emergency for additional funds that can not be accommodated within the original budget provision is the presentation to the parliament a supplementary financial statement setting out the estimated amount of the expenditure or as the case may be an excess financial statement setting out the amount of the excess . Demands for Supplementary

Grants can be made only under extra ordinary circumstances . The administrative Ministries or Divisions require to furnish to the Finance Division a full justification including an explanation for the failure to foresees the additional expenditure at the time of submitting proposals for original budget provision . Expenditure in anticipation of the authorisation of a simple monetary grant is possible only with the prior concurrence of the Finance Division . The procedure of discussion and approval of supplementary budget by the parliament is the same as in the case of the Annual Financial Statement.<sup>129</sup>

**(j) EXCESS BUDGET**

An Excess Budget embodies the additional expenditures that is found after the close of the year , to have taken place in excess of demands granted by Parliament through the Annual and Supplementary Budgets for a particular year . In such a case the president under Article 91 of the constitution shall cause to be laid before the Parliament and excess financial statement citing out the amount of the excess .The procedure for discussion and approval of Excess Annual Financial Statement by the Parliament is similar to that is applicable to the Annual and Supplementary Budgets.<sup>130</sup>

**(k) VOTE ON ACCOUNT**

If in any particular year the full procedure leading to the approval of the Appropriation Bill cannot be completed to be commencement of the financial year , Parliament has the power under the Article 92(a) of the constitution to make an advance grant in respect of the estimated expenditure for a part of the year , such an advance grant is called Vote of Account . On completion of the full procedure leading to the enactment of the Appropriation Act the amounts granted in advance through Vote of Account are subsequently merged in the amount granted for the whole year.<sup>131</sup>

**(3) EXECUTION OF BUDGET**

For the developing countries execution of Budget is the task of the executive branch .In Bangladesh it is not only mere a official task but also a big responsibility



.Perfectly execution of budget is not an easy thing . A successful execution of national budget is the milestone for national development. For systematic execution of budget in Bangladesh ,the following things should be remembered.

**(a)BUDGET SEEKS BALANCE:**

For effective execution, Budget seeks balance (i) between program of expenditure including development outlay and total resources available for financing the same (ii) between domestic resources and external assistance (iii) between allocation of resources for current expenditure and development outlay (iv) within the revenue budget among allocations to different service accounts and items of expenditure and (v) within the development program the allocation of resources among the various sectors and projects . So making balance among the various allocations and resources mentioned in the Budget are basic criteria for effective execution of budget.

**(b)MONITORING CELL:**

In Bangladesh a Budget Monitoring Resources Committee or the BMRC by the Finance Minister provides a formal institutional approval for co-ordination of the overall resources and expenditure of the year of the government. The committee includes presentation from the major ministries and government agencies having critical roles in the overall performance and management . After the budget along with the Finance Bill is passed by the Parliament its implementation rests with the executive ministries , their attached and subordinate offices.

**(c) SECRETARY AS PRINCIPAL ACCOUNTING OFFICER:**

The Secretary of the concerned ministry , division in the capacity of Principal Accounting Officer is responsible for ensuring budgetary and financial discipline within his jurisdiction . The overall responsibility however lies with the Finance Division under Ministry of Finance . The authorisations embodied in the Appropriation Act constitute only the outer frame work of budgetary control . Actual expenditure depends on two conditions sanction by competent authority and provision of adequate funds . The powers to issue expenditure stating objects and amounts are distributed among various levels of executive authority in a given pattern of delegation of financial powers laid down by Ministry of Finance.<sup>132</sup>



**(d) THE AUDITOR GENERAL'S RESPONSIBILITY .**

In the task of ensuring the observance of budgetary limits Audit Department also plays a very crucial role . The Auditor General examines and verifies the accounts after the transactions are completed in order to discover and report to the legislature any unauthorised , illegal and irregular payments , any financial practices which are unsound and any shady transactions which the administration has entered into . He seeks to enforce accountability to the Parliament .In the way of budget execution , lot of things happen. But it is the responsibility of persons and organisations concerned to execute budget sincerely and efficiently for the betterment of the country.<sup>133</sup>

**COMPARATIVE ANALYSIS**

As we have discussed the budget system of various countries ,it would be now better to have a comparative look among the systems . For our benefit ,we would like to compare between developed and developing countries. The countries are the United Kingdom ,the United States ,India and Bangladesh. Broadly speaking the British Budgetary process is the same as the Indian and Bangladesh . But certain differences may be noted among the countries . Firstly , Britain has only one Budget . There is no separate Railway Budget as we see in India . In Bangladesh , before 1981 there was a long tradition in Budget system to present Railway Budget separately .But after 1982 it was abolished to present Railway Budget separately. In the USA there is no system to place Budget separately . Secondly , the budget speech in India and Bangladesh are made by the Finance Ministers as soon as the budget is laid on the table of the House . But in the U.K the budget speech is made by the Chancellor of Exchequer at a later stage when the revenue part of the budget is introduced in the 'Committee on Ways and Means'. Unfortunately in the USA there is no budget speech system .Thirdly , in India budget is laid before both the Houses of Parliament and is discussed in both the Houses but in U.K it is not introduced and discussed in the House of Lords . But in Bangladesh it is discussed in the Parliament which is one chambered. Fourthly , in the U.K , the voting of demands and of revenue is done in the Committee of the whole House known as the Committee of Supply and the Committee of Ways and Means

respectively but in Bangladesh and in India the House does not sit as a Committee of the Whole House .In India the Lok Sabha itself takes up and passes the budget . We will see later that in Bangladesh ,the procedure is as like as India. Fifthly , in India the budget reaches the President 14 days after it has been passed by the House of people , in Bangladesh it is two weeks , while in the U.K it is presented to the Queen 30 days after it has been passed by the House of Commons . For the rest , the budgetary procedure in Britain has the same features as in India and Bangladesh . As a matter a fact the former is the model on which the later is based .However, the budgetary system of the United States is not well-organised where in Bangladesh and India it is more organised and systematic. But In the USA , the Congress is very powerful regarding financial matters but there is a check and balance and the principle of separation of power is strictly followed.<sup>134</sup>

Bangladesh and Singapore has been trying to bring reforms in fiscal matters. Singapore as a country like ancient City State in Greece has been a rich country for its good administration and strictly applies its laws. Their budget reform system could be a good example for Bangladesh .So it would better to make a comparative discussion in this aspect. Singapore also inherited its financial management and accounting system from British colonial regime . From 1st April , 1978 Singapore embarked on a process of financial management reform . During the last two decades, Singapore implemented three reform programs and they are going to undertake another reform program of Financial Management System by the year 2000. The experiences of several reform programs have given Singapore a unique financial management and classification structure .In comparison with Singapore classification structure our proposed classification structure seems to be more logical . But combination of alphabet and number in the classification structure will not be suitable for Bangladesh . There are forty eight Ministries , Divisions in Bangladesh and this is why it is not possible to allot an alphabet as classification code for each of the Ministries , Divisions . In the Singapore classification structure seven digit account number ( economic codes ) is used to classify expenditure , revenue asset or liability etc. In our thirteen digit classification structure is simpler than seventeen digit

Singapore classification structure . Our new classification system will facilitate derivation of IMP government financial statistics which is no possible in the existing classification . Due to this limitation Bangladesh financial statistics could never be included in the IMP Government Finance statistic Yearbook which includes information of most countries of the world .The existing Financial Management System of Singapore known as Budgeting for Results is aimed at making public servants more focused on the outputs to be delivered and more customer oriented . The fundamentals of the BFR process is the identification of output and performance targets ensure greater accountability and value for money for the government organisation . On the contrary the present budgetary system in Bangladesh shows budget allocation in terms of cost of imputes . They do not identify either the volume of imputes or the out puts expected from public expenditure .In this situation it is not possible to examine whether a particular expenditure was in public interest and whether the policy goals were achieved . To overcome these weaknesses and limitations budgetary approach in Bangladesh must be changed . Under the existing socio- economic conditions of Bangladesh , it may not be possible to introduce a financial management system like Budgeting for Result . But financial management system like 'Program Budgeting' which emphasises on things to be done and systematically identifies the programs and activities necessary to achieve the goals , may be considered appropriate for Bangladesh . Initially Program Budgeting may be introduced on experimental basis in selected areas and our target should be switching over to a financial management system like Budgeting for Results within next few years . Therefore the ongoing reform process within the framework of RIBEC project system of Bangladesh in line with developments other countries .The Ministry of Finance , everywhere in the world , has a leading role to play to ensure efficient use of resources and to establish value for money culture . In many countries the Finance Ministry ,Treasury has successfully performed this function not through policing or regulatory mechanism but through establishment of an efficient and transparent budgeting and accounting regime .Through the RIBEC project the Ministry of Finance of Bangladesh is setting up a springboard for gradual progression to a modern



budgeting and accounting structure and is hoping to establish itself the way its counterparts in other countries are organised . The process of this transition is time consuming and it involves organisational , structural, functional and attitudinal changes , it calls for suitable actions to manage this change process and above all political commitment . Fortunately the overall environment in Bangladesh is now favourable to carry forward the reform process to its logical end and hopefully within a few years time Bangladesh will not lag behind other developing countries in the field of financial administration.<sup>135</sup>

### **NATIONAL FISCAL POLICY' 98 : AN ANALYSIS**

The Budget of the Government of Bangladesh has declared in the budget session of parliament .(Table -7 shows the Budget and Financing for the year 1998 including a comparative figures of the previous years.) To plan a budget a statement of practical economy , for a poor and developing country like ours is really a very difficult and tough job, when the country is beset with numerous social and economic vices , where economy is not disciplined and the countries foreign exchange reserve is at the lowest level . Reorganisation and reconstruction of a deviated and shattered economy in the field of heavy odds , dire economic crisis , price spiral and high inflation , is a difficult task . However, during the previous years the policy makers of the county gradually and very slowly marching the nation towards achievement of economic development by alleviating the sufferings of the millions of people through deferent socio economic welfare programs .The budget bears certain weak points ,which it is hoped that the government will reconsider and bring necessary adjustment for total welfare of the nation.<sup>136</sup>

Firstly allocation of Taka 15,937.00 crore and Taka 13,600.00 crore for expenditure in revenue and development programs respectively is an indication of governments sincere and honest efforts to make the budget effective and that the nation becomes self sufficient in food . The budget will also make opportunities for employment and its utilisation by he people to cheek the price hike and bring stability in the price of essential commodities and thus to give the national economy an empties to fulfil the



on foreign aid which are always uncertain and its flow is often uneven. But it is also true that no nation, particularly developing nation like Bangladesh can really prosper and make progress without foreign aid. In this budget special care has been taken in allocation in the agricultural and rural sectors. Our economy is basically agrarian and careful and large sum of allocation is the another salient feature of the budget. The importance given on agriculture will no doubt boost agricultural production provided proper attention is applied. But the budget could not show concern for the well being of the rural people. Another salient feature of the budget is the highest allocation of Tk 2942.00 crore for education sector. It does not bear testimony and honest efforts of the government to raise the level of literacy in the country. But proper utilisation of allocated funds is highly required. However allocation for population control health, transport and communication including urban and rural uplift are not also substantial.<sup>138</sup> As a whole the declared budget is not very much people oriented and it does not carry a welfare motive of the policy makers. (Table-8 shows sectional allocation of annual development program).

### **REFORM IN FISCAL ADMINISTRATION**

Bangladesh inherited the existing financial management and accounting system from the British Indian rule. It was amended from time to time after 1947 and 1971 by the Government of Pakistan and Government of Bangladesh respectively. But no major reform was undertaken. For the first time Bangladesh is implementing a major reform program of government budgeting and accounting system under Reforms in Budgeting and Expenditure Control or the RIBEC Project of the Finance Division which started in January, 1995. Like other developing countries such as Pakistan, Nepal, Bhutan and India, Bangladesh has been undergoing for budgetary reform. The budgetary process is no doubt unscientific and backdated. It is mostly done by the clerks of the budget wing of the Ministry of Finance. So the quality of output of budget can be easily assumed. The officers of the budget wing of the Ministry are not well trained, meritorious and dynamic. Most of the officers do not have academic background in the discipline of Economics or Finance or Public administration.

TABLE-8

**SECTORAL ALLOCATION OF ANNUAL DEVELOPMENT PROGRAM OF  
BANGLADESH 97 - 98**

| Sl No | Sector/Program                                    | Local Currency | Project Aid | Total  | %     |
|-------|---------------------------------------------------|----------------|-------------|--------|-------|
| 1.    | Agriculture                                       | 3.00           | 3.24        | 6.24   | 4.88  |
| 2.    | Rural Development & Institutions                  | 5.20           | 4.40        | 9.63   | 7.53  |
| 3.    | Water Resources                                   | 4.25           | 6.39        | 10.64  | 8.32  |
| 4.    | Industries                                        | 1.00           | 0.24        | 1.23   | 0.97  |
| 5.    | Power                                             | 9.30           | 5.19        | 14.49  | 11.33 |
| 6.    | Oil, Gas & Natural Resources                      | 2.30           | 2.69        | 4.99   | 3.90  |
| 7.    | a) Transport                                      | 8.30           | 7.02        | 15.32  | 11.97 |
|       | b) Jamuna Bridge                                  | 2.65           | 4.28        | 6.93   | 5.41  |
| 8.    | Communication                                     | 2.10           | 0.74        | 2.84   | 2.22  |
| 9.    | Physical Planning, Water Supply & Housing         | 4.00           | 4.50        | 8.50   | 6.64  |
| 10.   | Education & Religious                             | 11.0<br>0      | 5.86        | 16.85  | 13.17 |
| 11.   | Sports & Culture                                  | 0.80           | 0.01        | 0.80   | 0.63  |
| 12.   | Health                                            | 2.45           | 3.42        | 5.87   | 4.59  |
| 13.   | Family Welfare                                    | 1.95           | 3.49        | 5.44   | 4.25  |
| 14.   | Mass Media                                        | 0.35           | 0.15        | 50.55  | 0.39  |
| 15.   | Social Welfare, Woman's Affair & Youth Dev.       | 1.30           | 0.36        | 1.66   | 1.30  |
| 16.   | Public Administration                             | .065           | 0.45        | 1.10   | 3.86  |
| 17.   | Science & Technology                              | .45            | -           | 0.45   | 0.35  |
| 18.   | Labour & Manpower                                 | 0.10           | 0.15        | 0.10   | 0.08  |
|       | Total Sector                                      | 61.1<br>5      | 52.50       | 113.65 | 88.79 |
| 19.   | Dev. Assistance to Thanas                         | 2.00           | -           | 2.00   | 1.56  |
| 20.   | Dev. Assistance to Municipalities                 | 1.20           | -           | 1.20   | 0.94  |
| 21.   | Special Allocation for CHT Dev                    | 0.25           | -           | 0.25   | 0.20  |
| 22.   | Block allocation for Development of special areas | 0.05           | -           | 0.05   | 0.04  |
| 23.   | a) Block allocation for Zila Parishad             | 0.50           | -           | 0.50   | 0.39  |
|       | b) 3 LGs of CHTs                                  | 0.06           | -           | 0.06   | 0.05  |
| 24.   | City Corporations                                 | 1.10           | -           | 1.10   | 0.86  |
| 25.   | Dhaka City Flood Protection                       | 0.19           | 0.60        | 0.79   | 0.62  |
| 26.   | Canal Digging                                     | 0.05           | -           | 0.05   | -     |
| 27.   | Unallocated Block                                 | 1.00           | 0.06        | 1.06   | 0.83  |
|       | b) Total Block Allocation                         | 6.40           | 0.66        | 7.06   | 5.52  |
|       | Total (Sector + Block)                            | 67.5<br>5      | 53.16       | 120.71 | 94.31 |
| 28.   | Self Financed Program                             | 1.75           | 0.16        | 1.75   | 1.37  |
|       | Total (Sector + Block+ Self Financed)             | 69.3<br>0      | 53.16       | 122.47 | 95.68 |
| 29.   | Food for Work                                     | 5.53           | -           | 5.53   | 4.32  |
|       | Grand Total                                       | 74.8<br>3      | 53.16       | 128.00 | 100   |

Source : Ministry of Finance of Bangladesh.

Not only that the budget preparation process, collection of data are not very effective. For which the whole budget system is not a perfect and appropriate system to meet the target of the fiscal policy of the government.<sup>139</sup> The reform aspects would be discussed in details in the later chapter

## **FISCAL PROBLEMS IN BANGLADESH**

Formulation of fiscal policy for developing countries including Bangladesh is based on conceptual problem. But generally the fiscal problems or budgetary problems in developing countries are very much formal or institutional. The conceptual problems are no doubt related to economic aspects of the government. Because the problems are the product of national fiscal policy. As we have seen in the previous discussion that the developing countries are not financially so strong and for this reason they are not sufficiently able to develop institutional framework to formulate their national Budget according to their fiscal policy. Nevertheless, the basic problems of that countries as far as fiscal aspects are concerned are management problem, lack of integrity of the policy makers, lack of computerisation, lack of data and information, clerical dependency, lack of initiatives. All these problems in the field of fiscal management have been affecting the national policies and creating serious obstacles for the overall development of the country. However The CORIBEC identified some major areas of weaknesses of budget in Bangladesh. The Government of Bangladesh fail to identify a resource envelop within which expenditure decisions are taken in advance of the start of the budget process. The government could not use budget as a major resource allocation tools by concerned Ministries or Divisions. In Bangladesh, it is very difficult to identify expenditure between revenue and development in a meaningful manner. The presentation of budget information is complex it is difficult to identify and analyse data by either program or responsibility. The budget system is partly computerised and not yet designed for full computerisation. The financial rules and regulations are not updated. There are acute short supply of adequately trained personnel. The Ministry of Finance can not produce up to date government accounts and any other



on foreign aid which are always uncertain and its flow is often uneven. But it is also true that no nation, particularly developing nation like Bangladesh can really prosper and make progress without foreign aid. In this budget special care has been taken in allocation in the agricultural and rural sectors. Our economy is basically agrarian and careful and large sum of allocation is the another salient feature of the budget. The importance given on agriculture will no doubt boost agricultural production provided proper attention is applied. But the budget could not show concern for the well being of the rural people. Another salient feature of the budget is the highest allocation of Tk 2942.00 crore for education sector. It does not bear testimony and honest efforts of the government to raise the level of literacy in the country. But proper utilisation of allocated funds is highly required. However allocation for population control health, transport and communication including urban and rural uplift are not also substantial.<sup>138</sup> As a whole the declared budget is not very much people oriented and it does not carry a welfare motive of the policy makers. (Table-8 shows sectional allocation of annual development program).

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| 29.   | Food for Work                                     | 5.53           | -           | 5.53   | 4.32  |
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financial information . The government is administering an inadequate cash management resulting in sub optimal resource allocation decision making . The budget process is totally dependent on bureaucratic procedures and mentality and there are less involvement of the parliamentary committees regarding financial aspects.<sup>140</sup>

## **ASSESSMENT**

Fiscal Administration in Bangladesh is not satisfactory for various reasons. The conceptual aspects of fiscal matters are not very much clear to the people. The operational aspects of budget are the replica of imposing impractical taxes, mismanagement of public funds, outdated procedures and uncoordinated information. The structural aspects are seriously controversial in Bangladesh . But the other developing countries in this respect has developed tremendously . Even country like Bhutan have developed a good budgetary system . But we could not do it as per desire of the time. Although a reform committee has been working in this line but performance level is not very high. A quick and effective initiative in order to frame a good fiscal system is now highly expected . However , regarding national budgetary policy it can be said that in the face of heightened consciousness about the magnitude of various national problems , the national budget are not judiciously framed in the past . It is not development oriented or production boosting or inflation preventing and price stabilising .Through the budget the governments in the past of Bangladesh always tried to show its determination to alleviate poverty and put the nation on the path of progress and prosperity . It is a hard fact that all the woes of the nation can not be waived overnight . But it would have been appreciated if careful thought could have been given in preparation of the budgets every year to suit the needs of the common people . For Bangladesh , like many other developing countries , budget is considered a big job for the government and the government seeks credit for budget . However, the emphasis of fiscal policy in Bangladesh since beginning of the decade has been to keep the wheels of development moving a rapid pace within an overall framework of macro economic stability . Towards this ends , the

government must make stronger commitment to fiscal and monetary conservatism to attain the goals in macro-economic stability . The policies for keeping lower inflation ,higher national savings GDP and fiscal revenue GDP ratio ,a lower external current account GDP ratio and most importantly control of the overall fiscal deficit to within the country's capacity to finance it with out causing macro economic destabilisation have to be ensured by the government . In this connection resource mobilisation is a vital factor . For a successful fiscal management in Bangladesh ,it is very necessary to remove the structural ,functional as well as conceptual barriers in the process of making budget for achieving financial goals of the country .<sup>141</sup>



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## CHAPTER- FIVE

# FINANCIAL ADMINISTRATION & PARLIAMANTARY CONTROL IN BANGLADESH

### INTRODUCTION

Public Administration and Finance are closely associated disciplines and each dependent upon the other . Advances in administration have invariably called for and indeed been accompanied by parallel advances in audit , accountancy and other financial techniques . From the supply and management of money , which has always been a governmental responsibility , public money has become more and more involved in the deployment of the overall resources of the community . By generalising in monetary terms the nation's available resources finance has rendered it possible to bring a diversity of things and services under a common denominator to add guns to butter, to total different human skills , to reach comparable answers in the form of costs , incomes and expenditures and to produce statements , known as balance sheets .This balance sheets demonstrate the governments or nation's current financial position and suggest future prospects .Keeping this in mind ,the Parliamentary role regarding finance of the country can be examined. The financial business of the Parliament is divided into two distinct but interweaving processes , concerned respectively with authorising supply and raising the necessary moneys . Although these two streams of activity are going on concurrently, it will for simplicity's sake be helpful to consider each separately.<sup>1</sup> The Parliamentary Committees are vital parts of the institutional dialectics of supervision , control , vigilance and consensus within the framework of contemporary parliamentary governments throughout the world . Accountability of the executive to the legislative body is the basic principle in democratic set up <sup>2</sup> . As a body of representing the

people, it becomes the duty of the legislature to ensure that the administration of the country is carried on in consonance with the aspirations and expectations of the people. The enormous volume of government operations in the modern day makes it difficult for the legislature to spend enough time to ensure the accountability effectively<sup>3</sup>. Hence the necessity for entrusting the task to some other agencies in which the House has confidence was deeply felt. The committee system has evolved to satisfy this requirement. The Parliamentary committees are composed of small numbers of members reflecting more or less the party position in the House for which reason they are usually termed as Miniature Parliament.<sup>4</sup> The Committees perform the work of the Parliament by scrutinising executive policies and actions and reporting to the House its conclusions. The Committee system has been found very effective in keeping watch on executive activities of the running government of the modern countries.

#### **PARLIAMENTARY STANDING COMMITTEES ON FINANCE**

The Standing Committees of Parliament for financial aspects play an important role in the system of parliamentary control over finances. These Committees ensure that the objectives of parliamentary control over public finances are fulfilled. The Parliament as a general body is too big to exercise any specific control over public expenditures. So it is therefore left to the Committees to act as the trustees of the Parliament in keeping a strict watch over the public purse<sup>5</sup>. The Parliamentary Committees can play a role of a watchdog in order to control public money. A proper and effective control over people's money is not only necessary to ensure fidelity of the public officials but also to accomplish program targets of the national government at minimum cost and minimum time. It is widely recognised that such control is absolutely necessary for proper and accountable financial administration. Normally there are two types of control on finance in any government system. One is internal control which is known as budgetary control another is external control which is known as parliamentary control.<sup>6</sup>

In most of the democratic countries there are at least two Parliamentary Committees on financial matters and some countries there are three committees. These are namely (a) The Public Accounts Committee (b) The Estimates Committee and (c) The Committee on Public Undertakings.<sup>7</sup>

### **IMPORTANCE OF THE COMMITTEES**

The Parliamentary Committees are very effective committees of the national government to ensure financial accountability and transparency. Because the Secretaries of the Government who are the Principal Accounting Officers along with their senior executives and heads of departments attend the Standing Committee meetings and reply to the objections regarding the financial irregularities relating to their Ministries. For this reason, the Ministries and the government become cautious about the expenditure of the public money following correct procedures.<sup>8</sup>

The Committees has lightened the burden of the Parliament. Because the committees are specially meant to examine public accounts of Public Undertakings in which the high investments are involved. So the committees help the Parliament to get a comprehensive understanding of public expenditures and the working of the Undertakings. Its method of work is practically the same as the other committees of the Parliament. The Committees are constitutionally authorised to examine the nature of expenditure of the public money and the appropriateness, justification and legality of expenditure.<sup>9</sup>

Parliamentary control over public expenditures can be fully effective only when it is comprehensive in its scope and character. It is not sufficient to ensure that the expenditure has been made economically and logically and within the grants and for the purposes approved. It is equally necessary to provide for a detailed examination of the estimates presented to the House to secure possible economy in the execution of plans and programs. However, in practice the Public Accounts Committee carries only a post mortal examination of public accounts. It cannot therefore provide sufficient checks over the excess and misappropriations done by the Executive. The

examination of the estimates presented to the House is done by the Estimates Committee of the Parliament<sup>10</sup>.

The activities of government are now a days so widespread that the legislature does not have the time for detailed investigation of the financial transactions of administration. This is done by the Auditor and Comptroller General who is a creation of the Constitution. He functions independent of the executive control and is to all intents an officer of the legislature.<sup>11</sup> He audits all expenditures from the revenues of the incurred in and outside the country. He ascertains whether moneys shown in the accounts as having been disbursed were legally available for and applicable to the service. He also looks the purpose to which the expenditure have been applied or charged and whether the expenditures conforms to the authority who governs it. The procedural and technical irregularities of audit are the part of audit administration. The officials are held to account for such irregularities their part. The role of audit in financial administration has been discussed in the next chapter. However, the Public Accounts Committee examine and consider the audit reports and provide necessary suggestions for improvement. But in practice, in many developing countries the Parliamentary Committees could not work due to non co-operation of the bureaucracy and unscientific procedures of government functions<sup>12</sup>.

### **UTILITY OF PARLIAMENTARY DISCUSSION**

The members of Standing Committees often take part in the parliamentary discussion. As a member of the Parliament it is their right to disclose all aspects of administrative irregularities in front of the House to keep informed the nation. The Members of the Parliamentary Committees normally want to discuss the issues in the meeting of the committees. But when they could not do it, they place the matter before the House. There is no doubt about the utility regarding discussion in the house by the representatives of the people. The Parliament Members have the right and scope to discuss any matter pertaining to the interest of the people, because the people elected them for this purpose. It is the parliamentary provision



that no money can be spent by the administration without proper authorisation from the legislature. With its control over the national purse, the legislature defines closely the activities which the departments may undertake. When the budget is placed before the Parliament the members get an opportunity to review the functioning of financial administration. The members criticise the policies of the government and bring to light its mistakes and failures. The Ministers take note of such criticisms and make necessary changes in the administration. Though in a parliamentary system, the legislature cannot turn down the Executive request for grants so long as the Executive has the majority in the House. Nevertheless the budget provides an accession for the parliament to review, scrutinise, examine, criticise and influence the functioning of public administration.<sup>13</sup>

Debates and discussions are a very important occasion for the Parliament to examine and scrutinise the activities and efficiency of various governmental agencies. The inaugural address of the President, the Budget Speech, introduction of a bill for amendment of an Act or enactment of new law, introduction of Motions or Resolutions provide for an occasion of debates and discussions. When the President opens the Session of the Parliament and delivers speech, is discussed in the Parliament before a Vote of Thanks is passed. In the course of discussion the members of Parliament criticise the administration for its lapses and failures. The Budget Speech of the Finance Minister provides another opportunity to the Parliament to review and criticise the functioning of administration. Budget debates, it may be said, are very important from the viewpoint of the parliamentary control over administration. These debates are known as the great annual national discussion. At the time of considering Demands for Grants of the various departments, the Parliament examines and scrutinises the working nature of the whole department. Again, when a bill is introduced for enactment of a new law or amendment of an old Act, the Parliament again gets an opportunity to review the functioning of administration.<sup>14</sup>

The Rules of Business of the Parliament also provide for short discussions on a matter of urgent public importance for a short time not exceeding two and a half

hours. The value of debates and discussion is that they compel the government to explain and defend particular issues of their policy at length . It also enables the opposition to expose the weak points of administration . Speaking about the importance of debates and discussions as a means of control over civil administration is not less important aspect in Parliamentary System of Democracy . In brief by questions and debate , the administration including financial administration is kept under constant and continuous review and pressure to work with sincerely, honestly and efficiently.<sup>15</sup>

### **THE PARLIAMENTARY COMMITTEE IN THE UNITED KINGDOM**

Around the world the British Democracy and its system has been a model for the developing countries as far as government system is concerned . The Committee System in Parliamentary Democracy of our country is borrowed from the system of British Democracy through British rule in India and Pakistan rule in Bangladesh . The Public Accounts Committee and other Committees of British Democracy are the good examples in Parliamentary practices through out the modern world .Therefore ,attempts are taken here to describe briefly the Parliamentary Committees in the UK in order to provide background material for the study of the Parliamentary Committees of Bangladesh . Because there is a close relation between Bangladesh and the British system .

### **THE PUBLIC ACCOUNTS COMMITTEE**

In the United Kingdom the struggle between the King and the Parliament started first over taxation and Exchequer issues . In medieval times there had been a continuous struggle between the King and the Parliament for supremacy over the finances of the country <sup>16</sup>. However it was not until the decade 1857-67 that the Parliament got control over the exchequer issues . In 1857 the Select Committee on Public Moneys recommended the constitution of select committee to go into the report of the expert auditor . In pursuance of this recommendation , Gladstone in 1861 appointed for the first time a Select Committee on Public Accounts <sup>17</sup>. A standing order of the House of

Commons in 1862 made it an annual affair . In 1866 the Exchequer and Audit Department was set up . The accounts audited by the Department are submitted to the Committee on Public Accounts on behalf of the House of Commons .The Committee scrutinises the report and makes its recommendations to the House for its discussion and consideration. The Committee is constituted on the eve of each session . It consists of the members of the House of Commons alone and is presided over by an important member of the opposition . The Chairman of the Committee is a member of the Opposition preferably a former Finance Minister which makes able the Public Accounts Committee for a real check and balance on public money. It has been claimed that the UK possesses in the Public Accounts Committee one of the most interesting features of her whole system of financial administration and that it is the crowning point of that system which she has built up step by step by step for securing a real control over public expenditure .

#### **THE ESTIMATES COMMITTEE**

In the United Kingdom the need of an Estimates Committee was first emphasised by a Select Committee of the House of Commons in 1903 to make an examination not involving criticism of policy , into the details of national expenditure . However the constitution of such a committee was delayed till 1912 . The Committee consists of twenty to thirty members elected by the House of Commons each year . It is assisted in its work by a representative of the Treasury . It can call departmental officers .The Committee was delegated the function of examining such of the estimates presented to the House as may seem fit to the committee . The Committee begins its work as soon as supply is voted by Parliament . The Estimates Committee in the United Kingdom had not been felt very effective in the past . It was not supposed to criticise the existing policy and was only required to examine to Estimates within the frame work of accepted policy. Because the Committee tried at its beginning to examine the estimates in too much detail .So later some limitations were imposed . This limitation had hampered its effectiveness . Moreover it was also not provided with the expert advice and assistance of as an independent authority . However in recent years its



necessity has been felt by the Parliament . Its activities and contribution has been more impressive as a result the Estimates Committee is now much more valuable to Parliament.<sup>18</sup>

## **PARLIAMENTARY COMMITTEES IN INDIA**

### **THE PUBLIC ACCOUNTS COMMITTEE**

The Standing committees of financial aspects in the Parliament of India are very much active and strong to ensure constant watch on the financial administration of the Country. During the British rule in India the Auditor initially submitted his reports for consideration to the Secretary of State for India and not to the Indian Legislature . It was only with the inauguration of reforms<sup>19</sup> of 1919 that it was considered desirable to arm the legislature with a semblance of expenditure control . The Government of India in a dispatch to the Secretary of State suggested that it should be the constitutional duty of the legislature to appoint a Committee on Public Accounts to receive reports from it and to deal with the contents of the report as necessary .Thus the functions of the Committee was to be merely of scrutiny and recommendations . The Public Accounts Committee, which came to be constituted was partly elected and partly nominated . The Finance Minister was appointed as a member of the Committee and it thus became a major force in the legislative control of public bear upon government to enforce economy in the expenditure of public moneys<sup>20</sup> . In course of time very important principles and which survive even to this day as mile stones on the road to the development of parliamentary control over public expenditure .The Constitution adopted on 26 January 1950 makes no mention of the Public Accounts Committee. The Parliament derives its power to set up such a committee from Article 118 (I) of the Constitution<sup>21</sup> . Similar power has been conferred on state legislatures by Article 208(I) . The Parliament has accordingly laid down in Rule 143 of its Rules of Procedure and Conduct of Business , the composition and functions of the Public Accounts Committee<sup>22</sup>.The Public Accounts Committee was set up at the commencement of the first session of the Parliament<sup>23</sup>. Its strength at first was fixed at fifteen members of the House of People . But in



1955 , it was increased to twenty two to provide for the representation of the Council of States . Technically the Council of States or Raja Sobha is not directly concerned with the voting of supplies . But its members showed equal interest in the efficient and effective financial administration of the country<sup>24</sup> . So it was considered to associate seven members from that body with the Public Accounts Committee . In the words of formerly Prime Minister of India Nehru , 'the nomination of the members of the Council of States with the Public Accounts Committee was necessary , because the function of the Committee was purely investigatory and since under Article 151 (i) of the Constitution of India , <sup>25</sup> Public Accounts and Audit reports were to be presented to both Houses, it was open to the Council of States to appoint its own committee but instead of two it would be desirable if only one committee was appointed.'<sup>26</sup>

In Pakistan ,Shrilankan , Thailand the Public Accounts Committees have been working with sincere and serious motive which help the political government to be free from unnecessary expenditure and corruption and also to check the civil servants from misuse of financial power. In Srilankan , the Bureaucracy is very co-operative while in Pakistan , the civil service is not very helpful to the Parliament . In Thailand corruption is very deeply rooted which has unable the parliamentary committees to be more effective .

#### **THE ESTIMATES COMMITTEE**

The idea of an Estimates Committee in India was first rooted in 1938 when a resolution asking for the constitution of a Retrenchment Committee to secure a reduction in government expenditure by 10 percent was moved . But during the British rule such a Committee was not created because the foreign government could not allow its policies to be criticised<sup>27</sup>.The Estimates Committee was created in India after the inauguration of Constitution in 1950 on the suggestion of DR. John Matthai the then Finance Minister to scrutinise expenditure of each Department of the central and provincial government and of the government as a whole .The Committee is elected every year from amongst the members of the House of the People or Lok

Sabha , according to the principle of proportional representation by means of a single majority , was later increased to thirty . Its Chairman is appointed by the Speaker and if Deputy Speaker happens to be a member of the Committee , the convention is that the Chairman should be elected necessarily from the opposition party . The Committee is renewed every year but according to convention only one third of its members retire every year and usually the same members are re-elected year after year.<sup>28</sup>

#### **THE COMMITTEE ON PUBLIC UNDERTAKINGS**

The Committee is a new one and was set up in 1964 . It consists of fifteen members , ten from Lok Sabha and five from Rajya Sabha .The functions of the Committee are (a)to examine in the context of the autonomy and efficiency of the Public Undertakings , whether their affairs are being managed in accordance with sound business principles and prudent commercial practices (b) to examine the reports if any of the Comptroller and Auditor General on Public Undertakings (c)to perform such other functions vested in the Public Accounts Committee and the Estimates Committee in relation to Public Undertakings as may be allotted to it from time to time by the Speaker of the Look Saba .(d) to examine the reports and accounts of such Public Undertakings as have been specifically allotted to the Committee for this purpose .The Committee is precluded from examining or investigating the following matters (a).Matters of major government policy as distinct from business or commercial functions of Public Undertakings .(b) Matters of day to day administration and (c).Matters for the consideration of which machinery is established by a special stature under which a particular undertaking is established.<sup>29</sup> The root of democracy in India is deep and the practice of the parliamentary system is very successful . India is a big country with big population . But they are very much successful in achieving democratic values .So the Parliamentary Committees can work very effectively and the accountability of the executive to the Parliament is fully ensured.<sup>30</sup>

## **PARLIAMENTARY STANDING COMMITTEES IN BANGLADESH**

The Bangladesh Parliament) being a democratically elected body opted for the parliamentary system and adopted committee system for providing specialised advisory services to the Parliament. (structure of Bangladesh Parliament is shown in the Figure-8 ) Great importance and role have been assigned to various Committees in Bangladesh Parliament .A great deal of Business of the Parliament is ransacked to its Committees as in other Parliaments of the world. Before going to discuss about different Committees of the Parliament , it would worth to overview on the parliamentary procedures regarding financial matters. The Bangladesh Constitution provides for some Articles connected to financial aspects of the government. The following Articles of the Constitution <sup>31</sup> are related to the financial matters The Articles are 80 , 81 ,82 ,83 . But in the following paragraph we would only discuss the Rules of Procedure of Bangladesh Parliament .Because it has been already discussed the Articles of Constitution in the previous chapter.

## **PROCEDURE IN FINANCIAL MATTERS**

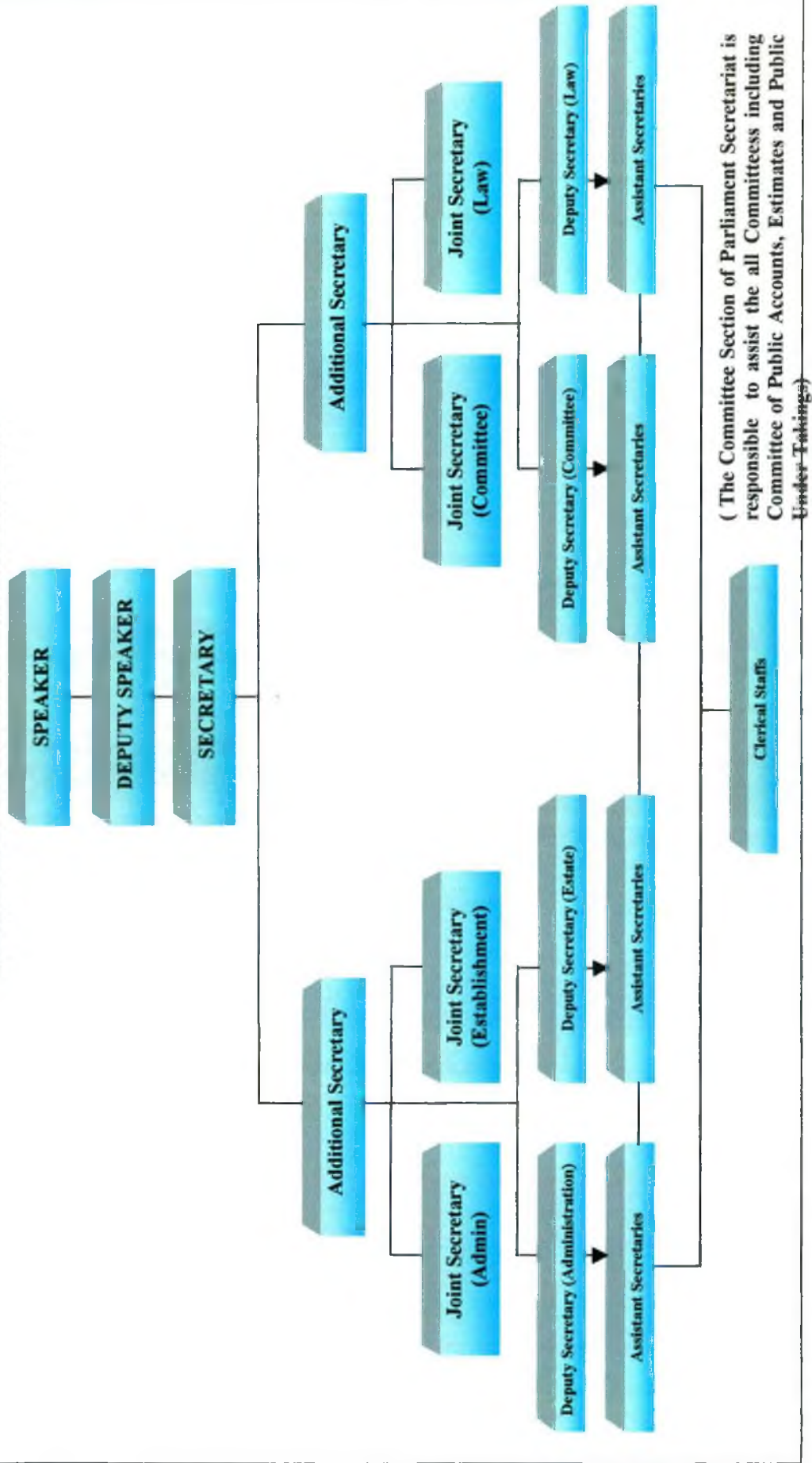
The Rules of Procedure in Bangladesh Parliament has provided for guidelines regarding financial matters to be proceeded in business day of the Parliament. The sections of the Rules of Procedure in the chapter xvi in this connection are discussed below :

### **(A). PRESENTATION OF THE BUDGET IN PARLIAMENT**

Presentation of the Budget in Parliament has been described in the section 111. (1) In this section it has been mentioned that the Annual Financial Statement or the Statement of the estimated receipts and expenditure of the Government of Bangladesh in respect of each financial year shall be presented to the Parliament in accordance with the provisions of Article 87 of the Constitution . The another name of this statement is Budget . In the section 111(2) it is mentioned that subject to the provisions of the Constitution in this behalf , the budget shall be presented to the House in such form as the Finance Minister may consider suitable and in the section 111(3) it is explained that the budget shall not be referred to any Committee and no



**FIGURE -8**  
**STRUCTURE OF BANGLADESH PARLIAMENT**





other motion shall be made with reference to it except as provided in the Rules contained in this chapter .

**(B) BUDGET NOT TO BE DISCUSSED ON PRESENTATION**

It has been mentioned in the section 112 of the Rules of Procedures that except the Speech of the finance Minister ,there shall be no discussion on the budget on the day which it is presented to the house .This is because , the Budget Speech in Bangladesh is very big item which in fact takes couple of hours of the business day . Another reason is the Budget Speech is kept secret before deliberation . So the Members of the Parliament should be given sufficient time for their participation in the discussion<sup>33</sup>.

**(c) STAGES OF THE BUDGET DEBATE .**

There are some stages in the Parliament regarding Budget Debate .According to the section 113 of the rules of procedure the budget shall be dealt with by the House in the following stages , namely :-

(1) General discussion on the budget as a whole ;

(11) (a) Discussion on Demands for Grants and Appropriations in respect of Charged Expenditure ;

(b) Voting on Demands for Grants relating to other expenditure , provided that the Demands for Grants in respect of Charged Expenditure shall not be submitted to the vote of the House.<sup>34</sup>

**(D) ALLOTMENT OF THE DAYS**

According to the section 114, the Speaker is empowered to allot separate days for each of the budgets mentioned in the foregoing Rules <sup>35</sup> .

**(E) GENERAL DISCUSSION OF THE BUDGET**

As per rule 115. (1) of the Rules of Procedure , the Speaker may allot for time for general discussion on budget . On that day the House shall be at liberty to discuss the budget as a whole or any question of principle involved therein . But provision is that no motion shall be moved at this stage . And also the budget will not be submitted to the vote of the House in the same day . The Finance Minister shall

have a general right of reply at the end of the discussion . The Speaker may , if he thinks fit, prescribe a time limit for speeches.<sup>36</sup>

**(F) DEMANDS FOR GRANTS .**

In the section 116 (1) it is described that a separate Demand shall ordinarily be made in respect of the Grants proposed for each Ministry , provided that the Finance Minister may include in one Demand of Grants proposed for two or more Ministries or Departments or make a Demand in respect of expenditure which cannot readily be classified under particular Ministries. But system is that each Demand shall contain first a statement of the total Grants proposed and then a statement of the detailed estimate under each Grant divided into items . Another matter in this section is that no Demand for Grants shall be made except on the recommendation of the President of the Republic of Bangladesh.<sup>37</sup>

**(G) VOTING OF DEMANDS FOR GRANTS**

The Speaker of Bangladesh Parliament according to the section 117 (1) of the Rules of Procedure in consultation with the Leader of the House , shall allot so many days as may be compatible with the public interest for the discussion and voting on Demands for Grants. On the last of the allotted days at the time when the meeting is to terminate or at such other hour as the Speaker may fix in advance, the Speaker shall forthwith put every question necessary to dispose of all the outstanding matters in connection with the demands for grants. There are some parliamentary practices in the Bangladesh Parliament that motions may be moved to reduce a granted grant but not to increase a grant or to alter the destination of a grant. No amendments to motions to reduce any demand for grant shall be permissible . However , when several motions relating to the same Demand for Grants are offered , they shall be discussed in the order in which the heads to which they relate appear in the budget . In order to avoid wastage of time and make scope for the debaters the method is appreciable but in practice the system is not followed strictly by the Speaker<sup>38</sup>.

**(H) CUT MOTIONS**

As per section 118 of the Rules of Procedure , a motion may be moved to reduce the amount of a demand in any of the following ways

(a) That the amount of the Demand be reduced to Taka one representing disapproval of the policy underlying the Demand . Such a motion shall be known as disapproval of Policy Cut . A member giving notice of such a motion shall indicate in precise terms the particulars of the policy which he proposes to discuss. The discussion shall be confined to the specific point or points mentioned in the notice and it shall be open to members to advocate an alter native policy .

(b) That the amount of the demand be reduced by a specified amount representing the economy that can be effected. Such specified amount may be either a lump sum reduction in the demand of omission or reduction of an item in the demand. The motion shall be known as Economy Cut. The notice shall indicate briefly and precisely the particular matter on which discussion is sought to be raised and speeches shall be confined to the discussion as to how economy can be effected .

(c) That the amount or the demand be reduced by Taka 100 in order to ventilate a specific grievance which is within the sphere of the responsibility of the government . Such a motion shall be known as Token Cut and the discussion thereon shall be confined to the particular grievance specified in the motion<sup>39</sup> .

#### **(I) CONDITIONS OF ADMISSIBILITY OF CUT MOTIONS**

According to the section 119 of the Rules of Procedure, a notice of motion for reduction of the amount of Demand may be admissible provided that it shall satisfy the following conditions namely -

- (1) It shall relate to one Demand only
- (2) It shall be clearly expressed and shall not contain arguments inferences ironical expressions , imputations epithets or defamatory statements .
- (3) It shall be confined to one specific matter which shall be stated in precise terms.
- (4) It shall not refer to a matter which is not primarily the concern of the government
- (5) It shall not relate to expenditure charged on the Consolidated Fund 1.
- (6) It shall not relate to a matter which is under adjudication by a court of law having jurisdiction in any part of Bangladesh <sup>40</sup>

**(J) SPEAKER TO DECIDE ADMISSIBILITY OF CUT MOTIONS.**

In the section 120 of the Rules of Procedure , it has been mentioned that the Speaker shall decide whether a cut motion is or is not admissible under these rules and may disallow any cut motion when in his opinion it is an abuse of the right of moving out motions or is calculated to obstruct or prejudicially affect the procedure of the House or is in contravention of these rules<sup>41</sup> .

**(K) NOTICE OF CUT MOTIONS**

The 121 of the Rules of Procedure indicates that if notice of a motion to reduce any demand for grant has not been given two days previous to the day on which the demand is under consideration , any member may object to the moving of the motion and such objection shall prevail unless the Speaker in exercise of his power to suspend this rule allows the motion to be made. <sup>42</sup>

**(L) VOTE ON ACCOUNT**

The section 122 (1) of the Rules of Procedure mentions that a motion for vote on account shall state the total sum required and the various amounts needed for each Ministry or Department or item of expenditures which compose that sum shall be stated in a schedule appended to the motion But amendments may be moved for the reduction of the whole grant or for the reduction or omission of the items where the grant is composed . The Rules of Procedure also provides for discussion of a general character on the motion or any amendments moved thereto, but the details of the Grants shall not be discussed further than is necessary to develop the general points . This restriction is in fact for the cause of saving time of the business day and to avoid the unnecessary debate about the topics . In other respects a motion for vote on account shall be dealt with in the same way as if it were a Demand for Grants<sup>43</sup> .

**(M) SUPPLEMENTARY EXCESS AND EXCEPTIONAL GRANTS AND VOTES OF CREDIT**

In this section 123 Supplementary, Excess and Exceptional Grants and votes of credit shall be regulated by the same procedure as is applicable in the case of Demands for Grants subject to such adaptations, whether by way of modification, addition or omission , as the Speaker may deem necessary or expedient<sup>44</sup> .



**(N) SCOPE OF DISCUSSION ON SUPPLEMENTARY GRANTS .**

The debate on the supplementary grants according to the section 124 , shall be confined to the items constituting the same and no discussion may be raised on the original grants nor policy underlying them save in so far as it may be necessary to explain or illustrate the particular items under discussion.<sup>45</sup>

**(O) TOKEN GRANT**

When funds to meet proposed expenditure on a new service can be made available by re-appropriation , a Demand for the Grants of a token sum may be submitted to the vote of the House according to the section 125 of the Rules of Procedure . If the House assents to the Demand, funds may be so made available<sup>46</sup>.

**(P) APPROPRIATION BILL**

Section 126 mentions that subject to the provisions of the Constitution and the Rules of Procedure in regard to an Appropriation Bill shall be the same as for Bills generally with such modifications as the Speaker may consider necessary .Provided that the Appropriation Bill shall not be referred to any Committee . Because after discussion in the House there should not be more discussion on the same point . Provided further that no amendment shall be proposed to any such Bill which has the effect of varying the amount of any it is to be applied , or varying the amount of any expenditure charged on the consolidated Fund . At any time after the introduction of an Appropriation Bill , the Speaker may allot a day or days, jointly or separately , for the completion of all or any of the stages involved in the passage of the Bill by the House . When such allotment has been made the, Speaker of the House shall , at the hour when the sitting is to terminate on the allotted day or the last of the allotted days, as the case may be forthwith put every question necessary to dispose of all the outstanding matters in connection with the stage or stages for which the day or days have been allotted . The Bangladesh Constitution is very clear in this point .In order to make more scope for open discussion for the parliamentarians , the Rules of Procedure has allowed the Speaker to perform his duties with neutrality and honestly. The Section also provides that the Speaker may , if he thinks fit, prescribe a time limit for speeches at all or any of the stages for which a day or days

have been allotted under sub rule .The debate on an Appropriation Bill shall be restricted to matters of public importance or administrative policy implied in the grants covered by the Bill which have not already been raised while the relevant Demands for Grants were under consideration .The Speaker may , in order to avoid repetition of debate, require members desiring to take part in discussion on an Appropriation Bill to give advance intimation of the specific points they intend to raise, and he may withhold permission for raising such of the matters discussed on a demand for grant or may not be of sufficient public importance. The Speaker have the discretionary power to conduct the business of the day . Also there are some aspects which must followed by the members in order to run parliamentary business smoothly and effectively . According to this section if Appropriation Bill is in pursuance of a supplementary grant in respect of an existing service, the discussions shall be confined to the items constituting the same . No discussion shall be raised on the original grant not the policy illustrate an particular item under discussion <sup>47</sup> .

**(Q) FINANCE BILL**

In this section 127 , Finance Bill means the Bill ordinarily introduced in 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 proposal for any period . At any time after the introduction of a Finance Bill , the Speaker may allot a day or days, jointly or severally, for the completion of all or any of the stages involved in the passage of the Bill by the House and when such allotment has been minute on the allotted day or the last of the allotted days , as the case may be, forthwith put every question necessary to dispose of all the outstanding matters in connection with the stage or stages for which the day or days have been allotted , provided that if a Minister has right of reply to the debate on the motion which is under discussion and has not commenced his reply one hour before the time fixed for termination of this sitting, the Speaker shall inquire how much time note exceeding one hour he requires for his reply and shall call upon any member for the time being addressing the House to resume his seat termination of the sitting for the day , the

amount of time which the Minister requires for his reply . Where the question or one of the questions required by sub rule (2) to be put , at the hour when the sitting is to terminate on the allotted day for the last of the allotted days , is that the Bill be passed , sub rule two shall have effect notwithstanding that amendments to the Bill have been made .Subject to the provision to sub rule two , the Speaker may if he thinks fit , prescribe a time limit for speeches at all or any of the stages for which a day or days have been allotted under that sub rule . On a motion that the Finance Bill be taken into consideration , a member may discuss matters relating to general administration, local grievances within the sphere of the responsibility of government , monetary or financial policy of the government. In other respects the rules applicable to Bills in the chapter xiii of the Rules of Procedure shall apply except that the Finance Bill shall not be referred to any Committee<sup>48</sup> .

#### **DAY ALLOTTED FOR FINANCIAL BUSINESS.**

In addition to the power which can be exercised under these Rules , the Speaker as per section 128 of the Rules of Procedure ,may exercise all such powers as are necessary for the purpose of the timely completion of all financial business including allotment of time for the disposal of various kinds or such business . And where time is so allotted the Speaker shall, at the appointed hour , put every question necessary to dispose of all the outstanding matters in connection with the stage or stages for which time has been allotted . It should be noted that financial business includes any business which the speaker holds as coming within this category under the Constitutions<sup>49</sup> .

#### **PARLIAMENTARY STANDING COMMITTEES OF BANGLADESH**

The parliamentary procedure regarding financial matters as per Rules of Procedure of Bangladesh Parliament has been already described . It is now necessary to discuss about the Parliamentary Committees in connection to financial aspects of the government . In Bangladesh Parliament there are three Committees (a) the Public Accounts Committee (b) the Estimates Committee (c)



the Public Undertakings Committee . But there is one Standing Committee for the matters of Ministry of Finance . For clear understanding we will discuss later about Standing Committee on Ministry of Finance <sup>50</sup>

#### **THE PUBLIC ACCOUNTS COMMITTEE OF BANGLADESH : BACK GROUND**

The first Public Accounts Committee of the First Parliament of Bangladesh ,1973 was formed in 1974 under the Chairmanship of late Kazi Zahrul Quyum, M.P. The first Committee met three times and discussed matters relating to the Pakistan time reports of the Auditor General . The first Committee could not place any report to the parliament . In the second parliament, the Public Accounts Committee was formed in 1979 under the Chairmanship of Mr.Atauddin Khan . Only one meeting was held in 1980 when Mr Atauding khan in 1980 became a Minister . The Committee was reconstituted under the Chairmanship of Mr, Ataur Rahman Khan , Mr Khan Committee met nine times and discussed one hundred and two audit objections and submitted a report to the Parliament.<sup>51</sup>

During the Martial Law ( 1982-85) a temporary Committee of Public Accounts was formed by the Chief Martial Law Administrator . The Committee met one hundred and six times and placed three reports . The Third Parliament formed a Committee but could not held a meeting because it was a very short Parliament . In the Fourth Parliament , the Public Accounts Committee was formed under the Chairmanship of Mr, Md, Sahjahan . M.P . The Committee met sixty five times and examined the implementation of the temporary committee reports and other reports of the Auditor General and it was able to submit two reports. <sup>52</sup>

In the Fifth Parliament ,the Public Accounts Committee was formed in 1991 under the Chairmanship of L.K. Siddiki .M.P and could work till December 1995 . It held as many as one hundred and thirty seven meetings and submitted four reports to the Parliament . The Sixth Parliament which lasted only twelve days could not form any Committee The Public Accounts Committee of the Seventh Parliament was constituted in 1996 and has been working over a period of two years . It could be worth noting that over a period of a quarter century the nation got only



eleven reports from the Public Accounts Committee. During this long period the Public Accounts Committee could discuss only twenty audit reports out of three hundred and ninety four reports so far placed at their disposal for scrutiny<sup>53</sup>.

#### **COMPOSITION OF PUBLIC ACCOUNTS COMMITTEE**

The Public Accounts Committee is a Standing Committee appointed by the Parliament for the examination, from year to year, of the audited accounts of the public expenditures. In other words, Bangladesh Parliament having voted large sums of tax-payers money does, in the interest of the tax-payers, expect in due course a detailed account of how the money has been spent. It must satisfy itself that the moneys so voted were directed to the intended purpose and were spent prudently and economically. The Comptroller and Auditor General examines the yearly accounts of the government and after scrutiny, certifies the accounts, subject to such comments as he chooses to make and submits his reports to the President of Bangladesh who causes them to be laid before the Parliament. It is difficult for the Parliament Members to examine in details the accounts which are complex and technical. The Parliament also cannot spare the time required for such examination. Therefore, the Parliament elects a committee, the Committee on Public Accounts and entrusts it with the detailed examination of those accounts. The Committee consists of not more than fifteen members from among the Members of the Parliament. A Minister cannot be appointed as a member of the Committee. But being a member of the Committee, if he is appointed as a Minister, he ceases to be a member of the Committee from the date of such appointment. In the present structure, the Committee is consisted of fifteen members. There is a Chairman of the Committee from the Members of the Parliament. No Minister is a member of the Committee.<sup>54</sup>

#### **FUNCTIONS OF THE COMMITTEE**

The functions of the Public Accounts Committee as laid down in the section 233 of the Rules of Procedure of Parliament are described below:

According to the section 233 , there shall be a Committee on Public Accounts for the examination of accounts showing the appropriation of sums granted by the House for the expenditure of the government , the annual finance accounts of the government and such other accounts laid before the House as the committee may think fit .The Committee shall scrutinise the Appropriation Accounts of the government and the report of the Comptroller and Auditor General . By scrutinising the Committee must be satisfy that the moneys shown in the accounts as having been disbursed were legally available for and applicable to the service or purpose to which they have been applied or charged, that the expenditure conforms to the authority which government and that every re- appropriation has been made in accordance with the provisions made in this behalf under rules framed by competent authority .It shall be the duty of the Committee to examine the statement of accounts how the income and expenditures of state corporations , trading and manufacturing schemes and projects together with the balance sheets and statements of profit and loss accounts which the President may have required to be prepared or are prepared under the provisions of the statutory rules regulating the financing of a particular corporation , trading or manufacturing schemes or concern or projects and the reports of the Comptroller and Auditor General thereon to examine the statement of accounts showing the income and expenditures of the autonomous and semi- autonomous bodies ,the audit of which may be conducted by the Comptroller and Auditor General of Bangladesh either under the directions of the President or by a Statute of the Parliament and to consider the report of the Comptroller and Auditor General in cases where the President may have required him to conduct an audit of any receipts or to examine the accounts of stores and stocks , if any money has been spent on any service during a financial year in excess of the amount granted by House for that purpose ,the Committee shall examine with reference to the facts of each case the circumstances leading to such an excess and make such recommendation as it may deem fit.<sup>55</sup> The Public Accounts Committee is not an executive body and has no power to disallow any item or issue an order . It can only call attention to an irregularity or to failure to deal with it adequately and express its opinion thereon and record its findings and

recommendations. The fact that the Public Accounts Committee can closely scrutinise the reports of the C & A G fortifies the principal accounting officers against the temptation of financial irregularity. As a matter of fact development of an honest and incorruptible system of financial administration depends on the collaboration of the Ministry of Finance, the Comptroller and Auditor General and the Public Accounts Committee.<sup>56</sup>

#### **ASSESSMENT OF PUBLIC ACCOUNTS COMMITTEE**

The Public Accounts Committee which plays the key role in establishing financial accountability and transparency has difficulty to function properly. In Bangladesh, it is not supported by a full fledged Secretariat and necessary logistics. It has to depend on Parliament Secretariat which is over-burdened with multi-various functions. Apart from this, because of lack of continuity of parliamentary practice in the past, many of reports of the Auditor General which stood referred to the Public Accounts Committee were not examined. At present, the Public Accounts Committee of the Seventh Parliament is confronted with a gigantic task of examining about 300 reports. The Audit Department in the past attempted to update their examination but ultimately succeeded to examine only a few audit reports during their tenure. As the report of the Audit Department are not traditionally discussed in the Parliament, the outcome of the efforts put in by the Public Accounts Committees remained mostly confined in papers and the audits treated them as mere recommendations. Since there is no effective mechanism in place to follow up implementation of Public Accounts Committee recommendations many of them remained unattended. Almost the same problems are faced by the other two Standing Committees mentioned above. Moreover effectiveness of the Standing Committees of the Ministries which were chaired by the Minister themselves instead of the MPs were open to question by various quarters. The new Parliament has, however, changed the system by way of amending the Rules of Procedures of Parliament.<sup>57</sup>



## **BRIEF OVERVIEW ON AUDIT REPORT OF 1998**

Under the provisions of Article 132 of the Constitution, the Comptroller and Auditor General's report on the accounts of the country is placed before the President. Thereafter these are caused to be laid in the Parliament by the President. The committee on Public Accounts initiates its actions on the basis of all the audit reports placed in the Parliament. The committee examines these audit reports tabled in the Parliament in accordance with the Rule 233 of the Rules of procedure of the Parliament. The first meeting of the Committee was held on 23 December, 1997. Till now the committee has had thirty four meetings including three policy meetings to discuss audit objections of various ministries. The First Report of the Committee covered the discussions of the first ten meetings of the committee held till March, 1997. The discussions of the subsequent ten meetings of the committee till August, 1997 is included in this Report. Status of Audit Reports yet to be discussed by the Committee till now. Of the Audit Reports placed in the parliament after independence 394 reports are yet to be discussed by the Committee. After a large number of Audit Reports was placed in the parliament last July the current status of audit report is as follows :

|                              |                      |
|------------------------------|----------------------|
| Tabled Audit Reports         | 394                  |
| Related Audit Objections     | 6.854                |
| Related Audit Comments       | 43.763               |
| Related monetary involvement | 63. 630 million Taka |

## **POLICY DECISIONS OF THE PAC**

The Committee in its 13<sup>th</sup> meeting on 28 May, 1997 decided to discuss recent Audit Reports simultaneously with the Audit Reports of 1987 - 88. In pursuance of this decision the Committee has already initiated discussion on the Audit Reports of 1991 - 95. The committee has instructed all Ministries to hold bipartite tripartite meetings with Audit Directorates to review of all Audit Reports prior to 1987. Final decisions will be taken by the Committee on the recommendations of the Auditor General on



the outcome of this review process . This will save considerable time and the Committee will be able to attend to more meetings . Recently, the PAC discussed audit reports which have accumulated over the last two decades due to the inter-ministerial conflict and also non-functioning of the Parliamentary system . Besides , the Committee has requested the Auditor General to initiate performance Audit and Value for Money Audit on a selective basis in various government organisations and projects .

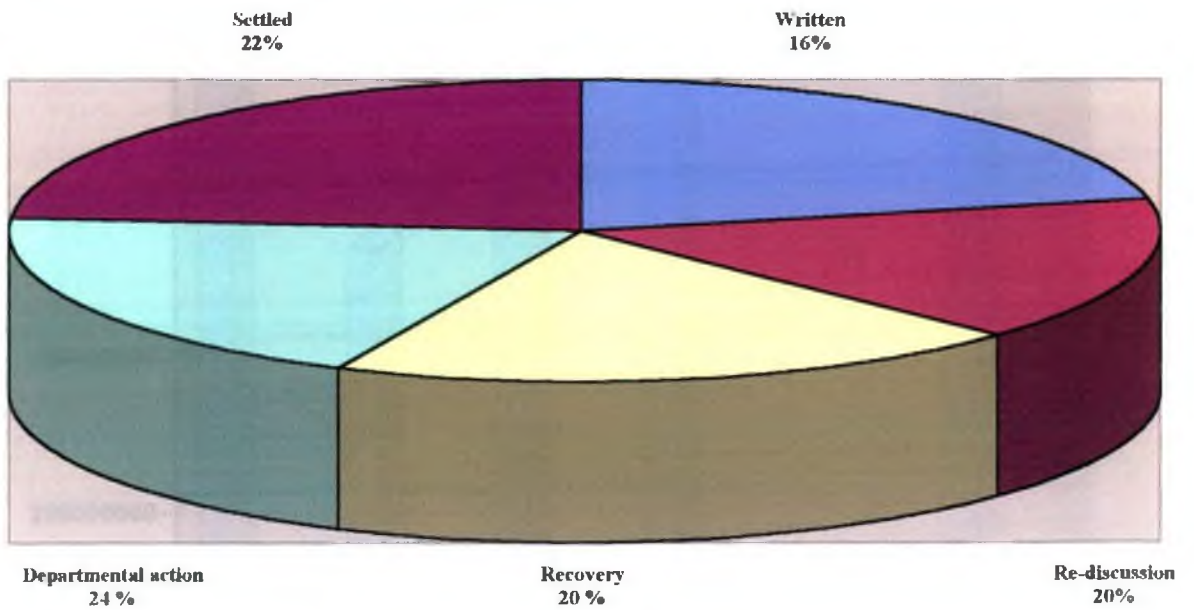
#### **ACTIONS OF THE COMMITTEE DECISION**

A total number of 138 Audit Objections and Comments raised in the Audit reports of 1994 - 95 and 1987 - 88 of the following ten Ministries and discussed by the Committee from its eleventh to twentieth meeting have been included in this report : The name of the Ministries are the Ministry of Works ,the Ministry of Agriculture , the Ministry of Civil Aviation and Tourism ,the Ministry of Land ,the Ministry of Land , the Ministry of Food ,the Ministry of Environment and Forest, the Ministry of Post and Telecommunications and the Ministry of Textiles . The amount of money involved in these audit objections and comments is about 1,280 million Taka .The number of audit objections and comments discussed by the Committee till its 20th meeting is 266 . The decisions taken therein are shown in the Figure -9.

The Committee has noted with satisfaction that in pursuance of the decisions taken in the Committee on these 266 audit objections and comments , till now , about 500 million Taka has been recovered to the exchequer and 360 million Taka has been adjusted . In the case of objections and comments relating to 570 million taka the Ministries have been asked to take departmental actions and inform the Committee . The Committee has decided to re discuss audit objections and comments relating to 510 million Taka at an appropriate time . The result of committee discussions in its first twenty meetings in Taka amount is shown in the Figure- 10 . The Committee has also noted with dissatisfaction that in certain cases there has been a delay of a period of more than twelve years by some ministries in taking effective preliminary

**FIGURE -9**

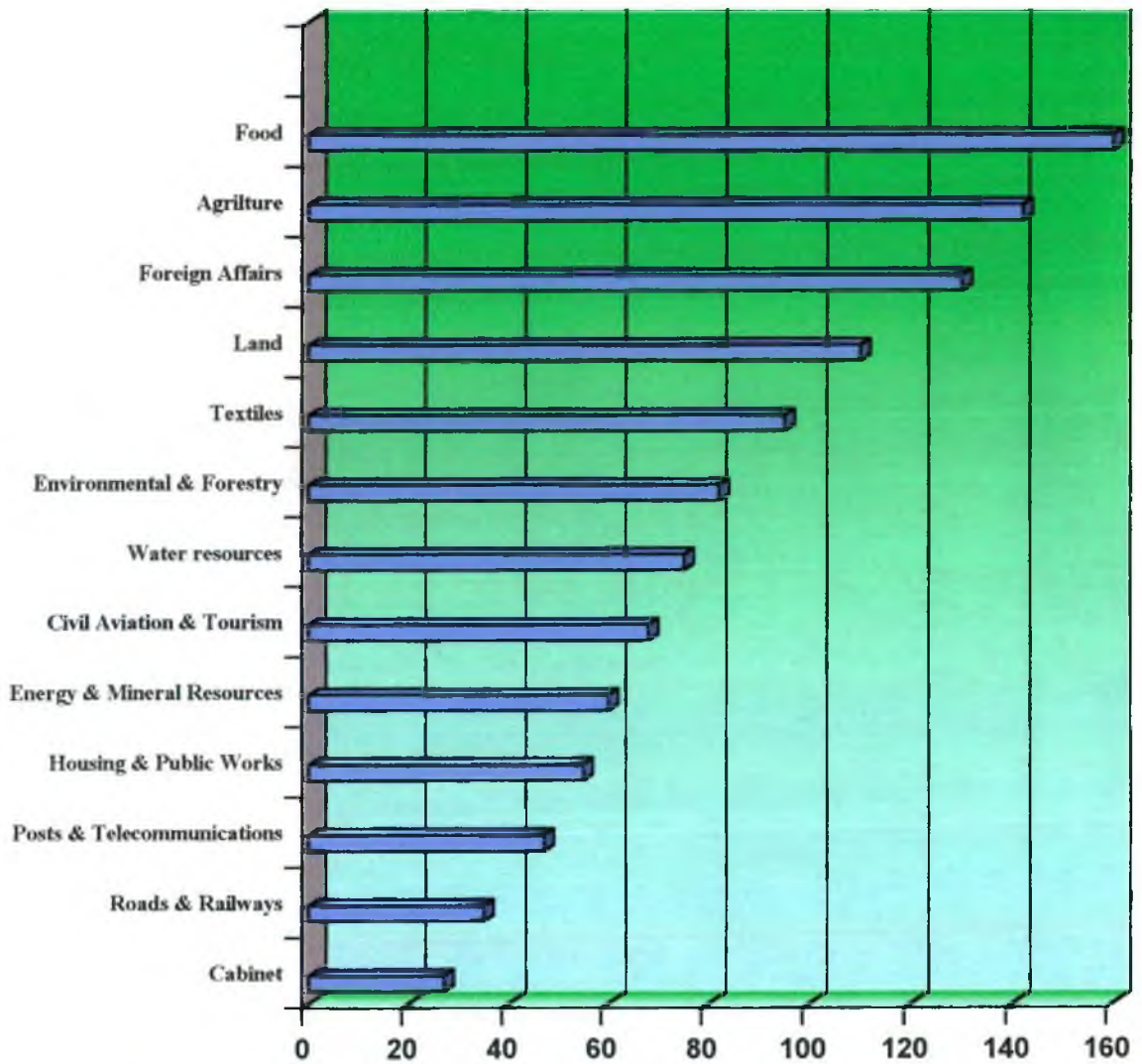
**PIE CHART OF PERCENTAGE OF DECISIONS TAKEN TILL THE 20<sup>TH</sup> MEETING ( IN COMPARABLE TO TAKA AMOUNT ) OF PAC**



Source : Bangladesh Parliament, Seventh Report of PAC, 1998

FIGURE -11

BAR CHART OF DELAY MINISTRIES IN TAKING EFFECTIVE PRELIMINARY  
IN RELATION TO AUDIT



Source : Bangladesh Parliament, Seventh Report of PAC, 1998

The Committee may continue the examinations of the estimates from time to time through out the financial year and report to the House . The Committee scrutinise the assurances , promises , undertakings etc by a Minister from time to time on the floor of the House and report on the extent to which such assurances , promises , undertakings etc have been implemented and where implemented , whether such implementation has taken place within the minimum time required or necessary for the purpose .<sup>59</sup>

#### **THE COMMITTEE ON PUBLIC UNDERTAKINGS**

The Committee on Public Undertakings constituted by the Parliament is meant for examination of the working of the Public Undertakings . After the promulgation of Nationalisation Order<sup>60</sup> 1972 , the performance of Public Undertaking become a live subject . Since the moneys required to finance them are appropriated from the government fund , Bangladesh Parliament thought it necessary to have adequate control over their affairs. With this objective in view, provision for a Committee on Public undertaking has been kept in the Rules of Procedure of the Parliament .

#### **COMPOSITION OF THE COMMITTEE**

This Committee is also composed of not more than ten parliament Members other than Minister . The functions and composition of the committee are specified in sections 238 and 239 of the Rules of Procedure . The Committee is headed by a ruling party Member of the Parliament .

#### **FUNCTIONS OF THE COMMITTEE**

The functions of the Committee are :

- (a) to examine the reports and accounts of the public undertakings specified in the schedule iv of the rules of procedure of parliament
- (b) to examine the reports , if any of the comptroller and Auditor General on the public undertaking .
- (c ) to examine in the centre of the autonomy any deficiency of the public undertakings whether the affairs of the public undertakings are being managed in accordance with sound. business principles and prudent commercial practices



Finance .The Committee may call meeting and issue summon to any person or organisation to satisfy itself for the cause of public interest of financial matters. The Committee is composed of fifteen members headed by one Member of Parliament from ruling party as per article 87 of the Constitution.<sup>63</sup>

The role of this Committee in Bangladesh is not very effective . There is a conflict between the Finance Minister and the Committee . The Finance Minister does not attend the meeting of the Committee . The Finance Minister in fact feels embarrassed to face the questions and criticism by the Members of the Committee . His absence in the meeting proves that he is not accountable to the Parliamentary Standing Committee which have been created for the interest of the people of the Republic . In order to ensure the transparency of the Finance Ministry , the presence of the Minister or his representative must have to be ensured by any means . No one can avoid the accountability to the people for ensuring democracy in the grass root level.<sup>64</sup>

#### **PROCEDURE WHEN PARLIAMENT STANDS DISSOLVED**

Normal procedure for approval of budget has been described in the preceding paragraphs .At any time when the Parliament stands dissolved the Article 93(3) of the Constitution empowers the President to make and promulgate an ordinance authorising expenditure from the Consolidated Fund. The ordinance so made is called Appropriation Ordinance and takes the place of Appropriation Act .Similarly on receipt side , the President is empowered to make and promulgate a Finance Ordinance which takes the place of Finance Act . The budget estimates are prepared in the same manner as they are when Parliament is in existence . The form and structure of Annual Financial Statement , Demands for Grants and other budget documents , likewise, remain unchanged.<sup>65</sup>

#### **PARLIAMENT DURING BUDGET SESSION**

The Parliament of any country of the world is some how related to the financial aspects of the government . The way , the financial matters are related to the

Parliamentary affairs is specially known as legislative stage of budget which takes place normally during the budget session. The basic function of Parliament is related to matters of law. But during the budget session, the Parliament is seriously involved in matter relating to administration and finance of the government. As per Constitution, the budget is the Annual Financial Statement of the estimated receipts and expenditure of the government. The preparation of the budget remaining within the policy of the government and it is a hard task done by officers of different ministries in general and finance ministry in particular. The budget finalised by the Finance Ministry and approved by the Cabinet is presented in the Parliament by the Finance Minister with a lengthy speech called the Budget Speech outlining the financial policy of the government, revenues and expenditures and proposal for new taxation. The general discussion on the budget is not concerned with details. It is confined to question of principles involved in the budget. There are general debates at this stage covering the activities of the different parts of the government. But the standard of the debates in the Parliament are not high because of serious lack of knowledge of the Members. It is not expected that the standard of debates should be like Macaulay or AK Fazlul Huq or even of some Parliamentarians of the then East Pakistan Parliament. But certainly the people expect some substantial debates.<sup>66</sup> In most substance the researchers find little to refer from such debates. The discussions relating to the voting of demands are directed to know what was done with the money of this year before sanction is accorded. In other words, the Minister is supposed to be asked questions about the past, present and future activities of his ministry. But the problem here is the seriousness about the preparation of questions and the availability of the relevant facts and figures. If the oppositions and the government are not sincere, the debates will be mere barking than biting deeply on the problems facing the public. In fact, the budget time is a time of stock taking. It is a time when we review the past and the present, any try to determine the course of the future. But because of the short of time during the last part of the budget session, many Demands are granted with little or no scrutiny. Therefore Members of the Parliament of both the government and the Opposition Party should be cautious and

careful from the beginning in utilising the allotted time. They should abide by the relevant rules for speaking. The Parliament is the embodiment of representatives of the people who, as per constitution, are the sources of all powers. They are elected by the people to see that the money that is to be sanctioned would be well spent to their purpose, spent to the advantage of the people and nothing more than due would be spent by the executive branch of the government. If more money is spent then there would be extravagance leading to malpractice or corruption, there would be more taxes, there would be more burden upon the people which may well prove to be disastrous. Therefore the responsibility of the Members of the Parliament is very great in this respect. This responsibility is discharged by scrutinising the budget through raising parliamentary questions regarding the past, present and future activities of the government. Under the form of government which we have since 1991, Ministers are responsible to the Parliament and this is known as Ministerial responsibility. This responsibility is realised by the Parliament with parliamentary questions. The importance of parliamentary questions cannot be exaggerated. It is now of the mightiest weapons in the hands of Members of the Parliament to focus public attention on administrative excess and corruption which it has to be admitted is so rampant that about a substantial part of the income remains unrealised. It is expected that this weapon will be more firmly utilised with a view to suppressing any kind of illegal ascendancy of the executive branch of the government including Ministers and Bureaucrats if this is detrimental to the interest of the public. In this connection we are waiting to see how do the Members of Parliament react against the Ministers who have not only submitted the statement of their own sources of income but also set aside the circular of the Finance Ministry for making compulsory the submission of income tax return by the civil servants apprehending that their might be reaction in administration. The people are also waiting to see how accountability and transparency will be maintained in administration in general and the upper echelons in particular. This and some other serious issues such as law and order, killing on trifling matter, abduction, rape acute problem of drinking water hijacking high prices, electricity etc. may be the important subjects of parliamentary questions. The



replies to such questions should not be repeatedly referred to the mistakes committed by the previous governments in order to justify the stand taken by the present government . It is obvious that because of their mistakes the people did not give them the power to exercise again . The people are interested through the Parliament to know and see what the present government is doing for them. However the role of the government party is naturally confined to the merits of the budget . In its views the budget is full of successes .This usually happens because of the party discipline , because of the fear of being expelled from the party , because of the fear of reshuffling of the Cabinet , because of the fear of losing patronage and above all because of the fear of giving opportunity to the Opposition parties to get strength . Under the circumstances , the importance of the role of Opposition parties cannot be exaggerated They are more responsible to find out the pros and cons in the budget.<sup>67</sup> Their responsibilities are far greater as the Finance Minister is a career diplomat . It is likely that his old habits and attitudes might have been skilfully incorporated and hidden into the Budget which is a long document and so it is the bounded duty of the opposition to bring them to light . So the Oppositions have to study the budget document with great care and of course , with great pain burning the candle as the electricity is not often available . Further the Opposition parties are expected to maintain Parliamentary spirit which is the key to development and success of Democracy in our country. They should not be engaged in mere attacks upon the activities of the government .The Premier should not be placed by exaggeration and excitement. All criticism should be tempered by the consideration that it also might be helpful one day for the government.<sup>68</sup>

The government party also should not set side by mere demagogic speech any constructive suggestions put forward by opposition parties simply because of the strength of the majority . It should not be any kind of tyranny of the majority over the minority , a great demerit of democracy specially in a developing country like Bangladesh where the Parliament is not yet by cameral in which case there might be some scrutiny in case of naked tyranny . The Party in Power should concede to reasonable arguments of the opposition parties and should not try to justify their stand



by repeated reference to injustice committed by the previous governments . Injustice of the present should not be justified by injustice of the past.<sup>69</sup>

## **PROBLEMS OF PARLIAMENTARY CONTROL**

### **(I) INEFFECTIVENESS OF THE PARLIAMENTARY COMMITTEES**

In 1996 the government of Bangladesh made a radical change and set an excellent example by reconstituting the Parliamentary Committees under the Chairmanship of Members of the Parliament . Till that time a Minister used to act as the Chairman of his Ministry's Parliamentary Committee . But the governments public pledge to strengthen the parliamentary system seems to have got stuck up within the screen of the television showing the Committees holding meetings routinely and naming and focusing the members and officials present at the meetings without going deep into the progress of work and scrutinising deeply the problems a ministry concerned and its departments . The deliberations of the Committees lack in effectiveness and there is absence of in-depth monitoring and control of ministry and the departments . The committees need to be empowered effectively to act as a watchdog to scrutinise the work of officials of the ministries and the departments . Thus although in 1996 there was a break with the past where upon the government made public pledge and commitment to strengthen Parliamentary Democracy , there has just been one step forward by the change in the Chairmanship of the Committees . Besides this business is as usual . Many steps of which some radical indeed need to taken for which a Parliamentary Committee may be entrusted to make necessary recommendations to empower the Committees .

The recent deliberations of some of the Committees may be discussed briefly . A Parliamentary Standing Committee meeting on Agriculture was held at the Parliament Secretariat . The meeting expressed concern over the damage of crops in different districts caused by floods . The meeting felt that local MPs be involved with the rehabilitation of agriculture sector for proper supervision . The list of those attending the meeting was then published and read out . A meeting of the Parliamentary

Standing Committee on the Ministry of Communication was held . The meeting expressed deep concern over the damage caused to the roads and railways due to the unprecedented floods in the country . The Committee reviewed the situation and recommended that the Ministry should start the rehabilitation program immediately after removal of the flood water . The Committee appreciated the role of the Bangladesh Railway where they continued service even though the rail tracks were under eight inches of water . The meeting also reviewed the post flood rehabilitation projects of the Roads and Highways Division .A preliminary estimate was placed before the committee . Finance Ministry's failure to release TK 1200 crore ADP fund disappointed the parliamentary body . The Parliamentary Standing Committee on the Ministry of Finance and Planning reviewed the implementation of the last ADP and found that the Ministry did not release TK 1200 crore of the revised ADP for 1997-98 fiscal year . The meeting also reviewed the immediate and post flood rehabilitation program of the government .At the Energy Ministry's Standing Committee meeting ,the Members could not get the information they wanted to know about a subject. From the deliberations of the Committees, it is clear that the Committees have not been able to free themselves from the tradition of the past where the agendas are set by the Ministry, progress reports are prepared by the Ministry minutes and follow up actions are recorded and monitored by the ministry . There is nothing new detailed and investigative about the working of the ministry and the departments .Then why are the complaints on the slowing down of the administration and failure to implement the projects and programs of a Ministry. Perhaps in their disgust the Chairmen of the Standing Committees met the Prime Minister and some positive results are being awaited .

It may be helpful here to discuss the role of the Parliamentary Committees of the mother Parliament at Westminster .In the UK , the Committee system has existed for centuries because the House of Commons always wanted to discuss affairs in the absence of the Speaker . The Speaker was at that time considered as the servant of the king and an office seeking spy . The modern parliamentary committee system was established in 1882 .Several Committees were formed but the Committees lacked the

bite as they were of short duration without having any power to investigate and scrutinise .In 1980 Margaret Thatcher brought about a drastic change in the committee system .The new Committees called the 'Watch Dog Committees' consisted of nine to eleven Members of the Parliament . Each of the Committees is endowed with investigative powers and keeping constant control on the working of the department to which a Committee is attached .Thus although starting from Harold Laski , Ivor Jennings and others who urged for empowering the Committees with more powers substantial break through could not be made . It was due to Mrs Thatcher and the effective and massive backing by the Labour party that some radical reforms could be made in the working of the Parliamentary Committees .The government publicly pledged to co-operate with the Committees .With the above commitment in mind the MPs Committee was formed to look into the procedure of the House of Commons The MPs Committee suggested radical reforms in 1979 and when the Conservative Party government came to power in May 1980, they accepted the Committees recommendations . The Labour Party did not lag behind they vigorously backed the reforms . The government declared . The government believed that the proposed reforms would assist the historical role of Commons in checking and controlling the Executive and bringing Members of the Parliament into the heart of governments decision making process .<sup>70</sup> In the United States Parliamentary Committees comprise members who are relatively stable specialising in particular aspects of public policy . The Congressional Committees formulate public policy and intervene in the actions of the government.<sup>71</sup> There may be other comments that the Minister's power may decrease in this system . But it has been found that Ministers have been strengthened in the process . There is no doubt that specialised committees would enable members to acquire information about the work and problems concerning the ministry if they are to conduct diligent and useful debates on administrative matters and on legislative necessity .The Specialised Committees would also enable Members to acquire information about and criticise those aspects of say the energy policy which are allegedly shrouded in secrecy Members are generally ignorant of the energy policy of the country excepting the load shedding although it involves a vital sector . Moreover



the specialised committees would be in a position to discuss policy matters in a non partisan way . It has been said by constitutional experts that the membership of the specialised committees would help the committee members from all the parties to criticise the government in useful way . Even in the UK , there were critics who said that the empowerment of the Committees as special watchdog to oversee the work of the government and departments would weaken the role of the government . The then government and the opposition Labour Party upheld that the administration would in fact benefit from the constant scrutiny of the work of ministers and civil servants as the ministers are too busy and being head of the Ministry find it difficult to scrutinise the work of the officials of his own Ministry . Sometimes the ministers and the officials appear to be in coalition , while sometimes at loggerheads both of which are not good for the success of democracy smooth administration and interest of the people.

Referring back to the House of Commons, it is on record that the MPs recommendations were quickly implemented by the government and twelve specialised select committees are selected by an all party group of nine Members of the Commons. Even one committee supervises the work of the Ombudsman who is independent and investigates complaints of mal administration brought up by MPs on behalf of individuals . The speciality of the new committees is that these committees meet in public some times in private also if it is considered expedient . They have the powers to send for persons papers records and any other material relevant to the matter at issue . Although the government does not give power to the committees to compel a Minister to be present or the Minister can not refuse to attend if invited to appear before the meeting of the Standing Committee. Although the government is publicly pledged to co-operate with the new committees and even to ask Parliament to make them stronger.<sup>72</sup>

## **(2) RELUCTANT TO JOIN THE SESSION BY THE MEMBERS**

The members of the Parliament are often disappeared from the current session . There is no law to compel the Members to be present every day of the session. But



the Members should remember that this is their responsibility not to be absent from the daily business of the session without any logical ground because they are also paid for it .

**(3) LACK OF KNOWLEDGE OF PARLIAMENT MEMBERS REGARDING FINANCE**

Most of the Members of the Parliament do not have sufficient knowledge regarding financial aspects . During budget session they seek help of the economists ,bureaucrats and experts on finance to prepare their lectures for the session. The academic background of many of the members are very poor which make them unable to talk regarding financial matters .

**(4) INCOMPLETE AUDIT REPORT**

In order to control the financial aspects of the government , it is very much required to have a complete audit report for the committees concerned . Unfortunately the Parliamentary Committees are not supplied necessary audit reports for bureaucratic red-tapeism. .

**(5) NO LOGISTIC SUPPORT**

The Parliamentary Committees are not provided logistic support from the Parliament Secretariat. The Committees do not have specific offices or regular staff. Recently some of the Committees are provided little logistic support including a few staff and most of them are clerical staff and one office room .Still they are not provided for telephone facilities ,transportation and other necessary equipment for the office administration .

**(6) GOVERNMENTAL NON CO-OPERATION**

Sometime the Committee members find the government non co-operative. The Minister for Finance does not bother the Standing Committees of Public Accounts or Estimates . This is very undesirable .

**(7) BUREAUCRATIC NON CO-OPERATION**

Bureaucracy in the developing countries are anti people , anti democratic by nature and Bureaucracy of Bangladesh is very much like that . They do not tolerate the supremacy of the Parliamentarians . In many of the cases, they do not help the Parliamentary Committees in order to avoid accountability . For this reason the Standing Committees could not work properly and effectively . To enable each Committee to function smoothly and efficiently , provision should be made to appoint special staff to weigh and assess evidence and deal with other routine work . But our Committees lack such support . It has to be kept in mind that the members role is investigating and getting at the actual position and status of administration and finance so that the legal and procedural hindrances could be tackled by new legislation .For this the Committees need to hold meetings in the field and on the spot. To reduce dependence on huge permanent staff, help may be gained from the universities by attracting bright students as research fellows . Side by side , the Committee should be empowered to take direct action against bureaucratic non co-operation .

**(8) NO OMBUDSMAN**

In the Constitution of Bangladesh there is a provision to create a post of Ombudsman. But unfortunately , after passing long years the provision of Constitution is not materialised . But ensuring administration of justice ,the Ombudsman system is highly recognised now around the world .The government has taken initiative to set up the office of the Ombudsman .But it is not very clear when this office will start to function.<sup>73</sup>

**ASSESSMENT**

Parliament is the centre of all activities of the government and it is the sovereign body constituted by the people's elected representatives . It is, therefore essential that during the sessions in general and the budget session in particular , the Members of the Parliament themselves should show ideal behaviour which may be followed by the government servants . But the people has been observing from the first few

sessions that often there was lack of quorum and this happened even after the expression of unusual annoyance by the Speaker and some times by the Prime Minister not to find present even government party members . If Members of the Parliament themselves do so how can they give direction to civil servants for being punctual and careful in discharging their duties . In order to establish democracy , accountability and transparency , it is expected that such kinds of negligence of duty by the Members of the Parliament will not occur in the future .Control of public finance by the Parliament is associated to the basic philosophy which is called people's right . Because public money spent by the Executive is collected from the people in the name of tax. The people is giving taxes to the government to get back service from the government .So the people have the right to know how and where their moneys are being used .The people are , of course happy when their representatives are active in this regard. In the developing countries , the control mechanism of public money are not very strong . In Bangladesh ,the democratic concept and values are not sincerely honoured by the various pressure groups of the country. So , it is very necessary to change the attitude of the certain groups ,sectors of the country to the parliamentary procedures as well as democratic values. The political culture of the country is also needed to be reformed . In the democratic process the Parliament have a vital role in order to ensure transparency in the developing countries like Bangladesh .For this reason the Committee System of Parliament should get more scope in order to ensure financial accountability and transparency of the government .<sup>74</sup>

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## CHAPTER-SIX

# FINANCIAL ADMINISTRATION AND ACCOUNTING IN BANGLADESH

### INTRODUCTION

In the developing countries, the government accounting system plays an important role regarding expenditure of public money and it helps the government financial administration towards proper utilisation of government expenditure for various purposes. So expenditure of public money by the government is the subject of accurate auditing and accounting. In the democratic set up of government in order to ensure proper expenditure of public purse the Parliament is empowered for accounting and auditing of such expenditures<sup>1</sup>. The Parliament, in this purpose also sets up its committees to review the budget execution. For many reasons, accounting in Bangladesh carries importance. In the field of financial administration in Bangladesh, the role of accounting is very vital because, the accounting process in Bangladesh is not scientific. It suffers from lack of accuracy and timeliness mainly. The whole accounting system in fact is the replica of old model. The governmental accounting is far from the new methods of accounting now being used in the developed countries. For what the accounting procedure in the government is complicated and full of errors. Side by side, auditing is not done efficiently and sincerely. For lack of trained audit group, many irregularities in the government are not audited accurately. Being a developing country, Bangladesh needs up to date audit report and the accounting process must have to be modern, scientific as well as dynamic. In Bangladesh for the purposes of accounting and auditing, the Office



of the Comptroller and Auditor General has been set up.<sup>2</sup> The Bangladesh Parliament has also set up Public Accounts Committee, the Estimates Committee and the Committee of Public Undertakings for the purpose<sup>3</sup>. In this chapter Accounting and Audit would be discussed in relation to financial administration with reference to Bangladesh.

### **MEANING OF ACCOUNTING**

Accounting has been defined as the art of recording, classifying and summarising transactions, wholly or partly of a financial nature in terms of money and interpreting the results thereof<sup>4</sup>. In simple words, it means keeping a systematic record of financial transactions. Francis Oaken defines accounting as the service of producing promptly and presenting clearly the facts relating to financial condition and operations that are required as a basis of management.<sup>5</sup> Accounting means maintaining a proper record of the finances of the organisation. It has a dual function to perform (a) the determination of the fidelity of all officers who handle the fund. (b) the furnishing of information needed regarding financial condition and operations for policy determining and administrative purposes.<sup>6</sup> In the words of L.D. White, the primary functions of a system of accounts are to make a financial record to protect those handling funds to remove the financial condition of the organisation in all its branches or purposes at any time to facilitate necessary adjustments in the rate of expenditure to give information to those in responsible positions on the basis of plans for future financial operating programs and to aid in the making of an audit<sup>7</sup>. Accounting is an indispensable means of exercise of financial control. Without accounting, it is impossible to know how much was received or how much was spent and for what purpose. Only through systematic accounting the honesty and legality of transactions can be determined. Scientific budget preparation would be impossible without accounting being available for the past years. Through accounts the authorities can know whether a particular activity or program is self supporting or

involves a burden on the Public Exchequer and if the later , whether it should be continued , expanded or not.<sup>8</sup>

## **ESSENTIALS FOR PUBLIC ACCOUNTING**

The government accounting has different characteristics for its nature of action. The form of public or governmental accounting differs from that of business and commercial accounting , because the objectives of the two are different. Business and commercial accounting are so kept as to facilitate the preparation of balance sheet, showing profit or loss , assets and liabilities. On the other hand, the purpose of governmental accounting is to furnish data to show whether the provisions of the budget as voted by the legislature have been observed or not . Hence the essentials of public accounting are different from those of private accounting.<sup>9</sup>The following are the main elements of Public Accounting

(a) **Generalisation of Accounts** - One officer should be made responsible for keeping the accounts of all the agencies of the government. This will give a co-ordinated and unified picture of all the expenditure and income of the government.<sup>10</sup>

(b) **Double Entry Book Keeping** - The government accounts should be maintained on a double entry basis which means that every item of expenditure is entered at two places. One entry remains with the operating service while another is sent to the Accounts office or if there is a separate department of the government or to the controlling office of the same service.<sup>11</sup>

( c) **Classification of Funds.**- Assets, liabilities and proprietorship of every fund or group of funds should stand out as a separate balanced group of accounts. A complete balance sheet should be compiled for every fund.<sup>12</sup>

(d) **Budgetary Control Accounts** - The government accounts should follow the budgetary form . It means that they should be kept under the same heads and sub heads as those of the budget .These elements are vital and obvious for any governmental accounting system in modern states of the world.<sup>13</sup>

## ACCOUNTING PROCESS AND CONCEPTS

By many of the scholars , accounting has been defined as the art of recording , classifying and summarising in a significant manner and in terms of money transactions and events which are , in part at least of a financial character and interpreting the results thereof . From this definition it is clear that accounting is very comprehensive in scope and is designed to fulfil certain objectives . The most common objectives of accounting are (a) to measure resources held by specific entities (b) To reflect the claims against and the interest in those entities (c) to measure the changes in those resources , claims and interests (d) to assign the charges to specific periods of time (e) to express the foregoing in terms of money as a common denominator . However , Hendrikson states that the objectives of accounting should be as follows : Financial accounting should provide the relevant information necessary for making economic decision by persons or entities out side of the reporting enterprise or entity and the information presented should be directed towards aiding in making the following types of decision (a) Investment decisions requiring an evaluation of the efficiency of management by stock holders and others ( b) financial decisions requiring an estimate of the ability of the enterprise to pay debts and decisions regarding fairness of resource allocations.<sup>14</sup> In order to use in making the above decisions , accounting should be provided relevant information which can be expressed in financial terms and other information that is necessary for a proper interpretation of the financial data. In order to achieve the broad objectives of the accounting , certain basic ideas underlying accounting practices have been developed . These basic ideas may be termed as concepts .

## CONCEPTUAL FRAMEWORK

Some of these concepts were devised by the early accountants, while some of them have been laid down by the different Accounting Institutes . The legislation affecting joint stock companies and stock exchange regulation have also contributed to the development of these concepts.<sup>15</sup> Accounting Institutes of the developed countries are now exploring new concepts of accounting for inflation . These concepts regulate



accounting practices and procedures. The whole accounting process is the by product of these concepts. The accounting process and the concepts go hand in hand. The accounting process starts with recording of transactions in subsidiary journals, classifying them in ledger and summarising them in order to ascertain the net income or loss and the financial statements may be further interpreted and analysed to throw more light on the affairs of the concerned. The accounting process starts with recording of business transaction in the Books of Prime Entry or Subsidiary Journals and certain concepts are followed in recording business dealings. These concepts are double entry, objective evidence and monetary unit. The double entry concept lays down that every transaction has two aspects and these two aspects must be recorded in the books of accounts.<sup>16</sup> Piccolo in his book described the double entry system and showed its practical application in recording business transactions in 1494. The double entry concept actually improve the whole accounting process. This concept is so vital that over the last 500 years or so, the concept has remained its position.<sup>17</sup> In recording business transactions, every business unit is treated as a separate entity or as an accounting unit. Accounting entity is different from legal entity. Every business unit is an entity for accounting purpose regardless of its legal entity. Some concerns such as sole traderships do not have legal entity but they are treated as accounting entities. Under this concept, accounting records and reports events, form the basis of view of business and treats the owner or owners as a claimant of the net assets of the business. This concept justifies the accounting equation, assets outside liabilities, proprietors or share holders fund.<sup>18</sup> The business transactions are recorded in monetary units. Money is the common medium of exchange and can be effectively used to obtain homogeneity of financial data. The diverse transactions can be measured only in terms of money. Although monetary unit concept has many advantages but it also suffers from certain limitations. These are (a) the purchasing power of money does not remain constant. In a period of rising prices, the purchasing power of money dwindles and this gives rise to measurement of real income of an enterprise. If proper provision for depreciation in respect of fixed assets is not made, the business tends to be under capitalised and shall face difficulties when the replacement of assets



becomes due. In a period of falling prices, the value of money goes up. This also creates accounting problems (b) the significant aspects of a business can be expressed in monetary terms. But many commercial and industrial factors having economic significance to the business are left out of the orbit of financial statements as they can not be expressed in terms of money. Thus, accounting records show the cost of production but states nothing about the quality of product. Similarly, it states the amount of management expenses but says nothing about effectiveness of the management nor does it comment on the labour management relationship. Accounting records will not reveal that a brilliant top executive has died and his deputy is likely to cause a strike in the business.<sup>19</sup> The accountant if fully aware of economic significance in such circumstances, but if he cannot measure it, he cannot report on it. Business transactions according to their nature are recorded in the different books of Prime Entry or Original Entry or Subsidiary Journals as and when they take place. In recording the transactions and reporting, the objective evidence concept must be borne in mind. Every transaction in the books of account must be based on objective evidence. This is necessary to maintain the confidence of the different users of the financial statements. Objective evidences like invoices vouchers, bank statements, deeds etc support the business transactions recorded in the books of accounts. The objective evidence make the accounts easily verifiable and acceptable to the various interested groups. In cases where objective evidence are not available, subjective factors must be taken into consideration such as in the calculation of provision for bad debts etc. In this case, certain amount of estimation is necessary and in making such estimation the accountant must take into account available evidences and must be free from bias.<sup>20</sup> Every business unit strives to earn profit. So, income determination is an important task of an accountant. Income determined by accountant is used for a variety of purposes. It is used as a measure of success of business, as guide to management in the conduct of the affairs of a business as a basis for calculation of income tax and dividend. Income figure also influences the investment decision of the public. In the process of determination of income, accounting concept, the recognition of revenue and cost concept, the matching concept and the

accrual concept come to the fore .The legal requirements, managerial needs and custom have given rise to the concept of accounting period. As there is a boundary for accounting process known as accounting entity so there is a boundary of time which is termed as accounting period concept.<sup>21</sup>

#### **THE EARLY DEVELOPMENT**

In the early days of business, the accounting was for a venture, so the period was not an important factor . The result of each venture was ascertained at the end of each venture when all expenses and gains would be clear and the net income or loss could be easily calculated . Growth of joint stock companies with limited liability and the imposition of tax on business led to the growth of the concept of accounting period . Accounting period has been laid down in the Companies Act for the purpose of presentation of accounts before the shareholders at the annual general meeting and filing of the same with the registrar . So one year is treated as an accounting period even where there is no legal compulsion . It has become a custom to prepare accounts for a year . But the management may need reports on operations and financial position for a shorter period of time . So the management should be supplied with such reports for the effective control and direction of the resources of the business . Recognition of revenues and costs is the next step in the process of determination of income . Since costs are to be matched against revenues , it is important to recognise when costs are incurred and revenues are earned in the course of transactions . This is not an easy matter in all cases . Usually such recognition is given at the point when value is transferred and something also of value is received in exchange such as payment or the right to payment . The something received in exchange however , must satisfy the requirements that (a) it is reasonably certain and (b) it is capable of objective monetary valuations .This means revenue is recognised at the time of sale of goods when cash or debtor who is supposed to pay a certain sum of money , is received . Like wise costs can be recognised when goods or services are ordered or they are received or performed or when payment of cash is made in settlement. It can be said that recognition of costs as well as of revenues should be made at the point of

delivery of goods or the rendering of services . The Accountants determine income through the matching process that is, they match the costs against the revenues of an accounting period. The resultant is either a net income or a net loss. The basic principle is that there should be matched with revenue , all those costs incurred in acquiring goods or services whose utility has expired in the earning of that revenue . Where the utility of a goods or service has only partially expired , that part of its costs which is relevant to the operation of the entity in the accounting period , should be included in the income computation for the period , the remainder being carried forward as an unexplored cost for matching against the revenues of subsequent period . Thus in the process of matching , the accrual concept comes into full play . The costs charged against revenues are based not on payment during period , but on the basis of benefit consumed during the accounting period . Likewise revenue so matched are not based on cash received but on income earned during the accounting period.<sup>22</sup>

#### **RELEVANT CONCEPTS**

In addition to the above concepts , the concepts of materiality , consistency , conservatism , disclosure and continuity also play very important role in the preparation of financial statements . The concept of materiality states that the material and significant events relating to business are to be recorded . Immaterial and trivial things may be ignored . But as the time of demarcation between material and immaterial facts cannot be drawn clearly. This is dependent upon the judgement of the individual accountant .A fact is considered to be material if its inclusion or exclusion affects the decision of a man of reasonable prudence . A statement , fact or item is material , if giving full consideration to the surrounding circumstances , because they exist at the time , it is of such a nature that its disclosure or the method of treating it , would be likely to influence or to make a difference in the judgement or conduct of a reasonable person .Concepts of consistency stresses that the accounting principles affecting the determination of net income and the valuation of assets are to be applied consistently . The maintenance of consistency is of paramount importance in comparing financial statements. If there is frequent switch of from one accounting



principle to another this may render comparison of financial statements difficult and trend of the business obscure .For example, there are different methods of providing for depreciation all equally accepted by the accounting profession but the methods will show different figures of net income .So whatever method of providing depreciation is adopted, it should be followed on a consistent basis to give consistent figures of net income. This concept does not prohibit switch over from one accounting method to another. Change in the method and its effect should be made clear in the financial statements .The concept of conservatism affects the net income and valuation of assets .The main theme of this concept is to anticipate no profit and provide for all possible losses . This means the financial statements should not take cognisance of anticipated profit but should take into account all possible losses . In other words, the financial statements should not portray a brighter picture of the business than what it is .But this concept should be applied judiciously so that there is no deliberate understatement of the affairs of the business.<sup>23</sup>

The concept of disclosure has come to the picture because of the growth of joint stock companies of organisation and taxation laws .Disclosure is essential for understanding the position of a business by the outsiders . Eric L Choler defines disclosure as a clear showing of a fact or condition on a balance sheet or other financial statement , in foot notes applicable thereto , or in an audit report .The extent of disclosure is a debatable point but the accounting profession is in favour of adequate disclosure without , in any way , impairing the interest of the business .The American Accounting Association states that the purpose of periodic financial statements of a corporation is to furnish information that is necessary for formulation of dependable judgements . A knowledge of the origin and expiration of the economic resource of a company and the resultant changes in the interests of its creditors and investors is essential to this purpose .These facts should be expressed in such a manner as to make the financial statements both intelligible and as far as possible comparable with statements of other periods and of other corporations . The reader of the statement should be able to assume that in the absence of clear indications to the



contrary certain basic principles or standards have been followed.<sup>24</sup> To achieve this and a unified and co-ordinated body of accounting theory is required. Under the concept of continuity or going concern an assumption is made that the business shall continue for an indefinite period of time. As a result of this assumption the assets are valued at acquisition cost and the amount of depreciation written off is deducted from such cost. This also justifies the treatment of prepaid expenses as assets even though they may be unassessable.<sup>25</sup> In Bangladesh, these concepts are followed in the accounting process where double entry system of accounting is followed. Even in indigenous system of accounting surprisingly these concepts are also at work even though in a crude form. The accounting profession in Bangladesh adheres to the accepted accounting concepts.<sup>26</sup>

#### **EVOLUTION OF AUDIT**

Government accounting and audit are interrelated and their joint efforts ensure financial transparency in the field of transactions of public money by the public official. So after any discussion of accountancy, the discussion on audit would take place. The aim of audit has evolved beyond an emphasis on minimising waste, abuse, fraud and ensuring compliance with authorities. It now aims to improve services to society by promoting 'Value for Money' in government decision making and enhancing organisational performance. Potentiality of audit for productively, promoting of good governance is now recognised as a significant factor in the evolution of public sector financial reform. The earliest references to audit were found in Athens, China and India in the Pre-Christian era. Reporting and inspection systems were introduced to ascertain the status of the monarchy's finances and to safeguard Royal property from internal fraud. Later, the control of money became a contentious issue between the Royalty and the taxpaying public. Audit tasks were specified and developed over the years to become an integral part of the efforts by the democratic institutions to put their finances under the vigilant eye of an independent body. As economies grew and institutions strengthened, public expenditures also grew, reflecting the broader scope of public services and a parallel evolution took place in

audit .By the passage of time , audit expanded and the traditional emphasis on ensuring legality and regularity was exercised through accountancy . In this aspect the Auditor observers appliance of laws , rules and ensures that funds were spent for the purposes intended.<sup>27</sup>

Audit as a system of legislative control over public finance, first arose in the UK and it was more the result of a gradual process than a creation . In the United Kingdom ,the Parliament insisted during the reign of King John that they should have the control of receipts and revenues and the discretion with regard to expenditure was considered to be a prerogative of the Crown . But the Stuart autocracy made the Parliamentarians more inactive and they began to claim a share in the control of public expenditure as well . As more and more powers passed from the hands of the king to the Parliament gradually the present practice was established which gave the Parliament complete control over expenditure also . The audit system was established in the UK under the Exchequer and Audit Department Act of 1866 . This Act eventually provided for the establishment of the Office of the Comptroller and Auditor General.<sup>28</sup>

### **MEANING OF AUDIT**

Audit is one of the most important instruments of parliamentary control over the finances of the country . It is a means of enforcing accountability and is a part of the external control over civil administration maintained by the legislative body. In simple words , audit means the examination of accounts with a view to determining their correctness and also to make sure of the clear picture of the transactions they undertake and in addition also to know everything and understand the profit and loss. According to Charlsworth audit means the process of ascertaining whether the administration has spent or is spending its funds in accordance with the terms of the legislative instrument which appropriated the public money. <sup>29</sup>It is a systematic examination of the books and records of a business or other organisation in order to ascertain or verify and to report upon the facts regarding its financial operations and the results there of . An audit is an examination and verification of the accounts after

transactions are completed in order to discover and report to the legislative body regarding any unauthorised, illegal or irregular expenditures or any financial practices that are unsound. Audit also examines whether the administration has faithfully discharged its responsibility or not.<sup>30</sup> At the beginning of the audit system, audit was conducted only in case of expenditure and only to make sure that money had been spent in accordance with the appropriation grants. But at present it is conducted for all financial transactions whether for receipts or payment for ensuring that money which has been collected and spent in accordance with the provisions of the Appropriation Act passed by the legislature and that there is no fraud or misappropriation. Now a days audit goes a step more for examination of the faithfulness, wisdom and economy applied by the official in making the expenditure. It is no longer sufficient that appropriations should be applied to purposes approved and should not be exceeded without parliamentary approval. It is more important that public money should be wisely and economically expended and that extravagance and waste be avoided. The main objective of government audit is to fix the accountability of the officers of the government for an illegal and improper certification made by them as well as for any payment prohibited by law or which did not represent a legal obligation under the appropriation or fund involved.<sup>31</sup>

### **OBJECTIVES OF AUDIT**

The main objectives of government audit in our country are related to the Company Act of 1913.<sup>32</sup> The main provisions of the Company Act of 1913 of India relating to accounts and audit may be summarised below. The section 130 of the Company Act of 1913 explains about obligations of keeping proper books of accounts and requirement of lay before the company in general meeting a balance sheet and profit and loss account. So the audit group will have the objective to see that whether funds for the expenditure are duly authorised by competent authority or not.<sup>33</sup> Section 131 says about requirements for directors or proper authority's report in order to see that the expenditure is in accordance with a sanction properly accorded and is incurred by an officer competent to incur it. Audit will see that payment has, as



a fact, been made and has been made to the proper person, and that it has been so acknowledged and recorded that a second claim against government on the same account is impossible. Audit will have the objective that in the case of audit of receipts (a) sums due are regularly recovered and checked against demand and (b) sums received are duly brought to credit in accounts.<sup>34</sup> Audit must see that in the case of audit of stores and stock, where a priced account is maintained, stores are priced with reasonable accuracy and that the rates initially fixed are reviewed from time to time, correlated with market rates and revised when necessary.<sup>35</sup> Audit will have the objective that the articles are counted periodically and otherwise examined for verification of the accuracy of the quantity balances in the books and that the total of the valued account tallies with the outstanding amount in the general accounts and that the numerical balance of stock materials is reconcilable with the total of balance in the account at the rate applicable to the various classes of stores. Audit will see that expenditure conforms to the following general principles which have for long been recognised as standards of financial propriety (a) that the expenditure is not prima facie more than the occasion demands and that every government servant exercises the same vigilance in respect of expenditure incurred from public moneys as a person of ordinary prudence would exercise in respect of expenditure of his own money (b) that no authority exercises its power of sanctioning expenditure to pass an order which will be directly or indirectly to its own advantage.<sup>36</sup>(c) that public moneys are not utilised for the benefit of a particular person or section of the community. (d) that the amount of allowances such as travelling allowance granted to meet expenditure of a particular type is so regulated that the allowances are not on the whole sources of profit to the recipients.<sup>37</sup> For Bangladesh, the objectives of audit of public funds should be more rigid but the speed of audit of public money is slow and uncoordinated. Generally the role of audit in developing countries are to find out irregularities for the sake of public expenditure and protect of misuse. In Bangladesh, the role of audit is not fair and sincere.<sup>38</sup>



## **STEPS IN AUDIT**

The government accounting is of central importance for several reasons. First it allows government business to be carried out by undertaking transactions. Second , it provides in association with related systems an essential element of control in the handling of government resources . Third , it results in records and trail of evidence which can be subsequently verified by auditors . Fourth, along with the auditors report it provides financial data necessary for accountability purposes . Finally , it provides financial data necessary for accountability purposes as well as it provides financial information for decision concerning the deployment of resources . For these reasons all the countries studied under the present research work give considerable importance to government accounting .For ease of discussion the audit approach is broken down into a number of steps . It does not indicate that every audit can be broken down or ordered in the same manner. Often the auditor may find it more efficient to carry out several steps at once or more steps that are not relevant . The steps of audit can be seen in the Figure-12. However, the audit steps are discussed below in the following paragraphs

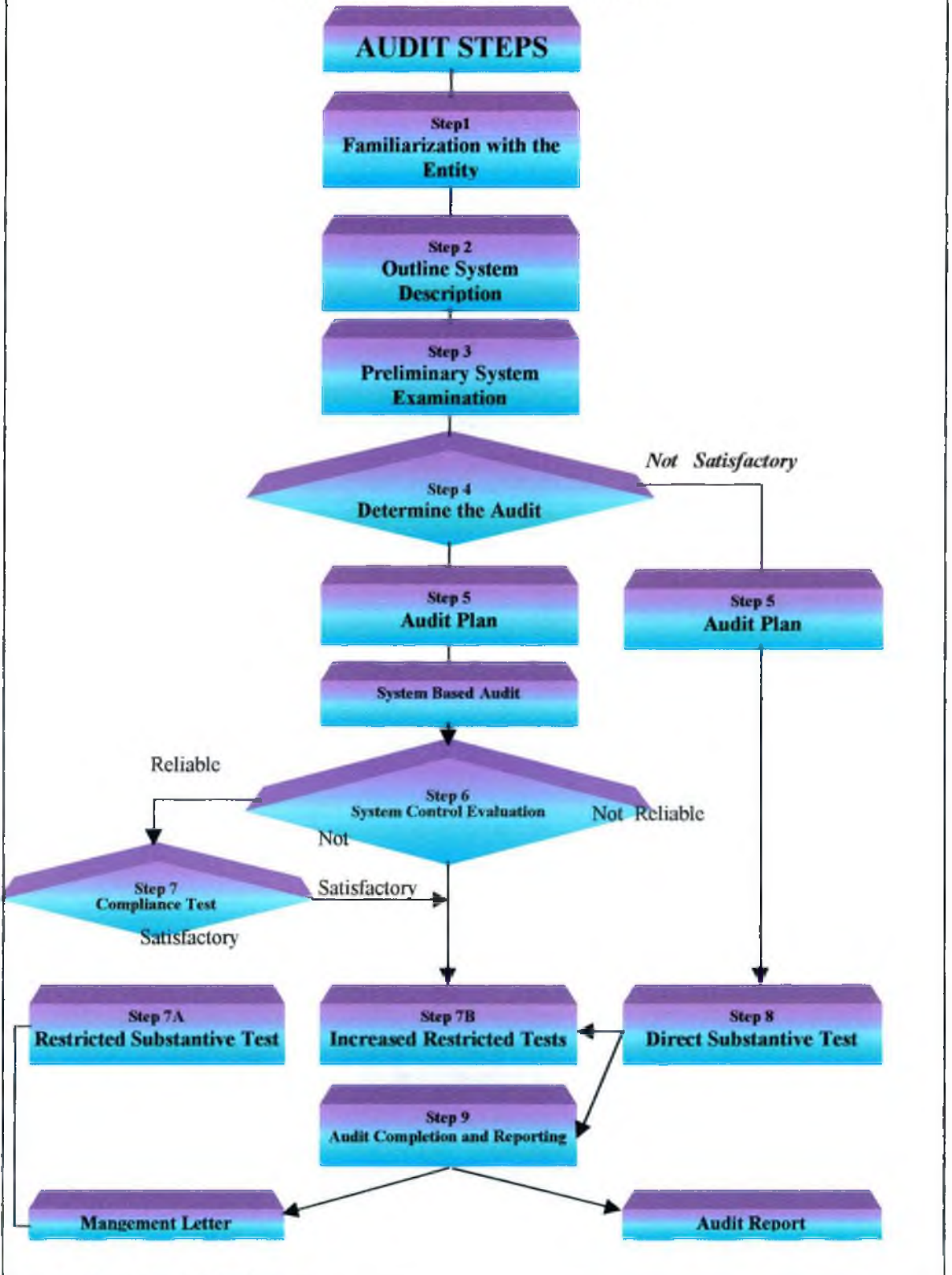
### **STEP ONE - FAMILIARISATION WITH THE AUDITED BODY**

This is an essential step required to gain an awareness of the activities of the audited body . It involves , for example -examining and gaining a broad understanding of the legislation which affects the audited body including the likely effect of any new legislation, confirming scope of audit and the authority for it and confirming with the form of the account and disclosure requirements by reviewing the last published accounts , estimates or budget .

### **STEP TWO- OUTLINE SYSTEMS DESCRIPTIONS**

The auditors operational standard states that the auditor should ascertain the audited body's system for recording and processing transactions and assess its adequacy as a basis for the preparation of financial statements. The auditor is required therefore to do two things .(a) he must find out what the financial systems make a record of them. He does this through preparing Outline Systems Description .or OSD. (b) he must evaluate the overall control of environment. He does this by carrying out Preliminary

**FIGURE -12  
STRUCTURE OF AUDIT STEPS**



Source : Public Finance & Development

Systems Examination ( Step-three below )An Outline Systems Description or OSD is an outline of the main features of the audited body's financial systems, with a description of how the systems fit with each other . The description should cover the following matters :

- (a) The main processing procedures
- (b) Major control procedures.
- © Any serious control weakness thought likely to affect the audit approach
- (d) The type value and volume of transactions processed
- (e) Inter-connection between computer and manual functions .

The auditor needs to know how the system operates in practice and should guard against recording the system simply as the organisation describes it . The auditor should make sure that he has an accurate record therefore by tracing a few transactions through the system. For example in the case of purchases this would involve following through order and subsequent receipt of goods through the various accounting records . In the audit arena these tests are popularly known as 'Walk Through Tests.' Outline System Description may be kept in block diagrams or narrative notes or a mixture of both .

#### **STEP- THREE - PRELIMINARY SYSTEMS EXAMINATION.**

The purpose of a Preliminary Systems Examination or PSE is to carry out before planning an audit in detail , a brief evaluation of the audited bodies control environment in order to ensure adequacy of the system of recording and processing transactions as a basis for the financial statements and to evaluate the overall control environment of the audited body. The PSE also evaluate the individual system of processing transactions for example the non payroll expenditure control area , identify any specific weakness or risk so that the auditor can make sure that his substantive tests cover them and decide whether the accounting systems are satisfactory and could support System Based Audit. Preliminary Systems Examination takes the form of a questionnaire and may be kept in permanent file . It is important



that the information on the file should be kept up to date and the auditor should review it each year to make sure that it is accurate .

#### **STEP-FOUR - DETERMINING THE AUDIT APPROACH**

If the Preliminary Systems Examination would indicate that at least low assurance could be obtained from the operation of internal controls , System Based Approach would be an option . On the other hand if no assurance could be obtained , 100% Direct Substantive Testing would be the only approach possible .Where a decision is taken to adopt a DST approach, the auditor will move directly from step five to step eight .

#### **STEP -FIVE- PREPARATION AND APPROVAL OF AUDIT PLAN.**

An annual audit plan should be prepared and approved in respect of each set of financial statements for which an audit certificate is provided . The certification audit plan should contain (a) a summary of the scope of the audit and of the planned audit approach (b) details of the administrative and timetable arrangements and supporting working papers on standard forms. The importance of planning is recognised in operational auditing standards which lay down that the auditor should adequately plan control and record his work .

#### **STEP SIX - SYSTEMS CONTROL EVALUATIONS**

Where a decision has been taken to follow SBA approach , Systems Control Evaluation is required to identify key controls within accounting systems upon which reliance can be placed and to reduce the extent of substantive testing to form an opinion .The procedure to achieve the objective involves design key control questions relevant to each general audit objective and upon which reliance can be placed and an initial evaluation of the strength of the controls identified .It is to be noted here that tools used for evaluation of Systems Control are (a) Internal Control Questionnaire or ICQ and (b) Internal Control Evaluation Questionnaire or ICEQ.



**STEP SEVEN- SBA : COMPLIANCE TESTING**

If the Systems Control Evaluation indicates that reliance may be placed upon the key controls identified , the auditor must obtain compliance evidence that the controls have operated effectively over the period of the account under audit .Procedures to achieve the objective of compliance testing involves (a) Compliance Test Program (not to be confused with 'Walk Through Tests' used under 'Outline Systems Descriptions' stated in step-two (b) Selection of sample size (c) Evaluation of the results of Compliance Testing. If higher degree of assurance is achieved from the evaluation of the results of Compliance testing , lower assurance will be needed from substantive testing to form auditors opinion on the account. Hence less audit resources will be needed due to restricted amount of substantive testing. The auditor must always obtain substantive evidence to support his opinion on the account. Less substantive evidence is required if he performs a System Based Audit but whatever the audit approach substantive evidence must always be obtained . The main objective of substantive testing is to enable the auditor to express an opinion as to whether material error exists in the accounts . Substantive test must be designed there fore to uncover all types of error which might exist in the financial statements such as those governed by the general audit objectives of completeness occurrence, measurement, disclosure and regularity .

**STEP -EIGHT- DIRECT SUBSTANTIVE TESTING**

The auditor will use Direct Substantive Testing or DST if he cannot rely on the systems of control or this approach is more cost effective . Under DST approach the auditors opinion is solely based on substantive tests. Substantive evidence is obtained by examining and testing the transactions that make up the account . It is seen in an earlier par that substantive evidence provides direct and positive assurance to support the opinion on the account. The main ways in which audit evidence is gathered under DST can be summarised as under. Re performance of accounting routines such as checking computations , vouching , scrutiny such as reviewing data to identify unusual items ,observation , physical inspection , confirmation and inquiry of third parties , analytical review, computer assisted audit techniques .

#### **STEP NINE- AUDIT COMPLETION AND REPORTING.**

At this final stage of audit the auditor has reached his conclusions , based on the evidence he has obtained and documented , as to the existence of material errors in the accounts , the adequacy of the financial and accounting systems underlying the accounts. The auditors responsibilities for reporting these conclusions are to those who have appointed him and to all readers of accounts who placed reliance on the auditors opinion such as External reporting and the management of the audited body such as Internal reporting.<sup>39</sup>

#### **EXTERNAL REPORTING**

The auditors certificate is the primary means by which the results of the audit are conveyed to users of accounts. There are two parts to the audit certificate (a) description of the scope of the audit and (b) the audit opinion. The paragraph of the certificate must state the financial statements to which audit relates and that audit has been carried out in accordance with the relevant statutory authority and with auditing standards. An opinion must be expressed as to whether the accounts are properly presented such as cash accounts or show a true and fair view such as accrual accounts and the opinion may be qualified or unqualified. For appropriation accounts the opinion must cover regularity by saying that the sums spent in accordance with the intention of the Parliament.

#### **INTERNAL REPORTING**

Auditor's prime obligation is to express an opinion on the accounts but he is also required to form a view about the audited body's accounting records and internal control . If the auditor decides that his findings are not sufficiently serious to warrant qualification of the certificate , he should bring the weaknesses to the attention of the management of the audited body through management letter with the aim of securing improvements. However the management letter needs to be framed with care and the proposed contents should be discussed with the audited body before the letter is sent. Specific points to be taken into account when compiling such a letter are (a) concrete

examples of weaknesses or errors should be give wherever possible (b) no weaknesses should be reported without a corresponding recommendation for improvement to the system; the important aspects of the letter should not be obscured by the inclusion of trivial items. In Bangladesh audit resources are limited as are any other resources of the country . It is therefore critical that these resources are not wasted by conducting audit in a haphazard way. To bring proper discipline in the audit approach the office of the Auditor General should strive to encourage the government departments and public enterprises to have effective accounting and adequate internal control system. A sound and effective accounting and internal control system puts the public sector on the right track for achieving its principal objectives. If there are sufficiently effective accounting and internal control systems, the audit office may minimise the extent of detailed audit work and concentrate its attention on other sophisticated areas of 'System Based Auditing' . In the process , the economic and efficient use of audit resources , the speed and reliability of audit will increase and its quality will be enhanced for the overall improvement of the activities of the office of the Auditor General.<sup>40</sup>

### **DIFFERENCE BETWEEN AUDITING AND ACCOUNTING**

Audit begins where accounting ends. Auditing and accounting are very closely related yet there exists a great difference between the two .Accounting means keeping systematic record of financial transactions whether of a public authority or of a private concern or of an individual . Unless accounts are properly maintained it is impossible to know how much was received and how much was spent and for what purpose . In the absence of such knowledge there can be no control . It is only through systematic accounts supported by vouchers and receipts that legality and honesty of the transactions can be determined. Accounting is thus concerned with ensuring that the money requisitioned by a department is provided in the budget and that money used by the department only up to that sum which is permitted by the budget and that the expenditure is in accordance with the law passed by the Parliament. The audit goes one step more. It has to see that the expenditure is in accordance with the



Appropriation Act that the amounts are correct and all payments and receipts of money are supported by documents and vouchers. It detects errors of funds and exercises check on misappropriation and management audit thus begins where accounting ends.. Accounting is a executive function but Audit is the function of the legislature . Those who spend the money must keep accounts and be responsible for the spent within the grants made by the legislature . The auditors are not to keep the accounts. Their functions should be only to audit the accounts maintained by the spending authorities .In the developing countries , the audit functions are to some extent is risky . The audit teams face many kinds of problems such as non co-operation from the respective office , threatening , pressure from the top authority and offering bribe.<sup>41</sup>

## **FINANCIAL ADMINISTRATION AND ACCOUNTING IN DEVELOPING COUNTRIES**

The developing countries have been facing problems with their unscientific accounting system which finally effect their financial management and administration system. In this research work , four countries have been taken for discussing their accounting system . In the following paragraphs ,the accounting system of Nepal would be discussed .

### **ACCOUNTING IN NEPAL**

Nepal is a developing country of South-east Asia having a traditional accounting system. For many reasons , Nepal has been trying to develop a sound financial administration system in which accounting is seriously involved. Until 1962 , government offices maintained different kinds of accounting systems, which were all independently devised . In 1962 , with the assistance of the United States Agency for International Development or USAID , a budgetary expenditure and accounting system known as the New Accounting System was introduced in all the government financial operations except the public corporate bodies . Later, it was supplemented by three separate sub- systems known as the (a) Property Accounting System in the year of 1963 , (b) the Public Works Accounting System in the year of 1974 and (c) the



Revenue Accounting System in the year of 1976 . One very remarkable thing is that none of these sub- systems were integrated with the new accounting system. Thus , the information generated by each is not readily reconcilable . Gradually , more formats were introduced to cover and report on the donors share of budgetary expenditures and thus to facilitate settlement of their accounts with the Government of Nepal.<sup>42</sup> However , it would be useful to look on the main features of Nepal accounting system in brief. The main features of the new accounting system are as follows (a) The system is based on the principles of double entry accounting (b) Only cash transactions are recorded , yet obligations are noted in a special format, not forming an integral part of the accounting records (c) Accounting units are divided into two categories : at the central level and at the operating level . Central level accounting aims at consolidation of accounts . Thus it maintains the (1) Budget Summary Allotment and Expenditure Budget (2) Budget Commitment Ledger and (3) Allotments to level accounting .However, operating level accounting refers to the budgetary expenditure accounting system designed for each spending office (d) Under the new accounting system, personal advances for official travel or local purchases at the operating level are treated as expenditures . This is the product of difficult communications with remote areas (e)The new accounting system also prescribes various controls and reporting requirements. Under this system , the office of the Financial Comptroller General maintains an integrated central account of revenue , expenditure, loans , grants , etc. Each operating level office is required to submit within seven days after completion of a month the financial statements to the central level accounting unit with copies forwarded to the Financial Comptroller - General office and to the District Treasury and Accounts Controlling office . The central level accounting units are required to submit consolidated financial statements to the Financial Comptroller General's office . Since the introduction in 1981 of the government income and expenditure operating Procedures and rules ,which is also known as New Treasury Rules , the District Treasury and Accounts Controlling offices have been entrusted with the functions of transferring funds to the spending offices and monitoring their revenues and expenditures. In this connection each

District Treasury and Account Controlling office conducts internal auditing of all the government offices in its District and maintains in its office the records showing allotments by subhead and office , amounts released against allotments, and balances available. The District Treasury and Account Controlling office furnishes such details to the Financial Comptroller General office every month.<sup>43</sup>

In the Financial Comptroller General office, the income and expenditure of the government is ascertained for every financial year, after checking and verifying the consolidated statements . These are based on data furnished by the Ministries as central level accounting units and by the District Treasury and Accounts Controlling offices and are checked against the consolidated bank statements , collected through the central offices of banks carrying out government accounting transactions. The Financial Comptroller General office then submits the annual financial statements to the Auditor General office for auditing . The audited annual statements are included in the Auditor General's annual report .At present it takes about nine months after completion of a financial year for submission of an integrated financial statement to be affected by delays in receiving financial returns from various remote Districts and lack of prompt actions to dispatch them in time, As a result the Financial Comptroller General often has difficulty in knowing the financial status of a particular project before issuing an order to the District Treasury and Accounts Controlling office for release of advance allotment of budget . In Nepal, automated accounting is still far away . Accounting records are operated and maintained manually . However, recently a few computers have been installed in the Ministry of Finance for monitoring purposes on a trial basis . Similarly one computer is installed in the District Treasury and Accounts Controlling office at Kathmandu , where a large number of accounting transactions occur. These efforts help to modernise the system of accounting .The officer in charge of each operation is responsible for maintaining accurate accounts and for providing timely information. The Ministries and departments are held responsible for the same activities at the central level. As the New Accounting System is based on double entry bookkeeping , it is self balancing.<sup>44</sup>

The government accounts are operated through the branch banks of the central bank or at other commercial banks, as authorised by the Financial Comptroller General's office. At the end of every month the balances shown in the accounts of each operating office should tally with the bank statement issued by the corresponding bank. But it is often found in practice that government offices have to wait until the end of the next month to receive bank account statements for their month end closing. All the Ministries of the Government of Nepal have central level accounting units. They maintain budgetary control accounts for each subhead. These show appropriated figures releases of allotment expenditures incurred and balances thereof. The information is generated from operating level accounting units. But this process is often hindered by late submission of periodic reports from operating level units and information from the District Treasury and Account controlling offices. Nevertheless, the accuracy of accounts is proved periodically. The operating units are required to submit their statements to the Financial Comptroller General's office and to the District Treasury and Accounts Controlling office, showing the current budgetary status along with supplementary statements mentioning the donors portions. The Financial Comptroller General's office then verifies these statements with the donors accounts, and the District Treasury and Accounts Controlling office, in turn checks the figures with previous releases of allotment and with expenditures and balances. In case of any variance the concerned operating unit is notified. The further release of allotment may be withheld until the later clears up such a variance. In Nepal, audit is fully separated from Accounts. Financial Comptroller General under the Ministry of Finance is the highest authority responsible for preparing, maintaining and keeping of government accounts. As the accounts are departmentalised fund is spent by the Ministries, organisations and departments by issuing cheques and there is no pre audit of bills by the accounts office. The initial accounts are kept by the spending units. Nepal has seventy five District Treasury Controllers Office or DTCO, one in each District, under the Financial Comptroller General.

All revenue income of the government comes through the DTCO and deposited into the bank. Internal Audit of the departmental offices is done by the office of the D



TC. The DTC sends his team once a month to each departmental office and conducts the internal audit . The ministries , organisations and departments spend money by issuing cheques but it is possible only after the release of fund by the DTCO. Every government office comes under the jurisdiction of any of the seventy five Districts. The spending units submit monthly expenditure statements to the DTCO . Before the budget is approved these units can spend money up to 1/6th of the actual expenditure incurred by individual units during the previous year . After getting budget the units have to replenish the expended money by submitting the vouchers of the fund utilised. All spending units including the projects have individual bank account . The DTCO releases fund once a month after getting expenditure statements from the units and the copy of the funds release order is sent to the bank . The banks honour cheques issued by the units only after getting fund release order from the DTCO. The DTCO reconciles the expenditure statement with the fund release order issued by him and bank reconciliation is done by the Financial Comptroller General Office or the FCGO centrally with bank statement issued by the Nepal State Bank . Each spending unit has one accountant debuted from the FCGO . He is responsible for keeping initial accounts of the unit . Another function of the DTCO is to collect monthly expenditure statements received from the spending units and pass them to the FCGO. All the spending unites of the government have to prepare monthly expenditure statements and have to send one copy of the statement to the DTCO and one copy to the parent Ministry through the department .The FCGO , after getting statements from all the seventy five Districts prepare Annual Financial Statement of the government which includes annual receipts , expenditures and analysis of variation and a separate report on revenue accounts . A separate statement for foreign grants and loans is prepared and submitted to the Ministry of Finance by the FCGO. <sup>45</sup>The accounting system of Nepal is still not very advanced , well organised and well co-ordinated.. As like as its financial administration ,the accounting system is not very effective to fulfil the demand of the time .



## **ACCOUNTING IN BHUTAN**

Accounting is a very important aspect of financial management in Bhutan . As far as budgetary process and cycle is concerned , accounting is primarily the mechanism for ensuring budget accountability . For this purpose accounting provides information on the receipt utilisation of funds, on past operations and present conditions on scale of accountabilities of officers , personnel handling , sanctioning revenue collections and all types of expenditures. It also serves as a basis for persons concerned in all the agencies at various levels of financial management in order to maintain a balanced financial information.<sup>46</sup> Accounting information is generated from accounting records , books of accounts and accounting reports . Specifically, the Financial Manual 1988 of Bhutan includes regulations on the Books of Accounts ( Chapter- 12) to be maintained by the agencies , the monthly accounts ( Chapter- 13 ) to be prepared and submitted by the agencies to the Department of National Budget and Accounts and the annual accounts ( Chapter- 14) to be prepared by the Ministry of Finance and submitted to the Government . These are in addition to the regular fortnightly statements rendered by the authorised government depository for principal bank accounts of the government . There are three primary sets of Books of Accounts maintained for the government The government owned or controlled corporations maintain their own books of account on a commercial basis and furnish the Ministry of Finance with their financial reports . They maintain current accounts with the authorised bank which is covered by a separate manual , consistent with the Financial Manual 1988 to the extent that this is possible .

Financial control , including checking the accuracy of the accounts , is exercised at various levels of government . An officer at the agency level is normally assigned to check the accounts especially the daily and weekly records in addition to his regular duties . This practice is built into the process of head of agency . Hence, the head of agency or his duly authorised representative has the responsibility to see that the cash accounts particularly withdrawals from the letter of credit account , are correct and completely recorded .In addition to the control at the agency level , the respective department has the authority to review and check the accounts of its units or sub-

units while at the same time consolidating their accounts from the department, all receipts and other evidential papers are submitted to the Department of National Budget and Accounts where they are further reviewed and analysed. Thereafter, the agencies accounting reports are consolidated and submitted to the Royal Audit Authority. The system of checking and control is time consuming, prone to delay, loss of paper and entails additional cost and manpower for recording, handling and temporary filling. Errors may be minimised in the process of review but not entirely eliminated.<sup>47</sup>

To be effective, an accounting system has to produce timely and accurate reports not only to determine accountabilities, but to serve as a guide for future plans and operations. It needs adequate manpower, equipment facilities, technical guidance and methodology. In Bhutan, timeliness and accuracy are yet satisfactory owing to manpower, financial and technical constraints. Most accounting sections are understaffed especially considering the fact that they often perform additional functions, such as budgeting and cashiering. This is due to a manpower constraint, not only in accounting but also in other services and functions of the government. The manpower constraint becomes more acute as more personnel are involved in the existing equipment such as calculators typewriters etc, has not been met owing to constraints. Some old equipment that has to be repaired and serviced to make it serviceable has remained in the same condition for lack of technicians, spare parts and supplies. Technical constraints have likewise affected the accounting work, which is done mostly by personnel who have not been fully trained. They need closer technical supervision. Each accounting section also needs, for its ready reference, copies of the Financial Manual, the Budget Manual and circulars and other issuance's on accounting and financial matters.<sup>48</sup>

### **ACCOUNTING IN PAKISTAN**

Pakistan has got a federal government system. It has four provincial governments and at the apex there is the central government. The Parliament is the highest body in the financial administration of Pakistan. The Ministry of Finance is responsible for

the preparation of budget proposals of the government and to place them before the Parliament for discussion and approval. The Ministry of Finance distributes the approved budget Ministry wise. The Ministries again distribute the budget division, department, office wise. At the central government level, Pakistan has retained Financial Adviser Scheme. All the bigger Ministries have one Financial Adviser of Joint Secretary level and the smaller Ministries have one Deputy Financial Adviser of Deputy Secretary level. They are posted to different Ministries by the Ministry of Finance and so long they work as Financial Advisers they belong to the Ministry of Finance. All the budget and expenditure proposals go through the Financial Adviser or Deputy Financial Adviser of the respective ministry.<sup>49</sup> In order to complete financial activities properly, the accounting system of Pakistan is organised in the line with the administrative structure. Under respective Accountant General at the field level, there are many District Accounts offices to do accounting functions and under the Ministry of Finance there are many District treasuries to handle government cash, valuables, stamps etc. The AGPR makes payment of all claims against the central government at the capital, Islamabad. The AGPR has retained pre audit system and contingency bills are to be submitted to the AGPR for pre audit and payment. All the computer printed payroll statements and paid vouchers of contingency bills go to the computer section of AGPR to be incorporated in the monthly accounts. The AGPR sends one copy of monthly accounts to the Auditor General and one copy to the Ministry of Finance. The Provincial Accountants Generals make payment of all the claims against government at the Provincial Head Quarters and at the district level, District Accounts Officers and Treasury Officers make payment of claims against government. All accounts of receipt and expenditure are sent monthly by the TO and the DAO to the AG of the Province.<sup>50</sup> The AG incorporates accounts received from the DAO and TO with his own accounts and prepare the monthly accounts of the province. The Provincial AG sends copies of monthly accounts to the Auditor General and to the Ministry of Finance. After closure of the Financial year the Auditor General of Pakistan prepares the appropriation accounts and finance accounts of the government. In Pakistan the accounting system of AGPR is fully computerised and



all the provincial Accountants General have computerised accounting system. Pakistan Audit and Accounts Department requires a large number of technically trained personnel to run its computer installations situated in different places. These computer set-ups have fixed posts for technically trained personnel at the staff level. Normally these posts at the staff level are filled by direct recruitment and cadre officers or departmental officers are posted to the management level posts. Persons working in the computer wing get extra remuneration for technical nature of job. The employees working in the computer section may sit for the departmental promotion examination and if become successful may be promoted to the rank of officer of the Audit and Accounts Department. The Director General (computer) of the Auditor General's office is empowered for the recruitment of all the computer personnel of the Audit and Accounts Department. The Audit and Accounts Training Institute of Pakistan is the only institute to train employees of the Audit and Accounts Department. The Institute provides long and short term training courses. But still Pakistan is lacking of efficient staff and management in this sector. For this reasons financial administration of Pakistan has been facing lot of problems. However Pakistan is urgently required for effective accounting and auditing system.<sup>51</sup>

#### **ACCOUNTING IN INDIA**

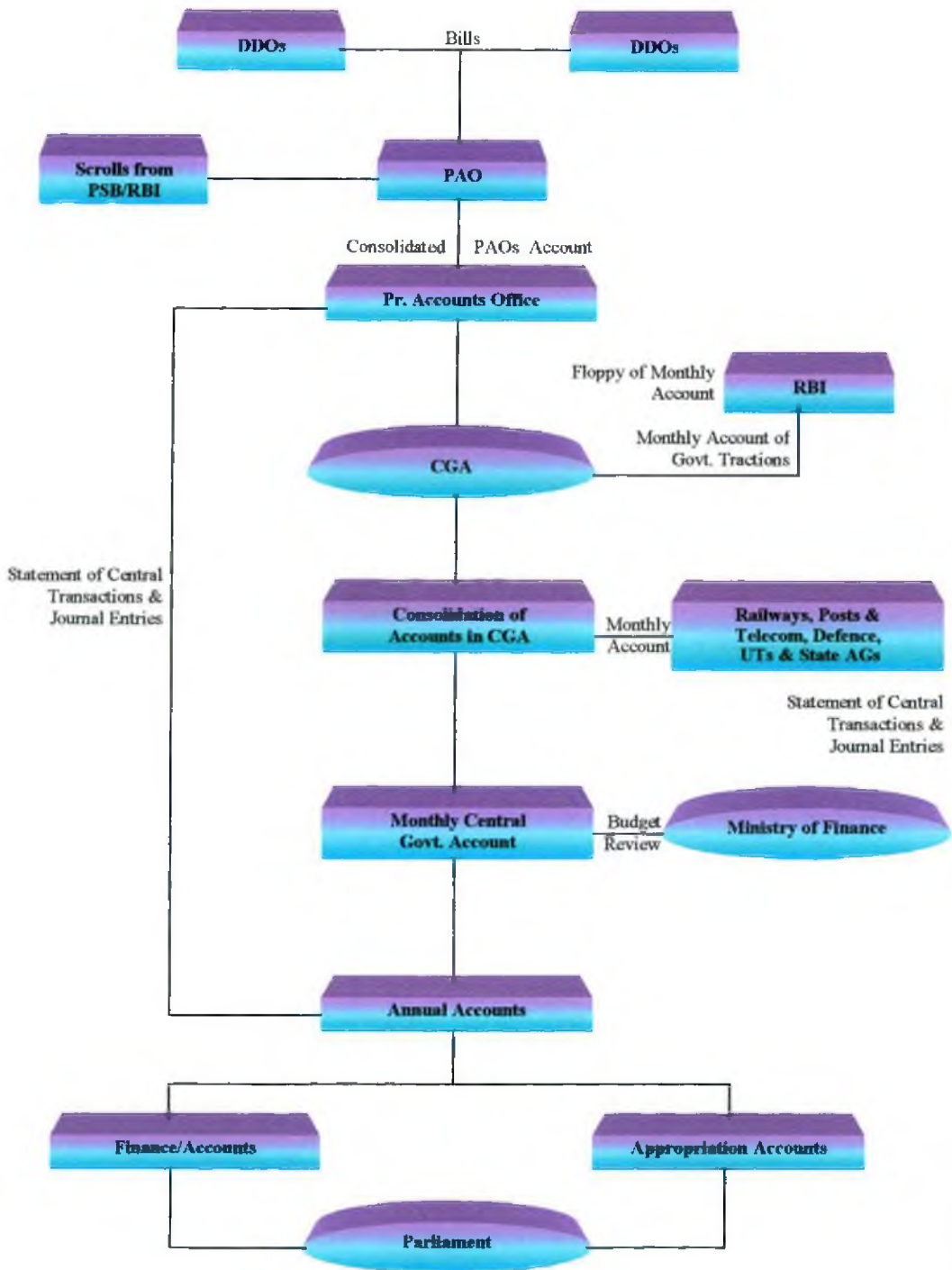
Like Nepal and Pakistan, the Parliament is the highest body for the Indian financial administration. The Ministry of Finance is responsible for the preparation of the national budget and to submit it before the Parliament. After debate the Parliament approves the budget according to the Demands for Grants of each Ministry sent to the Ministry of Finance for incorporation into the national budget.<sup>52</sup> Accounts operation of CGA, India can be seen in the Figure-13.

India started reforming its financial administration long before of Nepal and Pakistan. In the late seventies a major reform process was initiated with the gradual separation of audit from accounts and departmentalisation of the Union Government accounts fully. The Office of the Controller General of Accounts was



FIGURE -13

ACCOUNTS OPERATIONS OF CGA, INDIA



Source : Ministry of Finance of India

created in the Department of Expenditure, Ministry of Finance with the introduction of Departmentalised Accounting System in 1976 and the CAG of India was relieved of accounts function of the Union Government.<sup>53</sup> The CGA has been made responsible for establishing and maintaining a technically sound accounting system in the departmentalised accounts offices of the Union Government including modernisation and computerisation of audit and accounts functions. The CGA of India is the adviser to the government on government accounts. The CGA is primarily responsible for the consolidation of monthly and annual accounts of the Union Government. However, the main tasks of the CGA are to formulate policies when necessary and ensure appropriate procedure in connection to government payments and accounting, consolidation of monthly accounts received from the Pay and Accounts offices and its timely submission to the Ministry of Finance, reconciliation of cash balances of the government with the Reserve bank of India, preparation of Appropriation Accounts (civil) and Finance Accounts of the Union Government etc.<sup>54</sup> However, the consolidation of monthly and annual accounts of the state governments are performed by the Accountant General at the states. The office of the CGA was created in pursuance of the government's decision to relieve the CAG of India of the accounts keeping function of the Union Government.<sup>55</sup> To relieve the CAG from accounts keeping and taking the responsibility of the same by the union ministries was a major administrative reform to improve performance through the introduction of management accounting. The main purpose of the reform was to provide accounts data as a useful input for better management with the separation of accounts from audit and its internalisation with the executive. In India audit and accounts are fully separated in central level but at the state level audit and accounts are still unified as a single service. The process of separation of audit from accounts at the central level started in 1976 and was completely separated in 1980 by a Presidential notification. Since then a mixed structure of unified Indian Audit and Accounts Service at the state level and separate Indian Civil Accounts Service at the Union Government has been functioning parallel. However, the accounts offices of the ministry has a Chief

Controller of Accounts or Controller of Accounts as the head of the departmentalised accounting unit. The Secretary of the ministry acts as the chief accounting authority of the respective ministry or the department. In India the civil accounts office set up in each Ministry is administratively an integral part of that ministry. It should be mentioned here that the governments payments, accounting and internal audit functions are done by the civil accounts concerned. The Indian Accounting and Audit system has a legacy of British rule but they have changed the old system in many ways but the separation of audit from accounts is still a debatable aspects to the top civil servants and audit experts because Indian audit is governed not by law but by an executive order.<sup>56</sup>

### **PROBLEMS OF GOVERNMENT ACCOUNTING**

In the developing countries, government accounting system has lot of problems. In most of the cases, the problems are found at the time of auditing.<sup>57</sup> Good accounting is a basic precondition for good financial management especially for the developing countries. Without good accounting data, processes of the budgetary control, financial planning, cash management and debt management will remain largely ineffective. Several countries under this research study found defective in government accounting systems.<sup>58</sup> The typical problems are as follows:

- (a) Untimely and inaccurate submission of documents and financial returns from field offices due to factors such as distance, poor transport and communication and unskilled or careless staff.
- (b) Difficulty of timely correction of errors due to remoteness of field offices.
- (c) Poorly controlled data entry by inadequately trained staff, resulting in low quality input data.
- (d) Failure to make timely reconciliation of accounts due to factors such as shortage of skilled staff, poorly designed systems and late submission of bank statements by banks.

- (e) Lack of capacity in the central accounting office to check , correct and aggregate large amounts of accounting data .
- (f) Late accounting reports and the consequent need to take decisions without the most up to date information.
- (g) Poor financial management , generally because of lack of up to date accounting information.<sup>59</sup> The developing countries have serious problems in financial accounting and management system in the government activities . For lack of proper conception , the countries could not find out the actual solution .Moreover , they depend upon the prescription and advice of the donor countries and agencies<sup>60</sup>. For what the quality of government accounting clearly differs from country to country. Some countries are relatively free of these problems, others are weighed down by them but some countries have extensive defects in government accounting ,cost serious doubt on their ability to handle public business efficiently.<sup>61</sup>

## **FINANCIAL ADMINISTRATION AND ACCOUNTING IN BANGLADESH**

### **BACK GROUND OF ACCOUNTING AND AUDITING SYSTEM**

During their colonial rule in the Sub continent , the British established a comparatively acceptable accounting system for the purpose of proper and appropriate utilisation of government funds. The basic accounting and auditing structure that the country had inherited from the British India was sound and dependable. It had stood the test of time and proved to be very robust . In the colonial days, it had never failed to meet minimal requirements of the government. Originally , the whole thing was developed for keeping a reliable record of revenue collection of a non local establishment. Stress was given to introduce an intricate system of internal checks and balances to minimise misappropriation and misuse of the collected funds. Nevertheless, with the gradual expansion of the British interest and activities in the Sub- continent even in those days, new demands were made on the system itself. The tasks of delivering essential service to the local inhabitants were added to the list. The concepts of self rule and development of indigenous economy were gradually getting popular. That necessitated the financial records of the government to become more



flexible and receptive to changes. Some modifications in the system were initiated at that time, but it did not fully meet the total need of the time. Many things remained unattended during those days. The accounting and auditing system that existed within the government were centralised at one place and there was no separation of these two functions. They were overlapped in many respects. The work procedures and practices were over burden with innumerable checks and balances. All disbursements had to be specifically authorised by the central audit before payment. The key accounting tasks were also concentrated at the headquarters. Only the peripheral works relating to custody of cash and keep up of currency chest were passed over to the subordinate district treasuries. The pre audit of claims of administrative units was considered to be the most important and vital activity of the audit and accounts department. Moreover, being directly under the authority of the Secretary of State the audit and accounts set up in India enjoyed unique powers in interpreting rules and regulations of the government. That is why in the present day publications of so many financial rules, codes, audit instructions and notes are found. On many occasions, those interpretations and clarifications had completely changed the original intentions of the rule makers and made major deviations from the earlier concept. The responsibility of keeping transaction wise initial accounts of the government was entrusted to the district authorities. The district treasuries, in those days, were wholly managed by district administration staff with little accounting background. They were not seconded from the centralised accounts office at the headquarters. The District Magistrate and Collector, who was then known by that name, one of his prime functions was to look after the treasury. He was personally responsible for smooth running of this institution. Frequent inspection of the treasury was all but mandatory for him that included laborious counting of huge amount of stocked notes in the currency chest. The officer in charge of the treasury used to be a senior magistrate of the district. All that meant that they had to be well conversant in government rules, accounting procedures and treasury rules. Surprisingly they were not found lagging in that. Most of them acquired that knowledge through an intensive in service training program.<sup>62</sup> In the central office, the work on accounts compilation

used to start after receiving month end list of initial transactions from the district treasuries . There at first they would enter the totals of individual treasury data . Then they would proceed on to scrutinise each individual transaction thoroughly and simultaneously go on for clearing the suspense head with the accepted figures . At the end, they would come out with a corrected account covering all the treasuries for then whole month . The differences detected at the time of central examination where they pursued with the local authorities till adjustment. For that they maintained a set of well documented broad sheets to watch the progress . No doubt that process enabled them to produce a dependable and correct account but nevertheless it smacked of complete distrust and suspicion towards subordinate offices. Devolution of responsibility was then totally unknown at the local level but they were never trusted with the compilation work . Since liberation that role of the office has dramatically changed . Currently great reliance is put on the lower level accounts keeping . Unfortunately it has failed to give the desired benefit as the quality of the people at that end has since deteriorated. Now a days there is an acute shortage of expertise in those offices . Training of personnel has been greatly neglected . In addition , the absence of requisite forms at that level have contributed to multiplication of the problem. From the British period , the existence of various kinds of forms below the line accounts and linkages with the mother government through sterling accounts which was there to suit the latter's interest complicated the accounting presentation of the government. The final statements merely listed up a chain of financial events if the government without bringing out the net effect of its operation . That might have served the limited purpose of an alien government but the fact remains that it was not meet the need of an effective government. Those deficiencies in accounts were created and nurtured intentionally to cover the transfer of resources from the country. Through that ineffective system it was possible to hide the transparency of information in documents. After the departure of the foreign power hardly any initiative had been taken to change that outdated practice in accounts keeping. As a result of that neglect the accounts of the government have not yet become an effective management tool . The end of products of the process are not understandable to an ordinary individual

and it usually takes an accounting wizard to comprehend the full implication of those documents. For the first time in the subcontinent the presence of centralised audit and accounts and the need for an independent Auditor General were officially recognised with the introduction of constitutional reforms in 1919 in the British India.<sup>63</sup> That arrangement was subsequently fully secured under the provisions of the Act of 1935 of Government of India.<sup>64</sup> Since then insignificant alterations have been made to the basic framework. After the end of the British period, the Pakistan Government (audit and accounts) order<sup>65</sup> of 1952 and thereafter in Bangladesh, the Constitution provides for the Comptroller and Auditor General (Additional Functions) Act of 1974 which have brought only cosmetic changes in the previous content.<sup>66</sup>

The Comptroller and Auditor General, was never considered as an integral part of the Parliament and his accountability line has always remained undefined. This office has consistently been representing executive head of the government and has sought protection from the latter. The fundamental changes in audit perspective have never been addressed. Attempts for separation of audit and accounts from a centralised setting have been very perfunctory and superficial in all the countries of the subcontinent. Though in Bangladesh currently the government has been pursuing a policy of disjoining them till today it could not implement that decision due to lack of vision and effectiveness. In India with many provinces the separation has always remained a difficult task. At present they have taken some half back measures to separate functions at the central level. In Pakistan so far no start has been made on those lines. In general in this part of the world the institutional reorganisation of the audit and accounts set up has remained insufficient over a long period of time. Our unnecessary attachment to the inherited traditions has buried our thoughts. The presence of negative attitudes among the people who are really matter, has not allowed us to recognise the necessity of introducing reforms on modern lines so far.

#### **GOVERNMENT ACCOUNTING PROCEDURES IN BANGLADESH**

In the developing countries government accounting system is designed for preparation of budget as well as to serve the purpose of parliamentary control of expenditure. In



its budget, the government is interested to forecast with the greatest possible accuracy, what is expected to be receipts and expenditure for the fiscal year<sup>67</sup> and also to determine whether the receipt together with the balance of the previous year is sufficient to cover the expenditure similarly, the compiled accounts at the end of the year showing a surplus or deficit as a result of the year's transactions enable the government to ascertain as to what extent this forecast has been justified. On the basis of the budget and accounts, the government formulates its budgetary policy for the next fiscal year.<sup>68</sup> The government accounts flow can be seen in the Figure-14

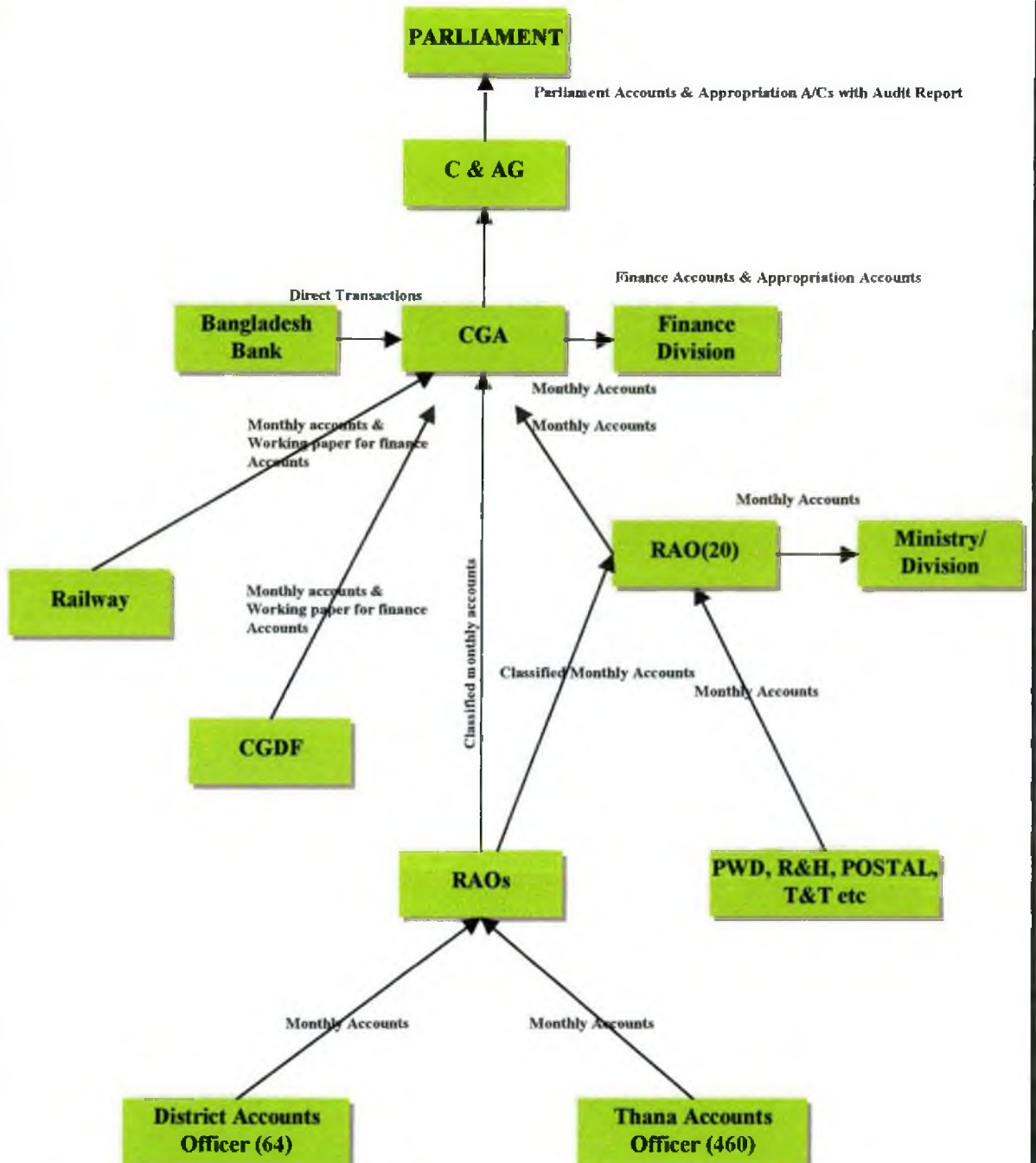
### **SYSTEM OF ACCOUNTS**

Ordinarily all receipts in Bangladesh on behalf of the government are paid into a treasury or the bank. The initial accounts of such receipts are maintained at the treasury but receipts realised in the Railway, Defence, Post, Telegraph and Telephones, Public Works, Forests and any other department which may be authorised in this behalf are paid into a treasury or the banks in lump and are accounted for at the treasury merely as receipts on behalf of such departments. The detailed accounts of such receipts are kept by the departmental offices concerned. Similarly payments in Bangladesh on behalf of the government are made either at a treasury or in the bank. Some departmental officers are however authorised to withdraw sums in lump from a treasury or the bank for making payments. In the former case the initial accounts of payments are kept in the treasury and in the latter case such accounts are maintained by the departmental offices. As to method of accounting the mass of government account is kept by single entry system as distinguished from the commercial accounting which is maintained in double entry system. In case of double entry system, every transaction involves two parties or accounts, such as one giving and the other receiving. This system of transaction requires two entries in the book one against the party giving and the other against the party receiving. Accounts of the commercial undertakings of the government are of course maintained almost on commercial basis. The Commercial Undertakings of the government keep accounts in double entry system in view of allowing the government to know whether they are on



FIGURE -14

GOVERNMENT OF BANGLADESH : FLOW OF ACCOUNTING DATA OUTPUT



Source : Ministry of Finance of Bangladesh

sound financial footing. It may be noted that transactions in government accounts represent the actual cash receipts and disbursements during the financial year except some book adjustments authorised by any rules or special orders by the government.<sup>69</sup>

In this connection accounting basis, cash obligation or accrual deserve may be mentioned. The cash basis is a system of accounting in which receipts and expenditures are recorded at the time of cash is received or paid out. Obligation indicates a system in which recorded transactions represent commitment to acquire materials or services or to make payments under specific conditions, requiring money disbursements at a later date. The accrual basis refers to a system in which revenues and expenditures are recognised and accrual system is usually restricted to outlays while accrual includes both receipts and outlays. Each of these three systems serves basic purpose and in some cases the distinction between system may not be significant. It is preferable for developing countries, including Bangladesh to adopt as selective approach of supplementing their existing cash system with features of obligation and accrual accounting in important areas.<sup>70</sup>

## **ADMINISTRATION OF GOVERNMENT ACCOUNTS AND AUDIT**

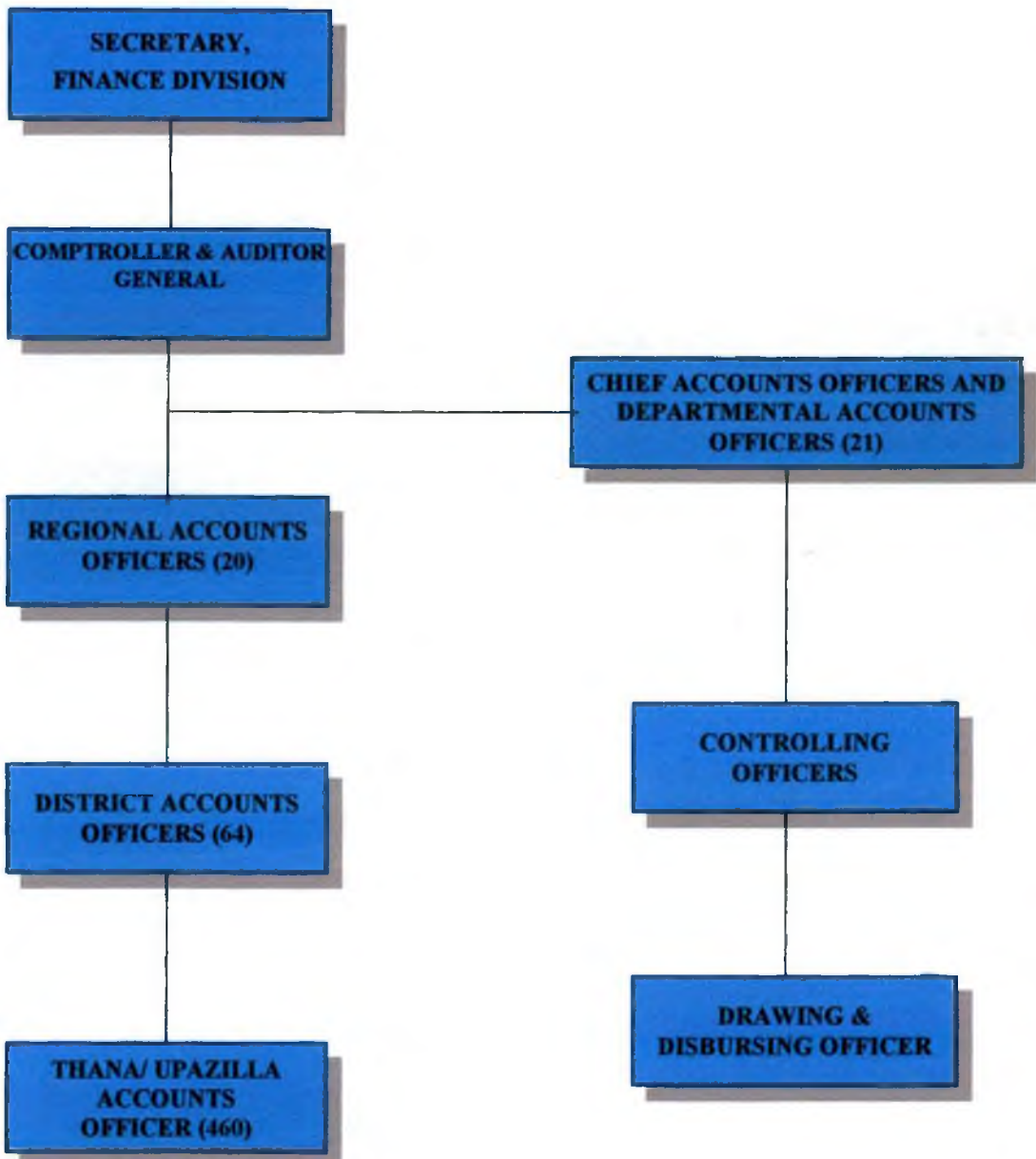
### **(a) FUNCTION AND POWER OF THE COMPTROLLER AND AUDITOR GENERAL**

The administrative structure of government accounting and audit is a recognised management unit in the field of government financial administration through out the world. The functions of the Comptroller and Auditor General is not mere a function of day to day business of the government. It is more then it and it is a constitutional responsibility of the person concerned. The job of keeping accounts auditing the same and assessing the soundness of financial transactions made by the executive is a technical job which requires professional expertise Hence an independent office of the Comptroller and Auditor General is essential for any democratic country.<sup>71</sup> In Bangladesh the office of the Comptroller and Auditor

General is not entirely new. The office has been in existence in some form or other right through the period of British administration in this sub-continent. Statutory recognition to the office of the Comptroller and Auditor General was first given in the Act of 1919 of British regime<sup>72</sup>. The Figure -15 shows the structure of the office of the Comptroller and Auditor General. Since then all the successive constitutional documents made provision for this office. The framers of the new Constitution of Bangladesh also realised the importance of an independent post of Comptroller and Auditor General. Under the Article -127 (1) of the Constitution he is appointed by the President.<sup>73</sup> Once appointed he cannot ordinarily be removed from service except in like manner and on the like grounds as a Judge of the Supreme Court. He cannot serve under government in any capacity after retirement. In terms of the constitutional provisions and in accordance with the Auditor General (Additional Function) Act 1974 of Bangladesh<sup>74</sup>, the Comptroller and Auditor General has been assigned the following duties and powers: The Comptroller and Auditor General is (a) responsible for keeping the account of the government. According to the Article 131 of the Constitution<sup>75</sup>, the public accounts of the country shall be kept in such form and in such manner as the Auditor General may keep with the approval of the President (b) It is the duty of the Comptroller and Auditor General (1) to audit all expenditure from the revenues of the Government and to ascertain whether moneys shown in the account as having been disbursed were legally available for and applicable to the services or purposes to which they have been applied or charged and whether the expenditure conforms to the authority which governs it (2) to audit all the documents cash stamps securities stores or other Government property to the possession of any person in the service of the Republic (d) It is also the duty of the Comptroller and Auditor General to prepare annually a general financial statement including a summary of the accounts of the government of the preceding year. The Finance Accounts along with audit reports so prepared are submitted to the President who causes them to be laid before the Parliament. The accounts submitted to the Parliament embrace besides appropriation accounts, the whole of the accounts of the government including accounts of receipts and of all actions relating to Debt and

FIGURE -15

STRUCTURE OF THE OFFICE OF COMPTROLLER & AUDITOR GENERAL OF BANGLADESH



Source : Ministry of Finance of Bangladesh



Remittance Heads (e) Besides this, it is the duty of the Comptroller and Auditor General to furnish to the government such information as they may from time to time require and such assistance in the preparation of Annual Financial Statement as they may reasonably ask for . The government in turn is to give him such information as he may require for the preparation of any account or report which it is his duty to prepare . The Annual Accounts of the government maintained by the Comptroller and Auditor General record the transactions which take place during a financial year running from last July to 30th June . The government account is however often kept open a certain period of time in the following year for completion of various accounting process and also for adjustments owing to miss postings coming to notice after the 30th June.<sup>76</sup>

**DISTRIBUTION OF FUNCTIONS :** It would be worth for this research work to have a look on the accounting duties of various department performed by the concerned accounts officers on behalf of the Comptroller and Auditor General . Distribution of accounting duties by the Comptroller and Auditor General among the subordinate offices are shown below .

**THE CIVIL DEPARTMENTS:** All the transactions of the civil departments are entrusted to the Accountant General (civil) , The office of the Accountant General (civil) is a pre audit and accounts office. It also plays an important role in preparing Finance Accounts and Appropriation Accounts This office compiles the accounts of all the heads relating to civil departments. The Post ,Telephone and Telegraph departments cover a large portion of revenue of the government .The Accountant General ( PT&T) is responsible for the accounts of all the transactions of Posts Telegraphs and Telephones departments. His office Compiles the accounts of these departments and submits the same to the Accountant General ( civil) for inclusion in the Finance Accounts of the Republic . The accounts of all the transactions of the Public Works Department are under the control of the Accountant General (works) . This office arranges pre audit of civil works and post audit of Power Development Board and Water Development Board . The compilation of the accounts of the Head of Public Works also rests with this office.<sup>77</sup>

**THE DEFENCE SERVICES:** In Bangladesh, the Defence is separated from civil accounts. The accounts of all transactions of the Defence services are under the control of the Military Accountant General. Under him each defence service has its own Controller of Accounts such as Controller of Military Accounts, Dhaka, Controller of Military Accounts, Bogra, Controller of Ordnance Factory, Accounts Controller of Air Force, Controller of Naval Accounts. They are responsible for maintaining the accounts of their respective services. The Military Accountant General compiles the accounts of the three services and submits a consolidated list to the Comptroller and Auditor General who in turn includes the same in the Finance Accounts.<sup>78</sup>

**THE RAILWAYS DEPARTMENT:** Financial Adviser and Chief Accounts officer (FA & CAO) of Railway Board is responsible for maintenance of accounts of all transactions of Railways Department. He compiles the accounts of the Railway Department and submits the same to the Accountant General (civil) for inclusion in the Finance Accounts.<sup>79</sup>

**THE MINISTRY OF FOREIGN AFFAIRS:** The accounts of the Ministry of Foreign Affairs are under the control of the Additional Accountant General (foreign affairs). His office maintains the accounts of all the transactions of the Ministry of Foreign Affairs. This office also compiles these accounts and submits the same to the Accountant General (civil) for inclusion in the Finance Accounts.<sup>80</sup>

**COMMERCIAL ACCOUNTS AUDIT:** The accounts of the Public Commercial Undertakings are mainly kept in the manner adopted by commercial organisations. Program accounts of these Undertakings are maintained by the department responsible for carrying out the activities of the commercial concern. In certain circumstances, the assistance of the audit department may be requisitioned by them to organise the accounting system. The head of the commercial accounts department is called Director General.<sup>81</sup>

## **MAIN DIVISION OF ACCOUNTS**

In Bangladesh like other developing countries, the government accounts are kept in the following two parts (a) Consolidated Fund and (b) other Moneys. For facilitation of compilation, these two parts are again arranged into four main divisions, namely (1) Revenue (2) Capital (3) Debt and (4) Remittances. These are discussed below :

(1) **REVENUE:** The first division deals with receipts from taxation and other sources of revenues and the expenditure incurred there from the net result of which represents the revenue surplus or deficit for the year.

(2) **CAPITAL:** The second division deals with expenditure met usually from borrowed funds with the object either of increasing concrete assets of a material character or of reducing recurring liabilities such as these for future pensions by payment of the capitalised value. It also includes receipts of a capital nature intended to be applied as a set off to capital expenditure.

(3) **DEBT:** The third division comprises of receipts and payment in respect of which government incurs a liability to repay the money received or has claim to recover the amount paid together with repayments of the former and recovery of the latter.

(4) **REMITTANCES:** The fourth division embraces all merely adjusting heads under which appear remittance between treasuries, Bangladesh Bank Remittances as well as items in transit between different branches of the accounts departments.<sup>82</sup>

## **SECTION, CLASSIFICATION AND HEADS OF ACCOUNTS**

In Bangladesh, within each of the divisions mentioned above, the transactions are grouped also into sections which are further subdivided into 'Major Heads of Accounts'. The sections are distinguished by the letters of the alphabet, a single letter 'A' denoting revenue portion and a double letter 'AA' denoting the capital portion of the particular category of transactions. The Major Heads in the Revenue and Capital division are numbered serially. The Roman numbers are being employed on the receipt side and Arabic on the expenditure side. No numbering is adopted for Debt, Deposits and Remittance Heads. The Major Heads, which are the main units of classification are sub divided into Minor Heads, Sub Heads and Detailed Heads.



Under each of the Major and Minor heads the expenditure is shown distributed between Charged and other than Charged . According to the Constitution the expenditure is charged on the revenue of the government or is subject to the vote of the Parliament. The approved classification of accounts used in the government accounts is given in the list of major and minor heads published by the Comptroller and Auditor General .As a general rule the classification of transactions in government account has a closer reference to the department in which the receipt or expenditure occurs than to the object of the receipt or expenditure or the grounds on which it is sanctioned. For example expenditure in the Public Works Department (Buildings) which are under its administrative control , but which are required by a non commercial department is debited in the Public Works accounts and not passed on for adjustment against the department benefited by the expenditure . Thus primary responsibility for classification of bills ,vouchers etc is vested to the administrative authorities. Every bills or voucher should contain the Major ,the Minor and Detailed heads to which the charges it records belong. It should also be indicated whether the charges are voted or charged . Similar process is to be adopted in respect of every item of receipt . One of the important functions of the Accounts and Audit offices is to check the classification of receipt and expenditure made by the administrative authorities.<sup>83</sup>

#### **COMPILATION OF ACCOUNTS**

In receipt and payment each treasury prepares the monthly schedules of receipt and payments separately for each Major head of accounts. The schedules so prepared are then, sent to the accounts offices together with the requisite voucher , monthly cash accounts .The lists of payments are also sent to the accounts offices simultaneously. The second stage of compilation takes place at the accounts offices by posting to the specific departmental classified abstracts of receipts and payments received from the treasuries and departmental offices . The departmental classified abstracts reflect the monthly receipts and payments pertaining to each department for the whole accounts circle classified under the relevant major minor and detailed heads, separate classified



abstracts are also maintained for each department. Inter departmental adjustment as transfers of receipts and payments of one department wrongly posted in the schedules and lists of payments of another department are effected in the classified abstracts. In this way all transactions of whatever nature connected with the receipts and payments pertaining to each department of major head of account are correctly incorporated in the relevant classified abstract. For each department twelve classified abstracts including an additional one for the June final accounts are prepared for the financial year . It needs to mention that a slight change has been effected in the process of initial compilation of government accounts as a result of taking over of treasuries in the country by the District Accounts offices . For instance, at present departmental classified accounts are made in some of the District Accounts offices where the initial records like vouchers, schedules are being retained. From the classified abstracts mentioned above separate departmental consolidated abstracts , showing the progressive totals month by month under Major , Minor and Detailed heads of revenue receipts and service payments , are compiled. Separate consolidated abstracts are maintained for each department or Major head of accounts. The transactions relating to Debt, Deposit & Remittance heads appearing in the treasury cash accounts and lists of payments and in the departmental and other abstracts, are collected for the whole circle of account under each head of account from month to month in a Detail book . From the figures in the Detail book , the consolidated abstract of Debt , Deposit and Remittance transactions are prepared showing the progressive totals month by month under each Major head in the Debt , Deposit & Remittance section of the accounts as well as under such Minor and Detailed heads as may be found necessary . In the consolidated abstracts of receipt and payment of a particular Major head, all the receipts , the sum total of receipts and payments for the entire year can be obtained . Similar is the case with the consolidated abstract of Debt , Deposit and Remittance head which is centrally maintained in the final accounts section .The final stage or compilation is the preparation of the abstract of Major head totals showing the receipts and disbursements of the entire circle by Major head during and to the end of the month from the departmental consolidated abstracts and the

consolidated abstracts of Debt , Deposit and Remittance transactions. It is necessary to mention that transactions in one account circle which are adjustable in the accounts of another circle are passed on month by month to the latter for adjustment through either exchange accounts or settlement accounts. Thus all transactions arising in the accounts of Defence, Posts ,Telegraphs and Telephone which are adjustable in the books of a civil or non civil accounts circle are passed through exchange account. In the absence of provincial governments, the settlement accounts is almost inoperative in Bangladesh.<sup>84</sup>

### **FINANCE ACCOUNTS**

In terms of the Article 128 of the Constitution , the Comptroller and Auditor General requires to prepare after each financial year, a comprehensive accounts of the receipt and expenditure of the government classifying the transactions under respective heads pertaining to all the divisions of government accounts<sup>85</sup>. In Bangladesh the responsibility of preparing the Finance Accounts rests with the Accountant General (civil) . As soon as the accounts of financial year is closed other accounts offices furnish materials for the Finance Accounts to the Accountant General (civil) who compiles the Finance Accounts of the government and submits the same to the Comptroller and Auditor General . The Comptroller and Auditor General in turn submits the Finance Accounts with reports on them to the President who causes them to be laid before the Parliament in pursuance of the terms of the Article 132 of the Constitution.<sup>86</sup> The reports precedes the accounts . The Finance Accounts with the reports on them form a single document and are divided into two sections . The section 'A' comprises the accounts of total receipts and expenditure the resultant revenue surplus or deficit the capital expenditure most transactions of temporary debts current debts the accounts of some permanent debts and their and deposit transactions and money remittances. The accounts begin with an audit certificate which represents and authenticates the Auditor Generals reports and accounts. The Finance accounts submitted to the government are an auditor's presentation of the general accounts of the government to the Parliament. In order to present a comprehensive survey of the financial administration of the government , the audit report includes a general review

of the financial position of the government with such remarks on the financial outruns of the year, the salient features of current revenues and expenditure are brought to notice and the current revenue position as a whole summarised. In short every endeavour is made to convey through the report a just and impartial picture of the financial position of the government.

#### **APPROPRIATION ACCOUNTS**

In terms of the Article 128 of the Constitution <sup>87</sup> and section four of the Comptroller and Auditor General (Additional Function) Act 1974, the Comptroller and Auditor General has also to prepare Appropriation Accounts. <sup>88</sup> As soon as the accounts of a financial year is closed, department wise figures on expenditure are sent to the respective controlling officers for their acceptance and comments on variations between the actual expenditure and original budget provided for. On receipt of comments of the controlling officers, the Appropriation Accounts of the year are prepared for presentation to the government along with the Comptroller and Auditor Generals reports on them. The Appropriation Accounts contain the audited accounts of charged and voted items of expenditure showing them under each grant separately. At the first place original budget provision in each unit of appropriation in respect of each major and minor head of account is exhibited in the Appropriation Accounts. Then the subsequent appropriation or re appropriation such as additional allotments withdrawals or surrenders as the case may be are added to or subtracted from the original budget provision. In this way final figure in respect of each major or minor head of account is fixed. The percentage of administrative expenditure relating to the revenue earning departments is shown in the accounts comparing the progress of expenditure with previous years percentage of expenditure. The explanations of the controlling officers for excess and saving are also recorded in the appropriation accounts.<sup>89</sup> The audit report on the appropriation accounts serves two purposes. To the government the report shows the extent to which its subordinates comply with its rules and often suggests directions in which those rules and orders can with advantage be amplified or modified. To the Public Accounts Committee, it reveals in general how far the government have complied with its expressed views in matters of



importance and in particular how far moneys placed at the disposal of the government were regularly and properly spent profit and loss accounts which the President may have required to be prepared or are prepared under the provisions of the statutory rules regulating the financing of a particular corporation trading or manufacturing scheme or concern or project and the report of the Comptroller and Auditor General there on.<sup>90</sup>

## **FUNCTIONS OF THE ACCOUNTING ADMINISTRATION**

### **(a) FUNCTIONS OF PRINCIPAL ACCOUNTING OFFICER OR SECRETARY OF THE MINISTRY**

The Secretary or Secretary in Charge of a Ministry or Division is the Principal Accounting Officer.<sup>91</sup> The functions and responsibilities of a Principal Accounting Officer are to ensure that the financial activities of the respective Ministry or Division are being performed with absolute satisfaction of the government rules and regulations<sup>91</sup> and he is to look that :

- (a) the requirements of the Parliament for financial regularity , propriety and accountability of public funds are satisfied .
- (b) timely ,accurately and complete accounts are prepared and maintained giving a full account of public money .
- (c ) an adequate system of internal control exists to safeguard cash and other assets
- (d) all requirements regarding public money as expressed in statutes rules , regulations and other directives are fulfilled;
- (e) no expenditure is incurred in anticipation of authorisation of an annual budget or supplementary grant without the prior concurrence of the Ministry of Finance.
- (f) all revenues and receipts under his administrative control are correctly claimed, collected and deposited.



(g) all payments and receipts are correctly classified under appropriate heads of account and departmental accounts are reconciled every month with the figure communicated by the Comptroller General of Accounts.

(h) an updated manual of regulations , policy directives and guidelines issued by the government is kept for the guidance of departmental officers.

(I) audit objections are promptly settled.

Under each Ministry or Division there may be one or more heads of department whose financial responsibilities are as follows :

(a) to enforce financial discipline and economy with respect to expenditures incurred by himself and by subordinate disbursing officers.

(b) to ensure that sums are expended within the purpose and the limits of appropriation.

© to ensure that detailed head wise budget provisions are maintained and to incur expenditures accordingly.

(d) to guard against waste of public money and stores.

(e) to avoid irregularities and to ensure that audit objections are promptly settled.

(f) to control and supervise revenue collection and inventories and to see that all receipts and payments are correctly classified under appropriate heads of accounts .

(g) to ensure that departmental accounts are reconciled with figures of the Comptroller General of Accounts.<sup>92</sup>

#### **(b) FUNCTIONS OF CHIEF ACCOUNTS OFFICER**

The Chief Accounts Officer who is administratively responsible to the Comptroller and Auditor General but functionally responsible to the Principal Accounting Officer or the Secretary of the Ministry , is to provide accounting support to the Principal Accounting Officer and to ensure propriety , regularity and accuracy of transactions, His responsibilities are:

(a) to maintain an adequate system of books of account and to ensure that they are duly signed by the Principal Accounting officers and transmitted in time to the Controller General of Accounts and the Comptroller and Auditor General

(b) to compile and transmit to the Controller General of Accounts, the monthly account of departmental transactions

(c) to make payments of salaries and wages on the basis of entitlement, to make other payments as authorised by the competent authority and to bring all departmental receipts to account

(d) to ensure security arrangements in order to prevent fraudulent transactions

(e) to keep the detailed records of progress of expenditures for comparison with budget provisions and allotments of funds. <sup>93</sup>

In his functional area, the Chief Accounting Officer faces many problems. The Secretary of the Ministry influences him for passing bills and vouchers which are not accurate all the time. Some time he faces political pressure for issuing checks where the Minister himself is interested. Misappropriation of public money is an established fact in Bangladesh for which the accounts departments are also responsible.

### **(c) FUNCTIONS OF DISTRICT ACCOUNTS OFFICER**

The District Accounts Offices of Bangladesh are the main sources of government trisections. These offices are treated as District Financial Administrative Units of the central government. From the British period, these field level accounts offices have been serving the people following the traditional method of accounting and auditing. According to the General Financial Rule and Treasury Rule, these offices are conducted. Although they receive instructions from the Office of the Comptroller and Auditor General and from the Ministry of Finance. However, the functions of the District Accounts Office are described below in order to get a clear and comparative picture of the whole accounting system of the government.

(a) The DAO as a main controller of accounts in the field is responsible to prepare and send statements of government receipts and disbursements every month to the higher authority

(b) Payments of court fees and some kinds of revenues.

(c) Conducting P.L account of certain offices.

(d) Issuing certification in favour of depositing revenue.

(e) Arranging pension benefit for the retired government employees.

(f) Disbursement of L.A check.

(g) Supplying of check books for PWD and PT& T departments and auditing expenditure of such departments.<sup>94</sup>

#### **(d) FUNCTIONS OF THANA ACCOUNTS OFFICER**

The functions of the Thana Accounts Officer in Bangladesh is also very important for maintaining proper expenditures of public funds in the field level . The following are the functions of the TAO .

(a) He will work , under the guidance of Than Parishad as co-ordinated by the Thana Nirbahi Officer or the Thana Executive Officer

(b) Checking of admissibility of all claims against government arising at Thanas like pay & allowances of government servants, contingencies, grants in aid , etc. and payment of such claims.

(c.) Settlement , including issuance of P.P.O of pension cases of officials who will retire from Thanas and disbursement of pension.

(d) Maintenance of G.P fund accounts of government servants.

(e) Fixation for Pay issuance of L.P.C. etc. of government servants posted at Thana level .

(f) Maintenance of leave accounts and other relevant service records of government servants posted at Thana offices

- (g). Maintenance of deposit registers and all other registers for correct maintenance of accounts.
- (h) Payment of various loans and advances, civil advance and payment advances.
- (i) Payment of refund of lapsed deposit transferred to revenue.
- (j) Receipt of government money and payment of such money into government accounts
- (k) Preparation of monthly classified accounts of payment and receipts and submission of such accounts to District Accounts office for consolidation and onward transmission to AG ( civil) office .
- (l) Reconciliation of receipts and expenditure between the Thana Accounts office and other offices .
- (m) Maintenance of PL or similar accounts
- (n) All other functions as may be prescribed by the government from time to time.
- (o) He will be completely independent from the District Accounts office in carrying out the above functions.
- (p) He will act as Drawing and Disbursing officer in respect of officer or staff working under him.
- (q) He will initiate the Annual Confidential Reports of the officers and staff working under him.
- (r) He will supervise the activities of the officers and staff working under him.
- (s) He will be responsible for all training matters of his department with in the Thana.<sup>95</sup>

At present the Accounts Officer is in charge of all financial aspects of the central government in local level .Because after abolition of Upazila system ,in 1991 the post of Assistant Commissioner (Finance) was abolished. The Assistant Commissioner (Finance ) was actually responsible for financial aspects of Thana . Now the TAO has given the duties and powers of the former Assistant Commissioner (Finance) . In Bangladesh the Ministries with large numbers of offices



scattered over the country are required to entrust appropriate officers with the responsibility of controlling the incurring of expenditure and of collecting revenue. Such officers are called Controlling officers. All the Controlling officers have under them a number of Drawing and Disbursing officers who are at the mid or lower level incur certain petty expenses. The Drawing and Disbursing officers are required to keep accounts of their transactions and to inform their controlling offices. So in the field level ,there must have some controlling offices of which the TAO is the competent authority . However , there are lot of problems still in the field financial aspects and the TAO has been facing problems like the DAO in the District level .

### **PROBLEMS OF AUDIT IN BANGLADESH**

In Bangladesh the process of formulation of audit reports is characterised by a number of problems among which the most significant problems are discussed here :

#### **(a) MAGNITUDE OF AUDIT COVERAGE:**

At present there are as many as 22,250 units under audit coverage of the Supreme Audit Institution of Bangladesh . The magnitude of this coverage has assumed the present proportion gradually since independence at different phases either in the wake of major policy decisions of the government or in response to the normal expansion of governmental activities. It is indeed a difficult task to formulate quality reports out of the results of audit operation on such a huge number of auditable units . Moreover the type and category of the audited organisations are different in their character of operation and styles of management. Such inherent diversity in the audit coverage turns the task of formulation of quality reports more complicated.<sup>96</sup>

#### **(b) ABSENCE OF MEANINGFUL SURVEY AND STUDY :**

Identification of issues and areas to be focused by audit reports calls for constant survey and study by the teams of qualified and trained personnel . In the developed countries as well as in many developing countries such survey and study form the part of audit operation. Unfortunately this is not present in our country and as such many

important issues and areas which can enrich a report remain unattended and neglected.<sup>97</sup>

**©.LACK OF SKILLED STAFF AND OFFICERS :**

Meaningful report formulation calls for high level of skills and imagination which again demand carefully drawn up personnel policy so that people having proper aptitude and skills are selected for the auditing job. But this is seldom done here in an objective manner. Sometimes, the task of reporting is considered as a job which should be done by the people who have only clerical bent of mind.<sup>98</sup>

**(d) INADEQUATE RESPONSE FORM THE AUDITS**

A quality report draws response from the audit , but formulation of such a report again calls for adequate response from the authority too . Sometimes response from the audit authority motivates the auditor to give a second thought to what he has written in his observation and turn his mind to reformulate it . The interaction between the auditor and the authority if properly developed, can make a report really meaningful and effective . But due to lack of accountability culture in our country , the government in most of the cases do not take the audit reports with due seriousness and as such their response remains lamentably inadequate. As a result what is reflected in the audit reports, essentially contains the lopsided view which turns the reports ineffective and at times, even counter productive.<sup>99</sup>

**(e) LACK OF PROFESSIONALISM:**

Audit in general and reporting in particular demands a high level of professionalism. The Audit and Accounts Training Academy with its limited resource personnel and other facilities does provide professional training to the officers and staff of the department, but this is not consistent with the need to ensure a high level of professionalism. As a result both audit and its resulting reports remain substandard and thus fail to achieve the intended results.<sup>100</sup>

## **PROBLEMS OF ACCOUNTING IN BANGLADESH**

Problems of accounting in Bangladesh is long pending and deeply rooted in the existing accounting process and concepts of the government of Bangladesh. The problems are discussed below :

### **(a) PROBLEM OF ADMINISTRATIVE LENGTHY PROCESS**

After discussion of audit, it is now necessary to discuss about problems of accounting. Generally in Bangladesh, all receipts and claims against government from Districts or Thanas or Upazillas originate with the drawing and disbursing officers and are sent to the District or Upazilla accounts office. In the case of payment, the District or Upazilla Accounts officer checks the bill and either passes it for payment or sends it back to the originating office with an objection slip. The actual payment is made at the Bangladesh Bank. Where there is no branch of Bangladesh Bank, Sonali Bank performs these functions. Each office simultaneously records the transaction in appropriate registers. At the end of the day the Bangladesh Bank or Sonali Bank sends a daily scroll of receipts and payments to the district or Upazilla accounts officer, along with supporting vouchers and sends a statement to the Bangladesh Bank headquarters. The Bangladesh Bank consolidates these statements and prepares a daily statement for Finance and the Controller General of Accounts. The District or Upazilla Accounts officers prepare monthly consolidated statements, one for receipts and the other for payments, by major heads of accounts and send them to the Regional office which in turn consolidates them for the Zone as a whole and sends them to the Controller General of Accounts. The supporting statements classifying the major heads by minor, subhead and detailed heads of accounts for each treasury are attached to the statement of receipts and compiles a consolidated statement of the monthly accounts of the government. Before finalising the monthly accounts the Controller General reconciles them with the accounts of the Bangladesh Bank and attaches a note certifying the reasons for differences. The monthly statements take about 2-3 months before they reach to the Controller General. The



system of payments in Dhaka is more or less the same. In summary there is a 'three way' corroboration of accounts. If the returns are prepared regularly and duly reconciled there is no reason why there should be delay in the preparation of annual accounts or other periodical accounts. In practice delay is a common occurrence. The officers in charge of Thana, District and Regional Accounts office are expected to send their consolidated monthly reports by the fifth, tenth and fifteenth of the following month respectively and the Comptroller and Auditor General is expected to prepare the monthly report by the fourteenth of the following month. In the past, delay in compiling monthly accounts was even greater but the situation has improved recently but not in high scale.<sup>101</sup>

**(b) PROBLEM OF SEPARATION**

Until recently the functions of auditing and accounting were combined in the Comptroller and Auditor General of Bangladesh. In 1983 auditing was separated from accounting thus ensuring the much needed independence of audit. At the same time, accounting was departmentalised and each Ministry or Division was made responsible for its accounting. The primary responsibility for each Ministry or Division comes on the head of the Ministry. The executive head is the Principal Accounting officer and is accountable not only for the amount provided in the budget but also for the propriety of expenditure. A departmental accounts office headed by a Chief Accounts officer has been created to help him in the discharge of accounting functions. He is responsible for ensuring propriety, regularity and accuracy of transactions. He also maintains up to date books of account, watches progress of receipts and expenditure, compiles monthly accounts and reconciles them with control accounts. At present the post of Account General (civil) has been abolished and a post of Controller General of Accounts has been created. The incumbent is responsible for maintaining and compiling civil accounts finance accounts and appropriation accounts. He is also responsible for supervision of Accounts officers of the field via twenty Regional Accounts officers, sixty four District Accounts officers and four hundred and sixty Thana or Upazilla Accounts officers. He also supervises



the Chief Accounts officers, through functional control rests with the Principal Accounting officers.<sup>102</sup> But it has been observed that the Thana or Upazilla offices are not still dynamic and co-operative in discharging their duties.<sup>102</sup>

**(c) NEW CODING PROBLEM**

The system of accounts is based on a coding scheme prescribed by the Comptroller and Auditor General. In fact the accounting code, in four volumes, was originated in 1938 and still remains the primary basis for keeping government accounts. It was adopted by Pakistan in 1951 and again in 1983 with some modifications. It was also adopted by the government of Bangladesh and reprinted in 1983. The system is based on cash accounting and uses single entry. Despite recent revision the system is largely inherited from the colonial past and restrictive in character. Payments are made centrally at Dhaka and at the District and Thana or Upazilla offices but records are detailed and cumbersome and reconciliation of accounts is slow. Lack of a double entry system results in considerably suspense balance. The government accounts are kept in two parts (a) the Consolidated fund and (b) the Public Account of the Republic. All revenues realised and all loans raised by the government at home or abroad, together with recoveries of principal and interest on loans made, are paid into the consolidated fund. All other moneys received by or on behalf of the government are credited to the public accounts of the country for example, contributions to the State Provident Fund and deposits in National Savings Schemes. The structure and classification of accounts are the same as for the budget.<sup>103</sup> However, the new coding system has been introduced. But it would take sufficient time to make it familiar and popular to the public and private offices.<sup>103</sup>

**(d) CONFUSED PICTURE OF ACCOUNTS**

The Comptroller General of Accounts is required to prepare annual Appropriation Accounts and annual Finance Accounts of the government. The Finance Accounts prepared by the Controller General contain all the transactions of the government. They give a comprehensive picture of the Finance Accounts which are kept in two parts. Part -1 Consolidated Fund of Accounts and Part -2, other money. The Part -1

of the accounts is again divided into three major divisions : (a) Revenue (b) Capital and © Debt . The Part -2 is divided into two main divisions: (a)Debts , other than those mentioned in part- 1 and Deposits and Advances and (b) Remittances. The account is accompanied by a certificate authenticating correctness by the Comptroller and Auditor - General . The Appropriation Accounts of the government are compiled and audited by the Controller General of Accounts on the basis of accounts submitted by the Principal Accounting officers and are presented for all agencies of the government except those occupied with Bangladesh Railways, Defence and Post Telephone and Telegraphs for which separate accounts are prepared. The Appropriation Accounts contain the details of approved Demands for Grants including supplementary grants, re appropriations and actual expenditures. The purpose of these accounts is to show separately under or over expenditures against each appropriation but actual pictures are not shown for corrupted audit personnel in Bangladesh .The Finance Accounts of the government and the Appropriation Accounts together with the reports mentioned above , constitute the published accounts of the Government of Bangladesh.<sup>104</sup> However , the whole accounting process is still complicated and sometimes create confusion about the picture of accounts.<sup>104</sup>

#### **(e) TIMELINESS OF ACCOUNTING**

The financial year runs from 1 July to 30 June , hence financial transactions of the government are closed at the end of June each year . However books of account are required to be kept open for about four or five months after 30 June , for completion of various adjustments, such as closing of suspense accounts and correction of mistakes in posting and classification etc. In the past there have been considerable arrears in the preparation of government accounts and consequently publication was sometimes delayed by three to four years . For example the Finance Accounts of the government for the financial year 19981/82 published on 19 November 1986 . However , recently the Comptroller and Auditor- General in consultation with the Ministry of Finance, has detected the problems and fixed up the dates of publication for the Ministry and the Comptroller and Auditor General by 15 August and 30

October respectively. This would permit presentation of the Finance Accounts to the President within a period of six to eight months after the close of the financial year. There are common delay for three to four months in monthly reporting. In the past, this used to take even longer. Human factors play an important role as contributors to delay of any work. They include lack of understanding of the importance of timeliness in reporting and its impact on fiscal policy formulation, disregard for established deadlines, delay in reconciliation efforts, lack of communication between the accounting and the budgeting offices and lack of understanding of the relationship between monthly reports and annual reports. The daily returns of cash balances at the Bangladesh Bank take about a week to complete, as in some remote Thanas or Upazillas as no telegram facilities exist to convey the daily figures. Proliferation of accounts with the treasury, resulting from departmentalisation of accounts has further increased the work load, accentuating the problem of collection and compilation. Monthly returns are often delayed or the supporting documents are missing or there is misclassification. Besides, multiplication of accounts offices from twenty one District treasuries to four hundred and sixty treasuries or sub treasuries has created a great dearth of trained officers. This has increased misclassification and inadvertent payments. Thus, although the system is long established it is not conducive to prompt compilation of a large volume of transactions. Besides, all accounts are maintained manually and there is a total absence of mechanisation. These factors pose a serious threat to timely accounting.<sup>105</sup>

#### **(f) LACK OF COMPUTERISATION**

Computerisation calls for a well organised system of receipts and disbursement, standardised bookkeeping practices, an efficient system of communication and a common system of codification. But computerisation of the central accounting office alone will not resolve the problem which is nation-wide. There is an acute lack of computer personnel and of training facilities. Moreover there is a likelihood of resistance to computerisation from the employee unions. While computerisation of government accounts may remain a long term objective, the immediate problem is



one of simplifying accounting procedures , strengthening supervision , emphasising bank reconciliation which is the most neglected aspect of present accounts . Imparting training to the both officers and staff engaged in accounting offices of the Controller General in order to computerise the accounting system, can bring good results but it might be better to start with the field offices and build up gradually in the regional and central offices both in the Ministries and in the office of the Controller General of Audit . This would require reorienting employees and in fact the nation as a whole to the computer culture which is likely to be a slow process.<sup>106</sup>

#### **(g) PROBLEM OF COMPILING ACCOUNTS**

In the prevailing system the most time consuming process is the compilation of monthly accounts which have to be consolidated from detailed heads which the public accounts are to be kept but the responsibility for accuracy of the accounts devolves primarily on Ministries and Departments . Every controlling officer responsible for an appropriation account must also ensure that there are sufficient internal checks against irregularity, wastes and accounts or returns rests on that officer. The Principal Accounting officer among others is responsible for ensuring that all payments and receipts are correctly classified under appropriate heads of account and the Chief Accounts officer is responsible for departments or subordinate offices . The Chief Accounts officer is also responsible for maintenance of adequate books and accounts to form the basis of annual appropriation accounts. These are to be signed by the Principal Accounting officer and transmitted to the Comptroller and Auditor General for audit . Although departments are responsible for ensuring accuracy of their respective accounting office. The Controller General of Accounts is also responsible for the reconciliation of the overall cash balance of the government with that of the Bangladesh Bank every month . In practice such reconciliation does not take place regularly .The system of accounts followed in government is different from that of commercial undertakings. A major difference being that the former is maintained on a single entry basis while the latter is a double entry system. In addition , in the government accounting only the actual cash receipts and payments in a



financial year are recorded while in the case of commercial enterprises both accrued and actual incomes and expenditures for the period are recorded. A disadvantage of assignee entry accounting system is the difficulty experienced in proving its mathematical accuracy. The bills for payment are raised by the Drawing and Disbursing or Controlling officers and simultaneously entries are made in the relevant registers maintained by Departmental Accounts officers. These show allotment under the accounts officer consolidates these returns and prepares a monthly statement departmental accounts to the Controller General of Accounts with a copy to the Ministry of Finance. The field offices regularly send these statements to the departmental accounts offices. But while some Ministries or Divisions are found very slow and monthly abstracts are generally in arrears. Moreover the records maintained at the level of departments and subordinate offices are sometimes not very accurate as returned bills and cheques are not immediately reflected in the records and no formal reconciliation between the spending agencies and the treasury takes place at the field level. Hence it is more important that the monthly departmental accounts are reconciled with the Controller General of Accounts. One advantage in the case of government accounting in Bangladesh is that there are no provinces and therefore no settlement accounts, which were used to adjust the central and provincial government accounts before Independence. This removes major problem of reconciliation. However, after Independence the number and the quantity of transactions with public enterprises have increased considerably. This has given rise to new problems of reconciliation. The system of government accounting described earlier may appear complex but is in fact simple. Transactions are recorded at the point where they are undertaken then consolidated upwards through departments, ministries and requires checking at each level. but despite repeated checking of figures which are not reconciled are still possible due to the absence of a double entry system, a single balance with no head wise break up. This as stated earlier also causes problems of reconciliation. It has been reported that sometimes there is a big difference between the cash balance shown by the Bangladesh Bank and the Controller General of Accounts owing to delay in recording transactions and reporting by the Sonali Bank

.There is hardly any regular system reconciliation between the accounts of the government and other accounts and the only time it takes place in is done properly or in time. However debt service liabilities are adjusted through budget review, dues to the Ministry of Finance are also settled , but amounts owing by the public enterprise to other government agencies often remain unsettled as already noted .Nevertheless , inaccuracy exists because of misclassification and large suspense accounts arising from the unadjusted accounts of self accounting departments. In addition , failure to adjust for re-appropriations between minor and subheads, also causes considerable inaccuracy. As mentioned earlier the often restrictive, but it is negligence in recording transactions in time and in reconciling accounts that causes inaccuracy and creates scope for fraud and misappropriation. Audit reports indicate three main sources of financial irregularity (a) waste and loss due to negligence (b) misappropriation and (c) expenditures in excess of appropriation. If audit objections are considered to be a yardstick of inaccurate accounting then one could say that the extent of inaccuracies is fairly high . The audit report for 1984 -19 85 shows that between Independence and 1984 -1985 , 37,056 audit objections with respect to Customs and Excise, Income Taxes amounting Taka 4 ,440,5 million are not still met up .Until recently , the accounting function of government was centralised in the office of the Comptroller and Auditor - General.<sup>107</sup> With the departmentalisation of accounts the Principal Accounting officers have been made responsible for rendering timely and accurate accounts. The accounts are further decentralised in so far as the accounts of the Postal department, Defence and some other technical departments whose accounts are not settled through the treasury , are maintained by the departmental accounts officers in the manner determined by departmental regulations. The accounts of other Ministries and Divisions whose transactions are made through the treasury , are kept according to the accounts code. Certain departments, owing to the special nature of their functions are authorised to operate as self accounting units. Major self - accounting departments are as follows (a) Public Works Department (b) Road and Highways Department (c)Housing and Settlement Department (d) Public Health Engineering Department (e) Post office department (f) Forest Department (g) Customs Houses at certain locations

(h) Embassies and High Commissions. They are authorised to draw cheques directly on the Bangladesh Bank to a certain limit and to keep a separate fund. All receipts and payments are transacted via this fund. They maintain separate accounts subject to the government's normal classification system which are adjusted in the books of account of the Controller General of Accounts through exchange accounts. The government accounting in Bangladesh is on a cash basis. Thus transactions are recognised when cash is received or spent, not when goods are delivered or ordered or goods are placed. The cash basis of accounts is embedded in treasury rules, which lay down: 'no money shall be drawn from the Treasury unless it is required for immediate disbursement'. It is not permissible to draw money from the Treasury in anticipation of demand to prevent the lapse of government grants. The cash basis does not create significant distortions in the recurrent budget, as salaries and wages constitute the major part. The accrual basis of accounting is particularly useful in distinguishing between capital and current expenditures. It is said to make fiscal reports more comparable and to lay the basis for analysis of government costs over a period of time. As such, it could be of particular use in the case of the development budget, which is very large in Bangladesh. In any case, in implementation of development projects, where purchases and contracts are funded by donor agencies, accrual accounting and obligation accounting are commonly practised.<sup>108</sup>

## **ASSESSMENT**

Accounting of Bangladesh is still far behind from the new ideas and conception. The government financial system is required to bring new conceptions and should also take initiative to implement this new ideas and system. The government could put their attention on 'Full Blown Report' particularly on important issues and high risk areas. With the identification of the important and substantive issues and the high risk areas after conducting meaningful survey, the auditors should concentrate their investigative audit on those areas and produce 'Full Blown Objective' on those issues. To attract the wider audience as well as to make the reports truly unbiased it is essential to bring in a fine blend of journalistic flavour and judicial restraint while



formulating the language of the audit observations and comments. There is tendency to put in a lot of information in the reports without considering there necessity to substantiate the views of auditor . But too much information tend to blur the significance of the main issues. All information should therefore be arranged in a manner so that they appear to be strictly relevant to the issues . In toady's perspective an audit report should act as a catalytic agent to establish a legal and structural relationship between the auditor and audited body without deviating from its main purpose. A public auditor should , therefore acquire that kind of skills which would allow him to present a well balanced report, making it useful to the wide range of audience for whom it is intended.<sup>109</sup> In Bangladesh , a modest beginning has been made to adopt modern auditing methodology commonly known as 'Performance or Value for Money' audit. While establishing this technique on a firm basis through wide ranging reforms , simultaneous actions are needed to improve the art of reporting of audit findings. This particular area has recently been given special attention by the Supreme Audit Institution and hopefully significant improvement would be found in the content and quality of audit reports . But all this attempts require legislation and government favour and appropriate government help in financial transactions can prove the good governance of the financial system of Bangladesh .<sup>110</sup>



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## CHAPTER-SEVEN

# FINANCIAL ADMINISTRATION AND BANKING IN BANGLADESH

### INTRODUCTION

In the field of financial administration, the banking sector is considered as the life blood as it plays significant role in the whole financial system. Without effective banking, no financial activities of the government could achieve its ultimate goal or success. As a vital part of national financial activities which includes flow of money, transactions of public funds, financial involvement in trade and commerce, banking sector play significant role to strengthen overall financial administration of the country. In the field of new economic era, the banks are the most reliable and effective institutions. The modern economic leaders of the world emphasise to build efficient banking sectors in order to achieve economic and financial goals of the government. For developing countries, the financial institutions are the most important machines to produce fruitful output of economy. The banking sector is the leading financial institutes for the developing countries for building or rebuilding their economy. Etymologically, the bank by the side of a ditch is not altogether different from the bank as a financial institution. In fact, the original meaning of the two words was the same. Literally a bank means something piled up. So in France, the word bank was originally used to signify moneys piled-up. History tells us that the word bank in the commercial sense, was used for the first time to identify a subscribed or piled-up loan which was started in Italy which was the middle ages. The Italian time was 1150 A.D when Venice was under the pressure of her enemies, fell in a great financial crisis and started a subscribed loan at 5% interest which in Italian word, was known as Monte and in German word Bank because Austria-German was commonly spoken in Italy in those days, the loan was given these two names: Monte and Bank. The word 'Bank' was latter Italianised into



'Banco' so that 'Monte' and 'Banco' could carry the same meaning . Many people believe that the word 'Bank' originated from the Italian word 'Banco' which means a bench or the early bankers or the benches at market places .On failure of a banker to meet his obligations, this 'Banco' would be broken up by the angry people , where from we get the word 'Bankrupt'.<sup>1</sup> Banking in Bangladesh is considered as a noble profession for long time but very recent ,the image of banking profession in Bangladesh is downward . In a developing country ,the role of banking sector is very important . It can lead the country's economy towards the development and economic stability but in Bangladesh the thing is happening opposite . Even during Pakistan period ,the people had a confidence and respect to the people of banking sector . After liberation for lack of proper management , for loan defaulter and for trade unionism , the banking sector has been appeared in front of the people as a burden for the government . However , banking in Bangladesh as a vital part of financial system would be discussed in this chapter and also other related issues of banking sector of Bangladesh would be taken into consideration for analytical discussion .

### **DEFINITION OF BANK**

There is no general definition of what we call a 'Bank' . The definition in the Section -2 of the English Bills of Exchange Act , 1882, is rather vague. It says that a banker includes any body or persons, whether incorporated or not , who carries on the business of banking.<sup>2</sup> From time to time attempts have been made in statutes to Lenders Act<sup>3</sup> of 1911 , the English Finance Act<sup>4</sup> of 1915, the English Agricultural Credits Act<sup>5</sup> of 1928 , Part -2 etc. A Bill was promoted in England in the year 1921 , with a view to giving a legal status to a bank , but it never got on the statute book. The English Finance Act of 1915 states that a bank is a person or corporation carrying on a genuine banking business. In the English Agricultural Credits Act of 1928 , Part -2 , a bank means any firm incorporated company or society carrying on banking business and approved by the Minister of Agriculture and Fisheries . In England today a bank is a corporation partnership or individual carrying on the business of banking. The Indian Companies Act 1936, says that a banking company is a company which carries

on as its principal business, the accepting of deposits of money on current account or otherwise, subject to withdrawal by cheque, draft or pay order etc.<sup>6</sup>

Sir John Paget K.C. an English author says that the four tests of banking business are (a) the taking of deposit accounts (b) the taking of current accounts (c) the payment of cheques and (d) the collection of cheques.<sup>7</sup> So, every person, firm or company engaged in such activities may be called a bank. The difficulty of giving a universally acceptable definition of bank lies in the fact that the functions of different types of banks are different and that their functions have been different in different times and in different countries just as we define money by its functions. A bank may perhaps be best defined by its usual functions. A bank as a dealer of money collect from one set of people and lends to another set of people. The Imperial Dictionary defines a bank as an establishment which trades in money as an establishment for the deposit, custody and issue of money and also for granting loans, discounting bills and facilitating the transmission of remittances from one place to another. It may be noted here that a bank may be an individual, firm, a company or corporation.<sup>8</sup> The term banking may be looked upon from two points of view (a) from the point of view of a bank and (b) from the point of view of a customer of the bank. For the bank it means the whole business of the bank and for the customer, it means the task of depositing money into his bank account. Ordinarily, the word is used in the first sense which is to mean the business done by banks. However, the business of a bank includes the deposit and custody of money, issue of money, granting of loans, discounting of bills and facilitating the transfer of funds from one place to another.<sup>9</sup>

## **ORIGIN AND DEVELOPMENT OF BANKING**

It is very difficult to say with any amount of certainty as to when banking system made the journey. It can be said without hesitation that banking system did not appear all of a sudden like a revolution. It did come through slow evolutionary processes. Its growth has been quite imperceptible and halting, but why, how and when it made the journey, still it is undiscovered. Money and banking are very closely related matters. In the absence of money banking would, perhaps, never have

come. In fact , banking is as old as money . In the distant past , there was self - sufficient individual economy . Every individual used to produce the small number of things he needed for his simple life but gradually , with the increase in the needs of the people , division of labour leading to specialisation , was introduced in the economic life of one for those of another . Money did not come as yet .Exchange took place on what is popularly known as barter system . Money was introduced at a later stage as a remedy for the defects of the barter system . When money came , people began to lead the life of a modern economic man , which is the satisfaction of wants through the earning and spending of money . The earning and spending of money left people with a difference either a saving or a shortage of money and this difference formed the nucleus of modern banking.<sup>10</sup> The people with savings were in problem with regard to the safekeeping of their savings . They looked for some persons with whom the savings could be safely kept . Such persons had to comply with three important requirements (a) solvency (b) honesty and (c) safety . The persons with whom money could be deposited were required to be so solvent as not to spend the depositors money themselves. They were to be so honest and faithful as to return the depositors money as and when demanded and lastly they were required to have safe and secured places where the money could be kept most safely .The Goldsmiths of England and other countries possessed the aforesaid qualifications in sufficient degree. By the very nature of their profession, the Goldsmiths were solvent, honest and faithful and possessed secured places for keeping the valuables. So it is found ancestors of the modern banker in the nature of the Goldsmiths in the past .The people also used to deposit their cash and valuables to the Goldsmiths for safe keeping.<sup>11</sup> The Goldsmiths issued to their depositors receipts or hand notes with acknowledgement . It was found more convenient by the depositors to repay their debts by handing over slips of paper to withdraw cash or gold from the Goldsmiths and hand it over to the creditors who would , perhaps , redeposit the same with the Goldsmiths . So the deposit receipts issued by the Goldsmiths were widely in circulation amongst the wealthy people. Gradually , with the deposit receipts turned into bank note . At sometime later stage it became a practice with the depositors to



issue written instructions to the Goldsmiths for the transfer of specified amounts of cash or gold from their deposits to specified persons or to the bearers. These written instructions were the forerunners of modern cheques .With the passage of time the Goldsmiths discovered the process of creation of money . They found that the depositors did not withdraw their deposits all at a time. They either did not withdraw at all for a long time or withdrew by periodical instalments and while some depositors withdrew others made new deposits . As a result the Goldsmiths were always left with huge funds at their disposal . So after keeping a safe reserve to meet demands for withdrawal , they could lend huge amounts to those who were in need of funds, and thus could earn a good amount of interest. Later, when such lending became a very profitable business, the Goldsmiths began to offer a small rate of interest on deposits just to attract more deposits .It is found in the history the wealthy and reputed merchants of the old days who had business connections with many Jewish merchants , hailing from Lombardy in Italy, had migrated in the England and settled in that part of the city .The merchants used to lend money on interest .They were financially so sound that even the kings and royalties used to borrow from them .The merchants used to follow the system of written instructions and thus used to send the instructions to their agents , friends and relatives abroad to pay out specified amounts of money to specified persons or to the bearers. Such a written instruction was just the old form of a modern bill of exchange , letter of credit , travellers cheque and bank draft or demand draft.<sup>12</sup>

The ancestors of the modern banker are also found in the professional money lenders of the past. As in the modern days , so also in the old days, people with excess money used to lend to those in short supply of money .This practice gradually led to the growth of a money lending class which became some sort of experts in the lending business. In course of time , it became the practice with people having excess money , but not having any experience in the lending business, to hand over their excess money to the expert money lenders. Thus the money lenders became money borrowers too . They used to pay interest to their depositors but the rate of such interest was naturally much lower than they charged from their borrowers , thus leaving a profit for



the money lenders. The borrowing of money from one set of people at a lower rate of interest and lending this borrowed money to another set of people at a higher rate of interest, are the usual functions of a modern banker. The above discussion leads us to the conclusion that banking first made its acceptance in the individual persons. Gradually, this business has been organised and developed as general banking business in every civilised country of the world. As mentioned earlier, the Government of Venice started a subscribed loan at 5% interest towards 1150 A.D to meet war expenses. The Bank of Venice believed to be the first organised bank in the world. It was established in 1171 A.D. A few years later in 1178 A.D, the merchants of Genoa founded the Bank of San Georgia. One of its famous customers was none other than Christopher Columbus.<sup>13</sup> In England, in the year 1691, Mr William Peterson, a native of Humfresshire, submitted to the government a plan for establishing a national bank, and on 27th July, 1694, the Bank of England, which has since become the greatest banking institution in the world, was incorporated by the Section 5 and 6 of the British Parliament.<sup>14</sup> The Bank Charter Act of 1826 permitted private banking away of sixty five miles from London and the Bank of England permitted the establishment of joint stock banks in London and within 65 miles there of, since then joint stock banks began to establish and flourish in England and subsequently spread over to other countries of the world.<sup>15</sup> In the U.S.A, the first organised bank, the Bank of North America, was established by Robert Morris in the early days of settlement. This was followed by the Bank of New York, established by Alexander Hamilton. The National Banking Act of 1863 paved the way for the development of a national banking system in the country<sup>16</sup>. The Federal Reserve Act of 1913 brought into being the Federal Reserve system as the central banking system of the USA.<sup>17</sup>

### **ORIGIN & DEVELOPMENT IN THE SUBCONTINENT**

In the Sub continent, the Goldsmiths, Mahajans or Sahusars and other indigenous money lenders were the original bankers. It is said that these bankers were prevalent even during the Vedic period as far back as between 2000 and 1400 B.C. The ancient

Hindu scriptures are full of ample instances of this fact . The 'Artha Shastra' of Kuatilya , an ancient economist presents a some what elaborate study of the ancient banking system of this sub continent . The system, though not so organised has a similarity with its European counterpart . The agency houses of the famous Bengali merchant , Jagat Seth , Omi chad resembled the merchant houses in Lombard Street . At the initial stage, the employees of the 'East India Company' utilised the services of the local bankers but later on , they established their own agency houses . The first joint stock bank in the sub- continent , namely the Hindustan Bank , was founded in 1700 A.D by one of the agency houses in Calcutta . The Bengal Bank and the Central Bank of India were established in 1785. There after came the three Presidency Banks, namely the Bank of Calcutta in 1806 , the Bank of Bombay in 1840 and the Bank of Madras in 1843. These three Banks were amalgamated in 1920 to form the Imperial Bank of India which was to become the central bank of the then India but the Hilton Young Commission in 1926 recommended for a separate central bank for the country . Accordingly , the Reserve Bank of India was established in 1935 in terms of the Reserve Bank of India Act , 1934 . The Imperial Bank continued as the biggest commercial bank of the country until independence .Meanwhile , many joint stock banks sprang up , especially during and after the Swedish movement to handle the growing needs of trade and commerce, foreign exchange operations , however , remained the monopoly of the foreign banks.<sup>18</sup>

#### **PAKISTAN PERIOD**

After partition . the areas now forming Pakistan were thrown to a chaotic situation owing mainly to the large scale withdrawal of bank offices by non- Muslim bankers . All of a sudden , the number of bank offices dropped down from 631 to 213 . The State Bank of Pakistan was thus brought into being on 1st July , 1948, to reorganise and develop the banking system of the country and it is interesting to note that during Pakistan period the banking system achieved a tremendous success over the short span of the banking history . After partition of India , Pakistan reorganised its banking system by setting up the State Bank of Pakistan ( central bank ) under an Act

of the Parliament , with majority share holding by government and minority share holding by public and listed with the Stock Exchange Company . The government also set up National Bank of Pakistan , as an universal bank , with government and private share holding for catering to the needs of trade and industry and the public. This institution was also incorporated under an Act of Parliament and was also listed with Stock Exchange Company .The Board of Directors of both the institutions were constituted with public and private sector nominees and elected representatives. Subsequently more than half a dozen universal commercial banks were set up in the private sector which played a very significant role in development of trade & industry in the country till 1971 . Some of them had off- shore operations and had become known for their efficiency at home and abroad .Though these universal banking institutions , both in the public and private sector , were catering to entire needs of the society their role in agricultural , housing and capital market meaning investment banking sector was extremely limited primarily due to lack of professional specialisation and risk . In order to provide institutional framework in these areas, the Government of Pakistan initiated and gradually set up the following institutions with different objectives :

House Building Finance Corporation ( HBFC) - for housing

Agricultural Development Bank of Pakistan ( ADBP)- for agriculture

Pakistan Industrial Credit and Investment Corporation ( PICIC)- for industry

Industrial Development Bank of Pakistan (IDBP) - for industry

National Investment Trust ( NIT)- for capital market

Investment Corporation of Pakistan ( ICP)- for capital market

Equity Participation Fund ( EPF)- for capital market and industry .

All these institutions were set up by Government also with private sector participation except EPF. Though the Chief Executive Officers were appointed by the government , each institution used to operate fully independently on commercial objectives and had separate service regulations and comparative pay scales for their employees with varying incentive plans. The Board of Directors used to appoint all other executives except the CEO . The Management had powers to appoint other staff according to the



policies and needs of each institutions . Based on these broad parameters , these institutions successfully operated in each designated field until 1970 with profitable results and without any significant non- performing loans or defaulters.<sup>19</sup>

### **BANGLADESH PERIOD**

After liberation , Bangladesh took over the ownership of the branch and regional operations of the public and private sectors banks and financial institutions except that of IDBP and EPF which just shifted their head office operations to Dhaka. As such , Government of Bangladesh had to reorganise all other institutions and provide top management for each of them including the private sector ones. The Government of Bangladesh straightened the process of re-organisation by nationalising the entire financial sector through appropriate enactment and set up the following institutions :

Bangladesh Bank ( Central Bank ) by taking over the regional operations of erstwhile State Bank of Pakistan .

Sonali Bank - by taking over the regional operations of erstwhile National Bank of Pakistan.

Janata Bank - by taking over and merging the regional operations of erstwhile United Bank Ltd and Union Bank Ltd.

Agrani Bank - by taking over and merging the regional operations of erstwhile Habib bank Ltd , Commerce Bank Ltd and Australasia Bank Ltd .

Rupali Bank - by taking over and merging the regional operations of erstwhile Muslim Commercial Bank Ltd ,Standard Bank Ltd and Bahawalpur Bank Ltd .

Bangladesh Shilpa Bank - by taking over and merging the regional operations of erstwhile Industrial Development Bank of Pakistan and Equity Participation Fund .

Bangladesh Shilpa Rin Sangstha - by taking over and merging the regional operations of erstwhile PICIC, ICP AND NIT .

Bangladesh Krishi Bank - by taking over the regional operations of ADBP.

Bangladesh House Building Finance Corporation - by taking over the regional operations of the erstwhile House Building Finance Corporation of Pakistan .



With the process of nationalisation and reorganisation, the Government of Bangladesh set up management structure by appointing Board of Directors primarily from Civil Servants and Managing Director, as CEO, from amongst the senior staff of regional offices. The Government of Bangladesh also provided uniform national pay scales for all of them. The institutions virtually became an elaborated extension of Ministry of Finance of the Government of Bangladesh.<sup>22</sup>

### **BANKING SYSTEM : MAIN ASPECTS**

A bank is an institution which accepts deposit from the public and advances loan to its customers. The money with which a bank carries on its business is not its own money. It is the money of the public either lent to or entrusted with the bank. Thus a bank borrows money from one class of people and lends to another. So, the bank is a dealer in credit. It borrows money from the public in the form of deposit with a promise to repay them; that is people deposit their surplus money with the bank for safe custody. The bank pays some interest on the money thus deposited. It also gives loans to the people who promise to repay the same with interest. Loans are granted to those in whom the bank has confidence.<sup>21</sup>

As it has already been mentioned that the banking business developed for last three centuries. At first the activities of accepting deposits and granting loans were the business of some sort of saving institutions. Gradually, this business was developed as the general banking business in every country. The present day development of trade and commerce and the growth of industry have created a great impetus towards the growth and development of the modern banking system. In the past, money was borrowed occasionally and mainly for purposes when necessary. With increasing opportunities for profitable lending of money, the old saving institutions began to attract public deposits in larger amount by offering higher rates of interest. By the passage of time the banking system in every country has developed considerably, because specialisation of functions and also better integration of various types of financial institutions has been developed in many countries. Now -a -days there is a central bank in every country. It is the guardian of the banking institutions of

respective countries. . Its primary function is to maintain stability in the supply of money and credit of a country and promote the growth of an efficient credit organisation in which the people can have confidence. A good banking system should possess two important characteristics , namely , confidence of depositors and integrity of management. A bank must create confidence in the mind of the public . A bank that fails to honour its customers not only injures itself but undermines public confidence in banks as a whole . Once the people lose faith in banks , it becomes very difficult to win over their confidence again. Thus confidence is one of the important characteristics of a good banking system .In lending money a bank must follow a cautious policy . It can lend money only to that people those have repaying capacity and the bank has confidence on them . The money which the bank lends to others is not its own money . It is the money of the depositors . If a bank lends its money with no risk, then it would not be able to honour its obligations to the depositors. Every such case causes fraud which is dangerous to the banking system as a whole.<sup>22</sup>

The soundness of banking system also depends upon the prudence and integrity of the bank management . Unlike all other profit-earning institutions , all the banking institutions except central bank have the motive to earn maximum profit for their members or shareholders .To achieve this aim , a bank cannot be always expected to take long view and confine itself within rigidly imposed limit. The bank may snatch at opportunities for making quick profits, rather than help ventures that will contribute more commercially to social welfare. Nevertheless , it is true that banks, with their control over the supply and disposal of money, retain a very large amount of power needs to be curbed and controlled in the interests of social welfare .The importance of a sound banking system in modern times as a means of economic prosperity cannot be over emphasised . Besides , being a safe repository for public money ,banks are indispensable for maintaining a sound financial position of the government and for running modern trade and industry .The banks are the most important financial institutions to which the savings of public are entrusted. For the public, opening an bank account is an important outlet for investing their savings at an interest and this may have gone a long way towards encouraging habits of savings among the people .

With the progress of civilisation banking is assuming wider functions and responsibilities to such an extent that it would not be wrong to say that banks would one day assume a complete control of economic life of human society .<sup>23</sup>

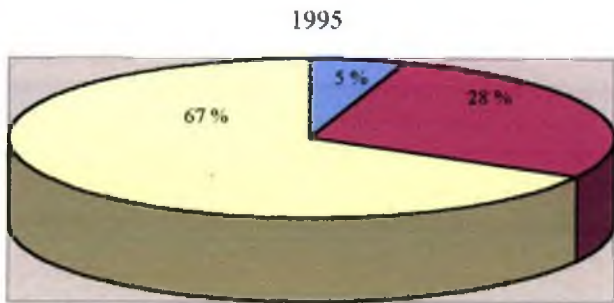
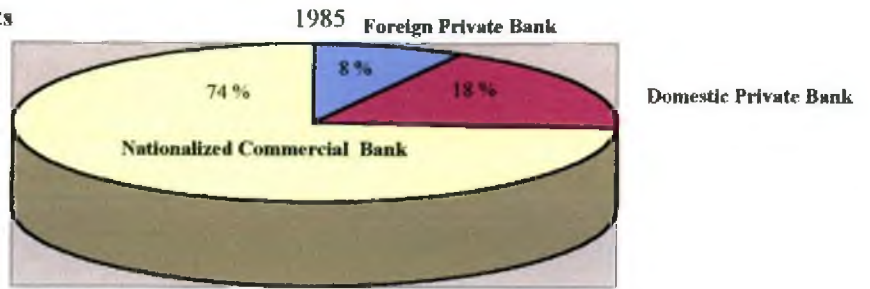
### **ROLE OF BANKING IN NATIONAL ECONOMY**

Modern banks play an important role in promoting economic development of a country . The banks provide necessary fund for executing economic programmes under way in the process of national development . They collect savings or deposits from the people scattered through out the country , which in the absence of banks would have remained idle and inactive . In Bangladesh ,the banking sector play important role . The NCBs are the vital part of such important role for the development activities of the government (Figure -16 shows the share of loans and advances of NCBs and other banks of Bangladesh )The scattered amounts of the people are collected , pooled together and made available to commercial and industrial area for meeting the requirements of social objectives . This provides finance for successfully carrying on various stages of production as well as distribution . With out banking facilities , modern method of large scale production would have been a very difficult task . Modern business organisation or industry requires two type of capital , such as long term and short term . It is known that there is a gap between expenditure of production and the realisation of in come from the goods produced . This gap is filled up by the supply of short term capital which makes able the producers and traders to meet the expense of raw materials , wages and salaries of the employees marketing of finished goods. Side by side , the long term capital is obtained by insures on the capital markets for setting up factories , purchasing mechanises and equipment the public subscription and expenses to meet the establishment and running costs of factories . For the successful operation of the factories banks provide financial assistance for short term as well as long term capital . If the banks would not assist them with credit to the industry , trade and commerce would not expand up to the present level . It should be mentioned here that in underdeveloped countries like Bangladesh , the role of banking sector in national economy is more specific and

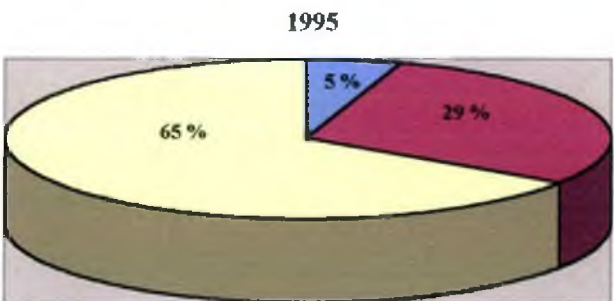
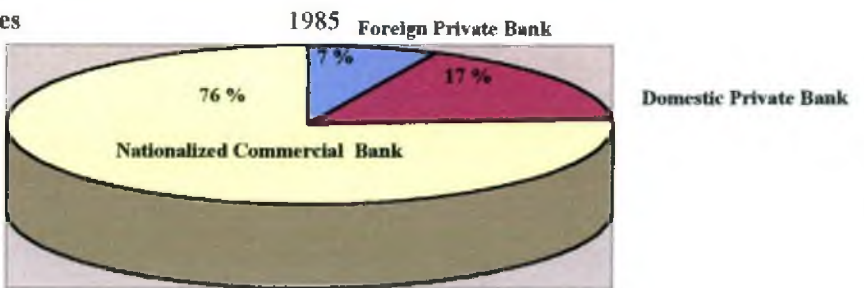


**FIGURE -16**  
**NATIONALIZED COMMERCIAL BANKS CONTROL THE LION'S SHARE OF DEPOSITS AND ADVANCES**

**Market Share of Deposits**



**Market Share of Advances**





significant. Also the problem of banking are more acute in such countries because of very low margin of savings, due to low level of income of the general people. Mobilisation of savings is an integral part of the progress of economic development. Unless savings rise and are pooled together, financing of development projects can not be undertaken. Under developed countries have basic problem of financing to the proposed development project and for lack of capital formation, the proposed projects can not see the face of light. Many of the projects sleep in the file and most of the times could not achieve the goal, so in such developing, bank acts as an important organiser of saving, banking sector stimulate the habits of savings among the people by security and interest they offer. As the banking habits develop among the people they deposit their small and big savings in the bank. With these savings which are deposited with the banks, people are in a position to create larger and larger deposits. This adds to effective money supply and expand the volume of money in circulation which in turn goes long way, in a developing economy of the country.<sup>24</sup> It is an admitted fact that the efficiency at banking system of a state, in the modern world, is the pre condition or prerequisite for the economic development of a country. So the role of banking sector is very important. The efficiency of Banking system can be judged from its working results in such a way whether the bankers have been able to trade the economic situation properly and selection of customers to whom money is loaned. The bank have to have proper and adequate knowledge about the country's economic blow as well as market position in order to play vital role in the national economy. The bank must judge whether the particular type of trade or industry would be worth or not and the bank must behave properly with its customers regarding the future of the industry. The bank must discuss with the customers about the economic result of the proposed project for which the bank is going to finance. If the projects are not viable in the long run the bank must stop the initiative taken by the customers because in order to play an important and actual role to build up the national economy the banking sector must be sincere and honest. This is a very important service which a bank can provide and thereby helps a great deal in fostering economic development on sure and sounder basis<sup>25</sup>. In developing states, for restructuring economy by

carrying out vast development programs are very limited compared to actual needs, so development of banking facilities could do a great service in bringing about a better utilisation of resources. The present day banking is set not only with a few complex and specialised activity. It has widen its scope in different socio economic field of the country . The modern social economic life are completely tied or surrounded by the banking system. It is extremely powerful by its direct influence on the courses of agriculture , commerce, industry which count in the determination of human contentment . Besides the banks offer some regulatory functions to its customers. It also offers other customer related functions . Business information regarding the trend of business situation can be easily received from a good bank. The banking sector also provides for increasing transaction capacity of the customers by advancing loans whom they require additional funds in order to finance their expanded program of business transaction. Moreover , in modern monetary economy, the banks play vital role in maintaining the stability of price level in the market . It buys and sells the bills of exchange and finance the internal and foreign trade of the country . The banking sector of Bangladesh , thus perform useful functions for the rapid economic development . In short , the economic development of a particular country is closely connected with the growth of as sound banking system.<sup>26</sup> For Bangladesh ,the banking sector have great scope to play important role to the development of the country but for inefficient financial administration ,the banking sector is not able to play the role properly .

#### **CENTRAL BANKING AND ITS BACKGROUND**

In the modern world ,every country have central banking system which is fully responsible for banking sector development and monetary aspects of the country. Although the origin of central banking may be dated back to 1894 , when the Bank of England ,at present central bank of the UK was established . In fact ,the art of central banking assumed new dimensions only during the present century .The earlier institutions were , by and large, banks of issue with the sole or principal right of note issue . Modern central banking techniques were unknown to them. They were not

much different from other existing institutions doing banking business except for the special relations which they had with their respective governments . It was only through a process of trial and error did they come to occupy a pivotal and strategic status which they enjoy in the present day monetary and banking structure .Even during the beginning of the present century, many countries were still , without central banks . The first world war and the consequent chaotic monetary conditions brought home to these countries the imperative necessity of establishing a centralised institution capable of creating and maintaining equilibrium in the monetary sphere. The International Financial Conference held at Brussels in September 1892 , pointed out the urgency of establishing a central bank in these countries which had not yet established a central bank . The conference resolved that , in countries where there was no bank of issue, they should establish such bank .The conference also emphasised the importance of a central bank as an agency to correct the financial disequilibrium and to promote international co-operation in the monetary world .<sup>27</sup> There was a welcome reception to these advice throughout the world . The next three decades saw many countries involving themselves with central banks . They have drawn their statutes in such a manner as to give novel meanings to central bank , of course drawings inspiration from the experiences of the older central banks . The dynamic changes in the economic organism of each country raised the statutes of its central bank from the position of a bank of issue to that of a leader and symbol of economic development . The importance of central banking institutions has thus gained universal recognition and they now occupy a unique position in the economic map of every civilised country . It took nearly three centuries for the art of central banking to attain the present day importance . Nevertheless , it would not be correct to say that central banking has attained its full growth but there are indications that the central banks have developed their own code of rules and practices . This can be described as the art of central banking . However, in a changing world , it is still in the process of evolution and subject to structural functional readjustment.<sup>28</sup>



## FUNCTIONS OF CENTRAL BANK

It is difficult to lay down any hard and fast role regarding the functions of a central bank . The powers and the range of functions of central banks vary from country to country . On the one hand, we see the state owned , state controlled Bank of England which follows the centralised system of central banking , on the other hand , we see the American system of Federal Reserve Banks owned by the member bank and co-ordinated by the Federal Reserve Board . However a careful study into the organisation and operative techniques of the various central banks would enable us to draw certain broad conclusions as to the general functions of a central bank . The most important and the earliest of the functions to be discharged by central bank is that of acting as a bank of issue . In addition , it is a bank of the banks and a lender of the last resort , an agent , advisor and banker to the government , a custodian of the nations metallic reserves and controller of credit . In this connection the statement made by the Governor of the Bank of England in 1926 before the Royal Commission of Indian Currency is very important . According to him a central bank should have the sole right of note issue . It should be the channel and the sole channel for the output and intake of legal tender currency . It should be the holder of all the government balances , the holder of all the reserves of the other banks and branches of banks in the country . It should be the agent , so to speak , through which the financial operation , at home and abroad , of the government would be performed . It should further be the duty of a central bank to affect so far as it could , suitable contraction and suitable expansion , in addition to aiming generally at stability and to maintain that stability within as well as without . When necessary it would be the ultimate source from which emergency credit might be obtained in the form of discounting of approved bills or advances on approved bills or advances on approved short securities , or government paper.<sup>29</sup> The contents of these functions point out one basic fact that central banking is entirely different from commercial or other branches of banking and that its main aim is to serve in the public interest and not to secure profits . The functions of a central bank and the obligations resting upon it are of a very special



which must be possessed by commercial banks . No banker can neglect the rules of prudence and safety , but the object of a commercial banker is to make a profit . The situation of a central bank is such that it must often undertake operations which are not only profitable , but result in losses . Its objectives must be to develop the financial system and the economic welfare of the country.<sup>30</sup>

### **CENTRAL BANK AND ECONOMIC DEVELOPMENT**

The role of the central bank in financing economic development is a problem of acute controversy . The advocates of orthodox central banking ideas hold that it is not the function of a central bank to finance economic development . They fear that such financing would ultimately lead to monetary inequality . According to whom the primary responsibility of the central bank is the maintenance of monetary and exchange stability . In contrast to the views held by the orthodox principles of central banks , there has been a general recognition about the role of the central bank in economic development . In fact the statutes of most central banks specifically recognise the role. Thus the Central Bank Act of Philippines has laid down one of the objectives to promote a rising level of production , employment and real income in Manila and the encouragement and promotion of the full development of productive resources of the country. In 1937 , the Board of Governors of the Federal Reserve System in the USA stressed the inadequacy of more price stability or exchange stability as an objective of central banking policy. They observed that the maximum sustainable utilisation of the nations resources rather than the price stability or exchange stability should be the goal of public policy.<sup>31</sup> In conformity with these objectives , many central banks have been called upon to provide direct finance to carry out the developmental activities of the State . There has also been a widening of the eligibility rules . In addition , many central banks have been authorised to extend direct or indirect industrial and agricultural credit . For instance, in the United States , under the Federal Reserve Banks Act of 1934 , the Federal Reserve Banks were allowed to discount or buy from any bank , trust company , mortgage company, credit corporation for industry or other financing institutions obligations maturing within

five years entered into for the purpose of advances to commercial and industrial enterprises .In exceptional circumstances , they were also authorised to make direct working capital advances to established private industries .Even in England , the home of orthodox central banking ideas , there has been considerable departure from the traditional principles .

#### **SOME EXAMPLES OF CENTRAL BANKING**

Instances may be found in the setting up of the Bankers Industrial Development Company ,in 1950, under the auspices of the Bank of England and in the extension of direct financial assistance to certain industrial enterprises . The association of the Bank of England with the Credit For Industry Ltd , a specialised institution for financing small and medium sized industries , is another instance .The realisation of the importance of central bank finance for economic development has introduced the Reserve Bank of India also to discard the orthodox central banking principles . The Bank has extended substantial financial and organisational help to the special agencies catering to the needs of industry and trade . Thus the Reserve Bank has subscribed nearly 1/5th of the paid up capital of the Industrial Finance Corporation . In the case of the state financial corporations , about 10 to 20 per cent of the share capital has been subscribed by the Reserve Bank of India . In the case of Refinance Corporation for Industry , the Reserve Bank has contributed five crore towards its share capital. Further, the affairs of the Refinance Corporation are being looked after by the Industrial Finance Department of the Bank , created in 1957. The establishment of the National Agricultural Credit (long term operation ) Fund in February 1956 and the National Agricultural (stabilisation) Fund in June 1956 are other instances which deserve special mention in this connection . The former was established for making long term loan for periods ranging from fifteen months to five years to state co-operative banks . The National Agricultural ( stabilisation) Fund was established exclusively for making medium term loans and advances to State co-operative banks to enable them to convert their short term credit into long term credit whenever such conversion becomes necessary as a result of the drought , famine or other natural

calamities . Further , in 1961 the Reserve Bank set up a Standing Advisory Committee on Agricultural Credit for advising the Bank , among other things on matters relating to the progress of the co-operative movement in the country . There has also been a widening of the eligibility rules.<sup>32</sup> It may be remembered here that the intention behind all these changes has been the desire to help the money market to tide over temporary difficulties ,for example the need to finance the growth in expenditure of government departments by any means , other than appeal to the capital market and the necessity to provide funds to branches of the economic system which were not in a position to obtain them through the usual channels . Money is not only one of the factors on which economic growth depends . Besides there are other and more important factors such as the will and ability of the entrepreneurs ,availability of other factors of production , capital formation , effective demand , total volume of production, etc. Therefore , a policy of the central bank to inject more money into the society need not foster economic growth .On the other hand an indiscriminate creation of money will create inflationary tendencies in the economy and impair economic development . However , financing of economic growth can be tempered by an appropriate monetary policy intended to stimulate private initiatives and to keep the volume of money within appropriate limits . There is nothing inherent in central bank financing of economic development to lead inevitably to inflation . Everything will depend on the terms of overall financing of the economic play and on the extent to which the planned savings and taxation . It will also defend against misuse because some central banks have in the past overstepped the limits under the pressure of the government side, not invalidate the preposition that central bank financing of economic development may be usefully undertaken without the dangers of inflation . Again , it is pointed out that financing of economic growth may lead the central bank in a liquidity crisis . This is not a very serious objection . The liquidity of the central bank does not depend on the short terms self liquidating papers which it holds in its assets portfolio . It is largely governed by the power of the central bank to issue legal tender currency . Therefore , the long term loans advanced by the central bank need not necessarily result in a liquidity crisis , provided it has sufficient power to issue



notes .There is a further argument that the central bank , being the controller of the money market , should not take part in the financing of ordinary industrial and commercial activities .The central bank is no more a silent spectator to the vast industrial and commercial development taking part in the economic organism of the country. If it does not take any part in financing economic development , such development may be impaired endangering monetary equilibrium . It is now a issue that how far can the central bank play role in financing economic development without jeopardising monetary stability beyond the point and at which such financing would hinder capital formation and so impede further development.<sup>33</sup>

### **CENTRAL BANKING IN OTHER COUNTRIES**

Most of the countries in the world have a central bank ,usually state owned which have the sole right of note issue and work as the lender of last resource .It would be better to look into some famous central bank in the world in brief. These are the Bank of England , the Federal Bank of USA and the Reserve Bank of India.

#### **THE BANK OF ENGLAND**

The Bank of England was nationalised , all its shares were purchased by the government , under the Bank of England Act of 1946 . That Act lays down that the Bank shall have a Governor, two Deputy Governor , and sixteen Directors , together forming a Board of Directors . The Treasury can give such directions to the Bank as after consultation with the Governor ,if it thinks necessary in the public interest . The Bank can request information from and make recommendations to the other banks , if so empowered by the treasury it can give directions to any bank . All this makes no fundamental change . The Bank always acted in close co-operation with the Treasury in the public interest and the other banks always followed its lead . The Act does rule out , however, the possibility that a strong Governor might disagree with the treasury and follow an independent line . No doubt the treasury will be guided by the views of the bank but legally the Bank is now the agent of the treasury , although it is not any part of the civil service and is subordinate to it .The task of a central bank , in general terms , is to help the government to carry out its monetary policy by whatever means



are most effective . Since the war, a major aim of British policy has been to prevent a deficit in the balance of payments and this has meant in practice restricting imports , especially from the dollar area . These restrictions have been enforced by the Foreign Exchange Control Department . Now-a-days this forms a large part of the work of managing the long term national debt , such as keeping the stock registers and paying dividend warrants but it still retains the three traditional functions of a central bank , which enable it to control the supply of money .The intervention of the discount house between the central bank and the commercial banks is peculiar banks to Great Britain .In other countries , when the commercial banks need more cash they borrow directly from the central bank but in Great Britain they call in some of their loans at call and short notice and it is the discount houses and others , not the commercial banks themselves , who borrow from the Bank of England to replenish the cash of the commercial banks .The cash reserve of eight per cent maintained by the British banks is not enforced by law .They can keep a smaller reserve if they wish . In most of the other countries ,the banks are compelled by law to keep a minimum reserve of cash in the form of balances with the central bank against their deposits . This minimum is raised when it is desired to restrict credit and reduced when it is desired to expand credit , changes in the legal minimum , therefore serve the same purpose as open market operations by the central bank . Although both methods may be used reinforcing one another.<sup>34</sup>

#### **CENTRAL BANK OF THE USA**

In the United States there are twelve Federal Reserve Banks , each acting as a central bank for its District , with a Board of Governors of the Federal Reserve System meeting in Washington . The system is not state owned and the views of the Board may conflict with those of the USA Treasury . Although the later can usually persuade or compel the Board to follow the policy it favours .In the Great Britain , where banking is well developed, has a few giant banks, each with numerous branches all over the country . If one of the branches makes a loss , the bank is large enough to stand the loss but a bank that is independent and alone may be ruined by local

economic difficulties, for example a crop failure which hit its customers .In the United States of America , however , there are over 14,000 banks , many of them serving and dependent on a small country area . The branch banking system has not been allowed to develop for fear of creating a banking monopoly . During the years 1921 to 1929 nearly six thousand banks failed and during 1930 to 1933 nearly nine thousand . The system has since been strengthened for example , by compelling banks to insure their deposits but the risks of failure are still much greater than in the United Kingdom .<sup>35</sup>

### **THE CENTRAL BANK OF INDIA**

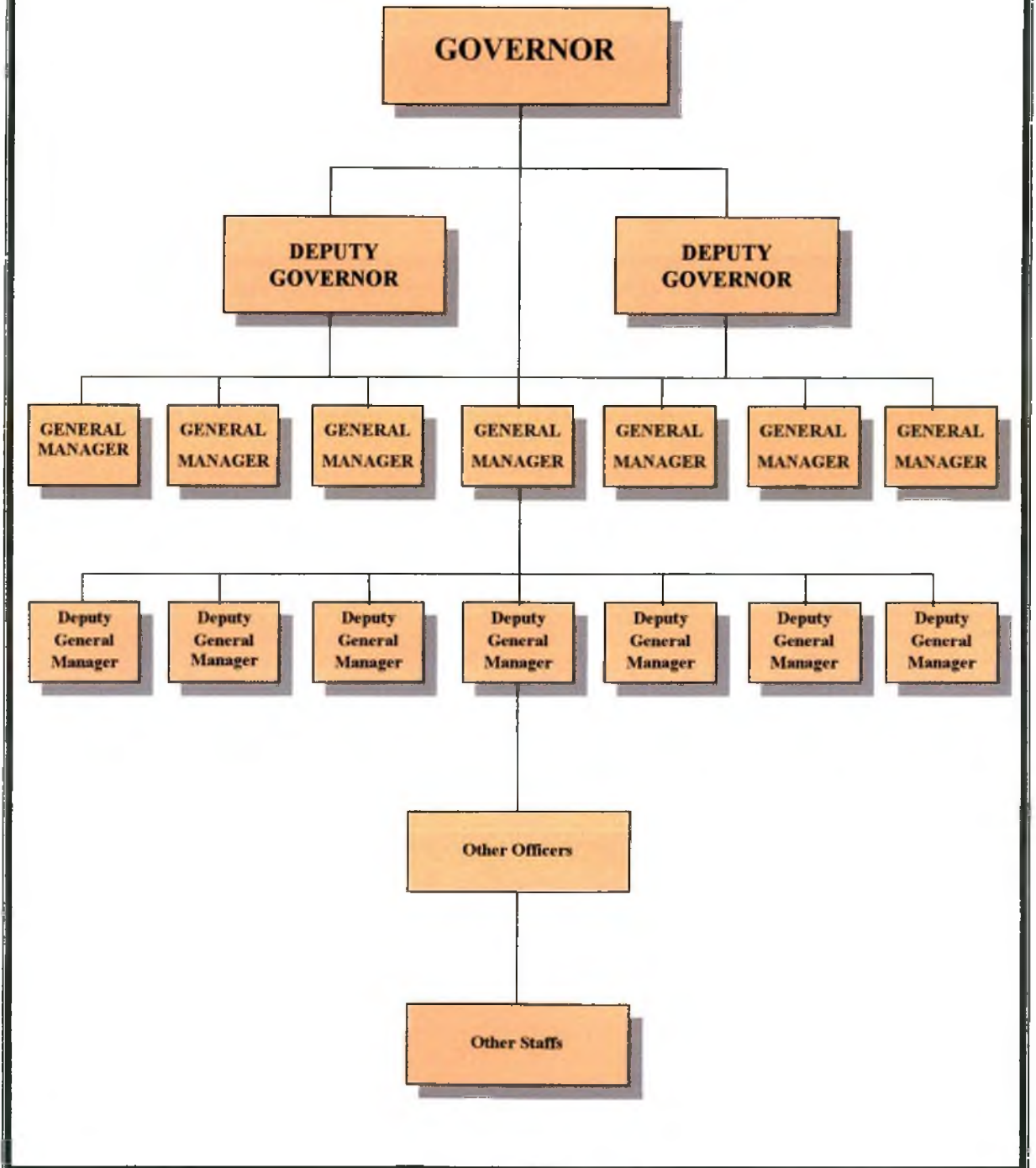
The central bank of India is known as the Reserve Bank of India . The central banking is comparatively of recent origin in the Indian banking field . The Hilton Young Commission recommended the establishment of a central bank in India . In compliance with this recommendation , a bill was introduced in the Parliament by the then Finance Minister in January 1927. Unfortunately , it had to be abandoned owing to fundamental disagreement between the Assembly and the government .The question assumed importance again with the unanimous recommendation of the Central Banking Enquiry Committee in 1931 which viewed the matter to be of supreme importance from the point of view of the development of banking facilities in India and of her economic development generally , that a central bank shall be created at the earliest possible date . Moreover the White Paper on Indian Constitutional Reforms , reiterated the importance of a central bank free from political influence. Accordingly a fresh bill was introduced in the Parliament in 1933 which was passed in due course and the Reserve Bank of India commenced its operations from 1 April 1935 as central bank of India .<sup>36</sup>

### **CENTRAL BANK OF BANGLADESH**

#### **INTRODUCTION TO BANKING SITUATION IN BANGLADESH**

Before going to discuss about Central Bank of Bangladesh which is known as Bangladesh Bank , it would be worth to discuss about banking situation of Bangladesh. However, the structure of Bangladesh bank can be seen in the Figure-17.

**FIGURE – 17**  
**STRUCTURE OF BANGLADESH BANK**



Source : Bangladesh Bank



The banking sector in Bangladesh has a legacy from Pre-liberation(1971)of Bangladesh and Pre partition (1947) of India system which was based on universal banking concept which first developed in Europe during the early nineteenth century combining commercial banking such as collecting deposits and making loans and investment banking such as issuing , underwriting , placing and trading company securities . The Universal Banking System continued to flourish in European and North American countries and Japan until after the great depression when commercial and investment banking were legally separated in the United states , Canada and several European countries but not in Germany , Japan and Britain , where functional specialisation continued to be based on tradition . In Japan , however , commercial and investment banking were legally separated after World War- II under the influence of American reform program. British India and subsequently Pakistan continued with the universal banking system , though , like many countries after the World War- II created credit institutions that specialised in long term finance in agriculture, industry , exports and housing etc with the assistance of the World Bank and other international or regional multilateral financial agencies . This institutions were either in public or private sectors or under mixed ownership or management. After partition of India in 1947 , Pakistan reorganised its banking system by setting up the State Bank of Pakistan as Central Bank under an Act of the Parliament with majority share holding by the government and minority share holding by public and listed with the Stock Exchange Company . The government also set up National Bank of Pakistan as Universal Bank , with private and public share for catering to the needs of trade and industry and the public . This institution was also incorporated under an Act of the Parliament and was also listed with Stock Exchange. The Board of Directors of both the institutions were constituted with public and private sector nominees and elected representatives . Subsequently more than half a dozen universal commercial banks were set up in the private sector which played a very significant role in development of trade & industry in the country till 1971. Some of them had off shore operations and had become known for their efficiency at home and abroad.<sup>37</sup> Though these universal banking institutions , both in the public



and private sector, had been catering to entire needs of the society, their role in agricultural, housing, capital market, investment banking, sector was extremely limited primarily due to lack of professional specialisation and risk. In order to provide institutional framework in these areas, the Government of Pakistan initiated and gradually set up many financial institutions which have been mentioned earlier. All these institutions were set up by the government along with private sector participation. Though the CEO were appointed by the government, each institution used to operated fully independently on commercial objectives. They had separate service regulations and comparative pay scales for their employees with varying incentive plans. The Board of Directors used to appoint all other executives except the CEO. The Management had power to appoint other staff according to the policies and needs of each institutions. Based on these broad parameters, these institutions successfully operated in each designated field until 1970 with profitable results and without any significant non performing loans or defaulters.<sup>38</sup>

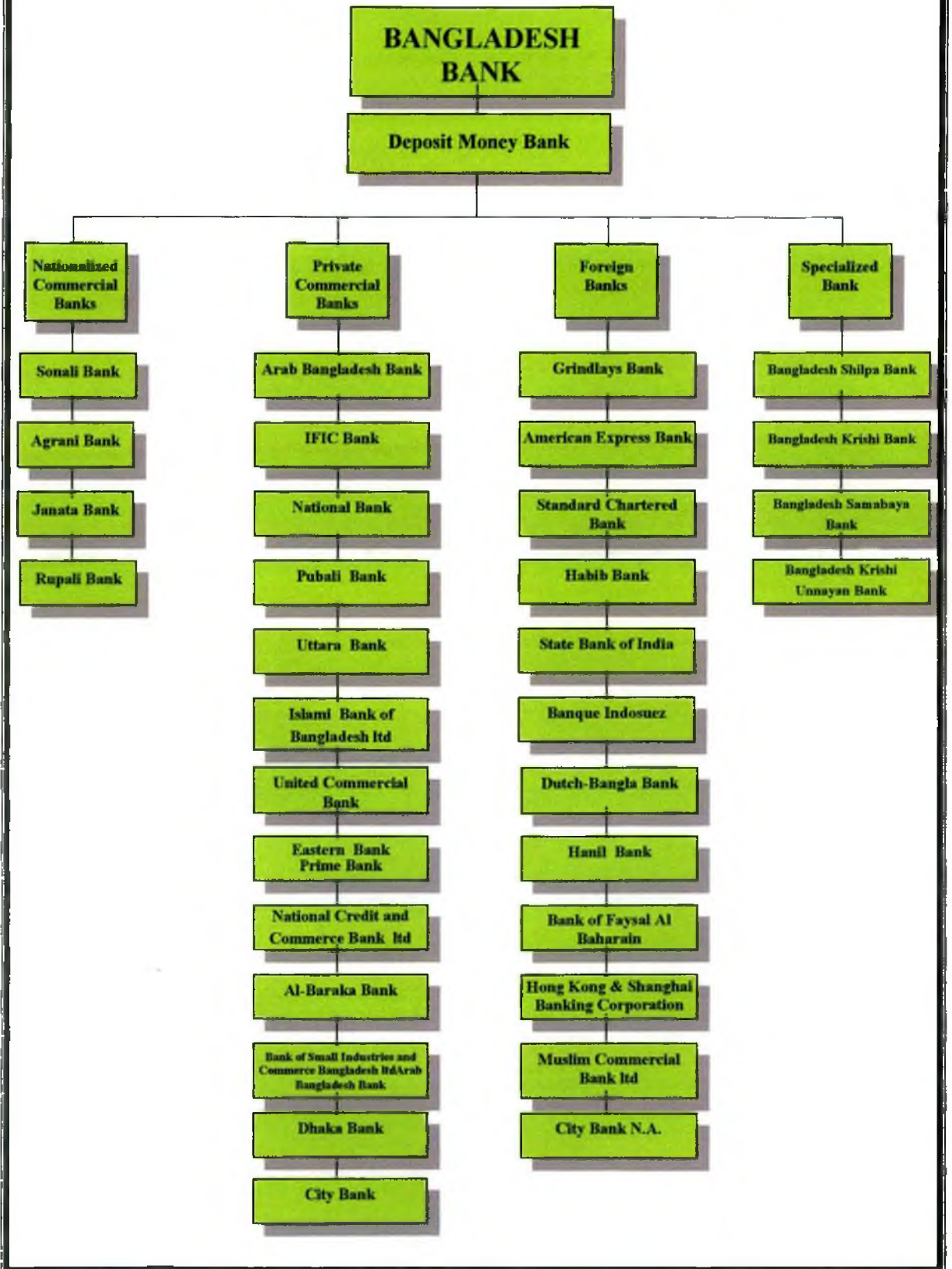
After liberation of Bangladesh, all the banks operating in the country were nationalised. Some of the banks were private and the owner of those banks were non resident of Bangladesh. They were the citizens of the former West Pakistan for what they had to leave their properties to the former East Pakistan due to the victory of the people of Bangladesh followed by a bloody war of liberation. However they had to take responsibility of these abundant properties for the sake of the local clients and depositors. These banks were merged and grouped into six commercial banks. Out of these six commercial banks, the Uttara Bank and Pubali Bank Limited, have been brought to the private sector with effect from January 1985. Two government owned specialised banks were renamed as Bangladesh Krishi Bank and Bangladesh Shilpa Bank. In March, 1987 Bangladesh Krishi Bank was bifurcated and another specialised bank emerged as Rajshahi Krishi Unnayan Bank or RAKUB for Rajshahi Division. The Bank of Small Industries and Commerce Bangladesh Ltd (BSIC) has been brought under the direct control of the government and the same has been recognised to as specialised bank with effect from January 1993. The branches of seven foreign banks, operating in Bangladesh

were treated as foreign private bank. Out of the seven foreign banks of Bangladesh, the Bank of Credit & Commerce International was liquidated and a separate bank in the name of Eastern Bank Limited started its operation as private bank in its place with effect from August 1992. Besides these a few other private sector banks are already in operation in Bangladesh. Actually in Bangladesh, private sector banking business is now open for any body. All such banks operating in Bangladesh with different paidup capital and reserve having a minimum of an aggregate value of Taka 50.00lakh and conducting their affairs to the satisfaction of the Bangladesh Bank have been declared as scheduled banks in terms of section 37(2) of Bangladesh Bank Order, 1972. The banks play an important role in the economy of our country. The scheduled banks as a group form the vital part of the or gainsaid banking system in Bangladesh. They fall into three classes based on their method of establishment and the pattern of ownership. These are as follows:

- (a) Nationalised Commercial Banks.
- (b) Specialised Banks.
- (c) Private Banks - (1) Foreign Banks (2) Local Private Banks.

The broad objectives of Bangladeshi Banking system in general and the public sector bank in particular are (a)wider territorial and regional spread of bank branches (b) Larger mobilisation of the savings of the community and (c) reorientation of credit development in favour of neglected sectors or sections or regions of the economy. Looking at the progress in terms of branch expansion, mobilisation of the savings of the community, expansion of credit to the neglected sectors of the economy and overall involvement of the banking system in the nation's economic activity, the past record of banking industry of Bangladesh is impressive and credit worthy but at what cost has this been achieved. However, it can be said that certainly, the very progress has created a number of undesirable features in the banking system which would be discussed later.<sup>39</sup> (Figure -18 shows banking system structure in Bangladesh)

**FIGURE -18**  
**BANGLADESH BANKING SECTOR STRUCTURE**





## CENTRAL BANK OF BANGLADESH

### BANGLADESH BANK

As a highest administration and management of monetary activities of the country, the Bangladesh Bank has been playing its significant role from its inception. Although it has been facing lot of problems in order to execute its policies, even though, as a central bank of the country, it can not avoid its responsibilities.

**ORGANISATION :** Bangladesh Bank is the central Bank of the country. It is the guardian of the money market. It came to existence under the Bangladesh Bank order, 1972 which was deemed to have taken effect on the 19th December, 1971. Its head office is located at Dhaka. It has three branches located at Chittagong, Khulna and Bogra. For general supervising and direction of the affairs and business of the bank, a Board of Directors comprising the Governor as the exofficio chairman and eight Directors including a Deputy Governor is constituted by the Government. The authorised and paid up capital of the Bank is Taka three crore authorised which has been fully subscribed by the government. For carrying on the functions of the Bank efficiently, it has been organised into few departments namely (1) Accounts Department (2) Banking Control department (3) Exchange Control Department (4) Agriculture Credit Department (5) Rural Credit Project Department (6) Statistics Department (7) Industrial Credit Division (8) Research Department (9) Department of Banking inspection (10) Secretary's Department (11) Public Relation and Publication Department (12) Audit and Inspection Department (13) Personnel Department (14) Engineering Department and (15) Bangladesh Bank Training Academy.<sup>40</sup>

The various departments of the bank are entrusted with specific functions. The Accounts Department maintains the accounts of the bank. It is also responsible for the preparation and publication of the banks weekly statement of affairs. The issue branch and banking branch are the two major components of the accounts department. The issue branch deals with note issue, while the banking branch



transacts general banking business . The function of the banking control department is to control banking system for preserving the economic interest of the country . The exchange control department is concerned with regulating the foreign exchange transactions and the volume of our foreign exchange reserves to maintain the stability of the external value of the currency. The agriculture credit department is responsible for considering and advancing credits to the agricultural sector .The research and statistics department are concerned with the functions of conduction of statistical data required for economic development of our country . Similarly other departments are entrusted with definite functions.<sup>41</sup>

**FUNCTIONS :** As the central bank of the country , the Bangladesh Bank performs all the usual functions of the central banks in all other countries of the modern world . Formulation of the monetary and credit policy for economic stability , issue of bank notes , development of money market , promotion of the best interest of the economy , utilisation of the productive resources of the country and stabilisation of the internal and external value of the currency form the heart core of the functions of the Bank . The Bangladesh Bank acts as the banker to the government and keeps the government surplus money with it as reserve . It manages short term loans for the government in times of need by discounting treasury bills maturing within ninety days . Under the Charter , the Bank is obligated to accept all deposits and collect money for the government free of charges . It also pays money and does the banking business on behalf of the government . The Bangladesh Bank manages the public debit and is the sole custodian of foreign exchange . It functions also include purchases , discount of bills of exchange and promissory notes drawn on and payable in Bangladesh.<sup>42</sup> Recently , the role of Bangladesh Bank as a central bank has been seriously criticised form the various corner and sectors of the country .As a controlling authority and as a vital part of the national financial administration ,the Bangladesh Bank could not show its efficiency and good performance to the development of national economy . More over the role of central bank of Bangladesh has been questioned seriously by the World Bank , the International Monetary Fund and other donor countries for Bangladesh .

## **NATIONALISED COMMERCIAL BANKS IN BANGLADESH**

In Bangladesh at present there are four nationalised commercial banks . These are the Somali Bank , Agrani Bank , Rupali Bank and Janata Bank . These banks in fact are totally responsible for the overall banking performance of the government . In the following paragraphs these banks would be examined from critical point of view .

### **(a) SONALI BANK**

Sonali Bank was established under the Bangladesh Bank ( nationalisation ) Order , 1972 . Its head office is located at Dhaka having regional branches at the District of Chittagong , Khulna , Rajshahi, Comilla , Bogra , Noakhali, Dinajpur , Barisal , Mymensingh and Sylhet . The regional offices have intermediary control and supervision over the functions of the branches of the remaining Districts and rural areas . Total number of branches of Sonali Bank stood at one thousand and thirty one in January , 1998 . Out of them three hundred and twenty nine branches are in urban areas and seven hundred and two in rural areas . The total overseas branches are nine of which seven are in the UK and one in Calcutta and one in New York .<sup>43</sup>

**MANAGEMENT :** The overall management and policy formulation of the bank is vested in the Board of Directors . The Board consists of six directors in addition to the Managing Director . Six members are appointed by the government , at least , three of whom shall be from amongst persons who have had vast experiences in the field of finance , banking , trade and commerce or industry . The Board is headed by a Chairman appointed by the government from among the six appointed directors . He holds office as Chairman for the terms of his office as director and is eligible for reappointment . The internal management of the bank is carried out by the executives and officials who are professional in banking . A management committee constituted by the executives of the rank of general manager, is responsible for the internal management and decision making affairs . The Committee meets once in a week to examine the proposals requiring decisions , sanction study and review . The Committee makes recommendations on matters of greater importance to the Managing Director or the Board for financial decisions.<sup>44</sup> In most of the loan

sanctioning cases ,the Board is biased politically and the Board or the Management stresses not on the quality of the projects but on the political pressure .

**FUNCTIONS :** The Sonali Bank performs all the normal functions of a commercial bank . In addition , it performs the following functions .

(a) Conduct treasury business as an agent of Bangladesh Bank (b) Collection of direct tax (c) Collection of Stamp Duty and Registration fee entrusted by the government under special arrangements (d) Payment of value of jute on behalf of public corporations (e) Payment of value under food procurement scheme of the government (f) Payment of pension bills of retired government employees under special arrangement (g) Operation of barter accounts relating to foreign trade of Bangladesh with other countries (h) Payment of primary school teachers salaries throughout the country under special arrangement with education department.<sup>45</sup> However , the functional capacity of the staff of this bank is not satisfactory and the staff of the bank are very much trade union biased and motivated . The bank does not offer good customer services and in many cases they even misbehave with the customers .

#### **(b) JANATA BANK**

Janata Bank was established under the Bangladesh Bank (nationalisation) Order , 1972 . The bank had two hundred and forty nine branches with six regional offices at the time of liberation. For better administrative control and efficient supervision the number of regional offices was raised to thirty five . Since then , the bank maintained a steady expansion program of opening new branches every year for extending banking facilities to the door steps of the rural people . Thus in March , 1998 the number of branches of Janata Bank stood at eight hundred and thirty , including five overseas branches.<sup>46</sup>

**MANAGEMENT :** The top management and policy making function of the bank are vested with the Board of Directors appointed by the government . The managing Director , who is also a Director of the Board, is the chief executive of the bank . The Managing Director manages the affairs of the bank with the help of four general



managers , fifteen deputy general managers and other executives . The Regional Managers control and supervise the affairs of branches in the respective regions.<sup>47</sup>

**FUNCTIONS :** Janata Bank performs all the traditional functions of a commercial bank . The Government has also entrusted it with the responsibility of making payments to different public sector corporations and in respect of food procurement scheme . With a view to mobilising the resources the bank has extended its services to the remote areas . In deployment of resources in productive channels the credit facilities have been extended to almost all classes of people and professions . In recent years , the bank has diversified its functions to meet the needs in financing of agriculture and other priority sectors but could not bring any significant success .<sup>48</sup> The employees of this bank do not work properly and also too much motivated to trade union rather to work for the bank .

#### **(c) AGRANI BANK**

Agrani Bank came into existence in March , 1972 with the promulgation of Bangladesh Bank (nationalisation) Order , 1972 . The bank started its activities initially with an authorised capital of Taka 3.00 crore and paid up capital of Taka 1.00 crore . At the initial stage , it had three hundred and forty nine branches . The number of the branches of the Bank stood at seven hundred and seventy six , in early 1998.<sup>49</sup>

**MANAGEMENT :** Like other nationalised commercial banks a Board of Directors is entrusted with top management and policy formulation of the bank . The Directors of the Board are appointed by the government . The Managing Directors is also a Director of the Board. The Board is headed by a chairman appointed by the government. The Managing Director is the chief executive of the bank . He runs the administration with the help of the general managers and other executives of the bank. The head office of the bank is located at Dhaka . It has regional offices at the district head quarters for supervision of the activities of the branches which are the operating offices scattered all over the country.<sup>50</sup>

**FUNCTIONS :** Agrani Bank performs the following broad functions . The bank (a) mobilises savings of the people and keeps all types of deposit accounts (b) lends



specially for productive activities and generally for other commercially and economic needs (c) handles both export activities (d) provides banking services to common people through the extension of the net work of branches in both rural and urban areas (e) introduces new and modern banking services to the country.<sup>51</sup> Comparatively, the performance of this bank is good but it is observed that the trade union disease also has affected this bank.

**(d) RUPALI BANK**

Rupali Bank came into existence under Bangladesh Bank (nationalisation) Order 1972. At present, it is the fourth largest bank in Bangladesh. The head office of the bank is located at Dhaka. The affairs of the bank are managed by the head office through its nine functional divisions and two other departments. The nine divisions are (a) Administrative Division (b) Advance Division (c) Planning and Development Division (d) Control Accounts Division (e) Inspection and Audit Division (f) Rural Credit Division (g) Establishment Division (h) Internal Division and (i) Dead Stock, Stationery and Record Division. The two other departments are (a) Law Department and (b) Engineering Department. At present, the bank has five hundred and thirty eight branches including one foreign branch in Karachi.<sup>52</sup>

**MANAGEMENT :** The Board of Directors is responsible for the top management and policy formulation of the bank. The Board consists of six directors including the Managing Director and a Chairman. All of them are appointed by the government. The Managing Director who is a professional banker is the chief executive of the bank. At the head office, there are two general managers eight, deputy general managers and fifteen assistant general managers to help the Managing Director to manage and supervise the activities of the bank. There are three divisional offices and eighteen regional offices having intermediary control and supervision over the branches spread all over Bangladesh.<sup>53</sup>

**FUNCTIONS :** The primary responsibilities of the Bank include conduct of all business of commercial banking. The government has also entrusted it with additional functions of rendering agency services to the government in food procurement scheme

through the net work of its branches all over the country . The Rupali Bank also gives credit to agriculture sector and loans for housing, building and constructions , transport for the healthy development of the country's economy.<sup>54</sup> However, from practical experience, it has been observed that this bank is one of the problematic banks and widely criticised for mismanagement and bad reputation for trade unionism . In the current fiscal year the bank has failed to get profit and many irregularities are found in the activities of this bank .

### **DEVELOPMENT FINANCIAL INSTITUTIONS IN BANGLADESH**

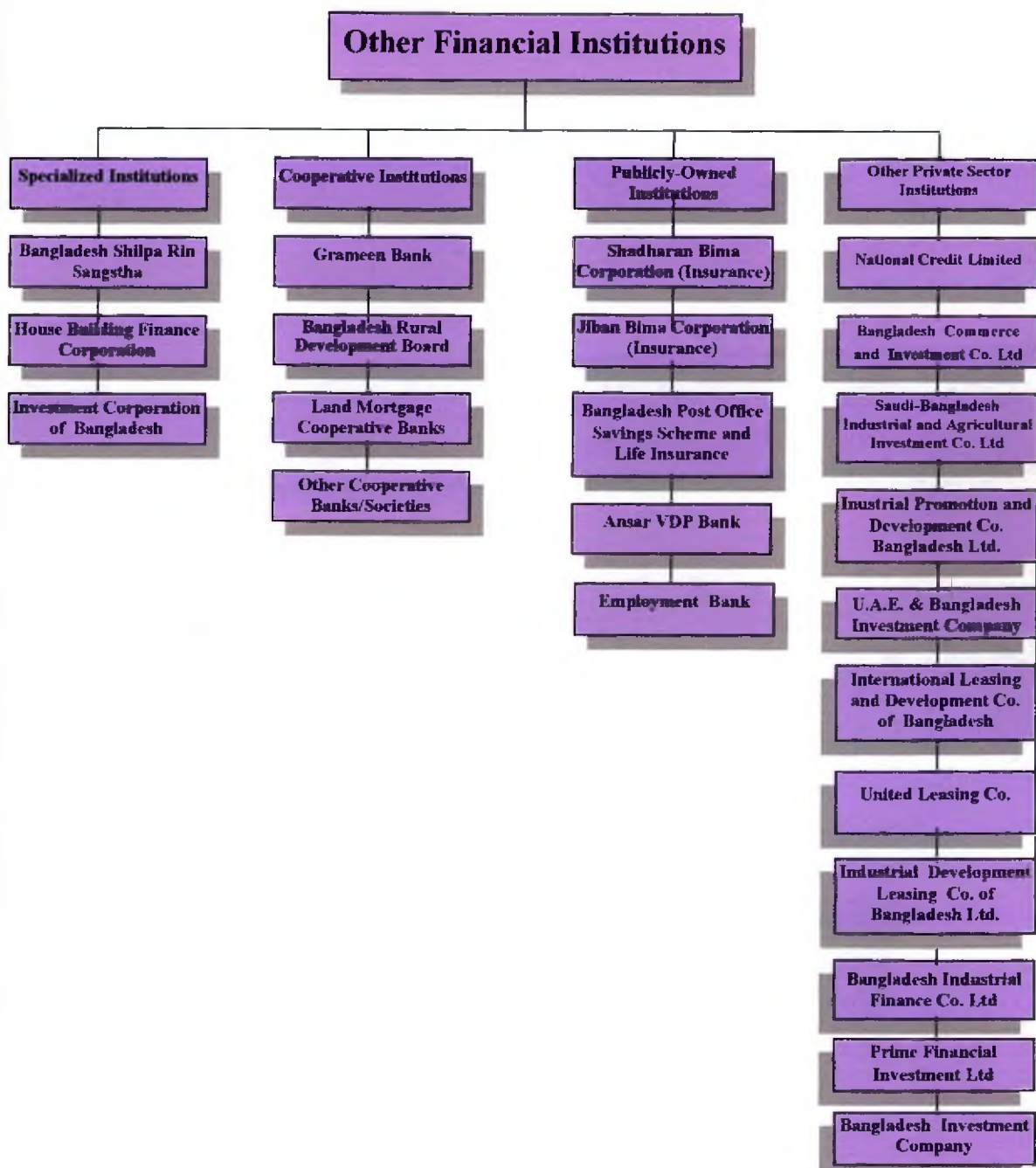
Banking system in Bangladesh is similar to that of British system . So like the British banking system there exists a few commercial banks with a large number of branches all over the country . There are also some specialised financial institutions with branches at important places of the country .The sole objectives of these specialised financial institutions are to finance special sectors of the economy for development.<sup>55</sup>(Figure-19 shows different kinds of non-banking financial institutions working in Bangladesh).

#### **(a) BANGLADESH SHILPA BANK**

The Bangladesh Shilpa Bank or BSB was established under the BSB Order , 1972 taking over the assets and liabilities of the former Industrial Development Bank of Pakistan , and Equity Participation Fund falling in the area of Bangladesh in 1971 . The authorised capital of the Bank is Taka fifty crore out of which Taka fifteen crore has been subscribed by the government . The objective of the bank is to provide credit facilities and equity support to industrial concerns in Bangladesh.<sup>56</sup>

**MANAGEMENT :** The general management and administration of the bank and business affairs of the bank are vested in the Board of Directors . The Board consists of eight Directors includes the Managing Director . All of them are appointed by the government . The Board is headed by a chairman appointed by the government . The Managing Director is the Chief Executive of the bank . The head office of the bank is located at Dhaka. The bank has thirteen branches in the following Districts of

**FIGURE -19**  
**BANKING STRUCTURE IN BANGLADESH**





Comilla , Chittagong , Rajshahi , Khulna, Sylhet , Noakhail , Rangpur, Bogra , Jhenidah and Barisal.<sup>57</sup>

**FUNCTIONS :** Although it is a specialised financial institution , the Bangladesh Shilpa Bank is authorised to carry on many kinds of banking business . The main functions of the bank include (a) advancing medium term and long term loans for the specific purposes of setting up of industries , both in the public and private sectors . Loans are given both in local and foreign currency . The maximum period of loans is generally twenty years . In special circumstances the Board of Directors may extend period of loan (b) under writing the issue of stocks loans and debentures by industrial concerns and out right purchase of shares for the sole purpose of meeting equity needs of these concerns (c) providing short term loans for working capital requirements of the industrial project which have received long term loans from the bank (d) receiving deposits and keeping cash accounts .The bank provides financial assistance to all industrial projects both in private and public sectors . In the private sector financial assistance is extended to those projects for which monetary provisions are generally indicated in the industrial investment and schedule published by the government from time to time . The bank through its own appraisals is to be convinced that the projects are technically , financially , commercially and economically viable . The managerial ability and credit worthiness of the sponsors of such projects must also be satisfactory in the opinion of the bank.<sup>58</sup> However , as a specialised bank of the country, this bank has been criticised by the industrialists ,business circles for failure to finance properly in the field of industrial development .

**(b) BANGLADESH SHILPA RIN SANGSTHA**

Bangladesh Shilpa Rin Sangstha was formed in 1972 by amalgamating former BICIC , NIT and ICB . The Sangstha has authorised capital of Taka 20 crore subscribed and fully paid up by the government . The head office of the Sangstha is located in Dhaka . It has 4 branch offices one each in Chittagong , Rajshahi , Khulna and Sylhet . The main objective of the Sangstha is to provide credit facilities and other assistance to



industrial concern and encourage and broaden the base of industrial investment in Bangladesh.<sup>59</sup>

**MANAGEMENT :** The Board of Directors is responsible for top management and policy formulation of the Sangstha . The Board consists of nine directors appointed by the government . The Managing Director is the Chief Executive of the Sangstha . He is assisted by two general managers and four deputy general managers to manage the affairs of the Sangstha . The Sangstha has four main divisions namely (a) Administration Division (b) Ends use Division (c) Operation Division (d) Technical and Engineering Division . Under these divisions there are twelve departments.<sup>60</sup>

**FUNCTIONS :** The main functions of Bangladesh Shipa Rin Sangstha are (a) to provide medium and long term credit facilities to industrial projects with fixed cost to Taka 20 lakh and above to the private sector . It provides for financial assistance in both foreign and local currencies (b) to provide under writer or bridge financing or debentures financing assistance to public limited companies (c) to undertake industrial promotional activities aiming at creating interest amongst prospective investors . It also offers incentives including higher loan proportion for setting up industries in less developed areas (d) to provide professional counsel to entrepreneurs regarding sound and viable investments .The primary functions of the branches of the institution are promotional activities and ends use work is followed up and monitoring of the projects financed by the institution.<sup>61</sup> This financial institution is most ignorant as far as industrial activities are concerned . The aim and objectives of this financial institution has been totally failed for wrong policy of the past governments of Bangladesh .

#### **(c) BANGLADESH KRISHI BANK**

Bangladesh Krishi Bank came into existence under BKB order , 1973 taking over the assets and liabilities of former Agricultural Development Bank of Pakistan falling in the area of Bangladesh in 1971 . The authorised capital of the bank is Taka 30.00 crore of which Taka 25.00 crore is paid up and fully subscribed by the government . The head office makes policy of bringing institutional sources of credit to the

different region of the country . The bank has increased its branches very rapidly in the recent years . The number of its branches stood at eight hundred and thirty two on 31 , March , 1998. Out of them only eighty nine branches are in the urban areas.<sup>62</sup>

**MANAGEMENT :** General supervising and direction of the affairs and business of the bank are vested in a Board of Directors appointed by the government . The Board consists of seven members including the Managing Director . On the Board three members are non official and other members represent different concerned Ministries. The Chairman of the Board is appointed by the government from among the non official members of the Board . For smooth functioning of the bank , its head office is organised into a number of divisions and departments . To ensure proper supervision of branches and facilitate better administration of credit , branches are grouped and placed under a Regional office in charge of Regional Manager usually to the rank of a Chief Manager.<sup>63</sup>

**FUNCTIONS :** Bangladesh Krishi Bank or Bangladesh Agricultural Bank was set up with a view to increase agricultural production . So its main function is to provide credit facilities to individuals and corporate bodies engaged in crop production . But it also provides credit facilities for the development of horticulture, forestry and fisheries . The bank helps agro-based cottage industries with financial and technical assistance the BKB also receives deposits , issues letters of credit and performs all other general banking business . In conformity with government policy the bank has intensified loaning for fisheries aquaculture and livestock development . The Bangladesh Krishi Bank also extends loans for development of tea gardens.<sup>64</sup> However , this bank is highly criticised for malpractice of management and corruption in disbursing loan to the poor people of rural areas .

#### **(d) BANGLADESH HOUSE BUILDING FINANCE CORPORATION**

The Bangladesh House Building Finance Corporation was established under the Presidential Order, 1973 with an authorised capital of Taka 10,00 crore subscribed by the government . The main source of its working capital is the sale of debentures to

Bangladesh Bank , the BIMAN Corporation and the nationalised banks . The head office of the Corporation is located at Dhaka.<sup>65</sup>

**MANAGEMENT :** The affairs of the Corporation is managed by a Board of Directors . The Board consists of six members including the Managing Director appointed by the government . The Managing Director is the chief executive who manages the affairs of the corporation . In order to facilitate loaning operation the corporation has recently set up one more zonal office at Dhaka , thus raising the number of zonal offices to five. The corporation has also twelve regional offices at District level.<sup>66</sup>

**FUNCTIONS AND INVESTMENT CRITERIA :** The House Building Finance Corporation is the only institution of its kinds in the country to provide financial assistance to the Individuals for the construction repair and remodelling of residential house and apartments in the cities , towns and thana headquarters . The Corporation gives two kinds of loans namely normal loan and multi-storied loan . In case of normal loan , Taka 2.55 lakh is advanced to a member of a family for a self contained unit m while the maximum loan under the muti storied housing scheme is Taka 6.47 lakh for four storied building with a covered area of 1000ft in each floor and Taka 5.60 lakh for a floor area of 800 feet in each floor excluding staircase . For normal loan the maximum repayment period is twenty years and for multi storied loan twenty five years . The rates at interest at present are 13% and 16% for normal loan and multi storied loan respectively.<sup>67</sup> This financial institution is notorious for taking bribe in any loan sanctioning case . It is very unfortunate that the lowpaid government employees do not get any sort of house building loans with out giving bribe to the personnel of this office . The loans in most of the cases are sanctioned not on the basis of quality and necessity but on the basis of bribe and nepotism or telephonic order from top officials .

#### **(e) INVESTMENT CORPORATION OF BANGLADESH**

The investment Corporation of Bangladesh came into existence under the Investment Corporation of Bangladesh Ordinance ,1976 . The main objectives of the corporation are as follows (a) to encourage and broaden the base of investments (b) to develop the



capital market (c) to mobilise savings and (d) to deal with matters ancillary thereto . The corporation in its operations acts on commercial consideration with due regard to the interest of industry and commerce, investment climate , capital market depositors investors and to the public interest generally . The authorised capital of the corporation is Taka 20 crore divided in to 20 lakh shares of Taka 100 each.<sup>68</sup>

**MANAGEMENT :** The general administration and supervision of the corporation is vested in a Board of Directors . The Board consists of eleven members including the chairman and the Managing Director .The Chairman , the Managing Director and two Directors are appointed by the government . The Seven Directors are (a ) a nominee of Bangladesh Bank (b) Managing Director , Bangladesh Shilpa Bank (c) Managing Director , Bangladesh Shilpa Rin Sangstha (d) Directors selected from amongst public share holders . There are twelve departments in the organisation . These are (1) Operation Department (2) Economic and Business Research Department (3) Administration Department (4) Accounts Department (5) Law Department (6) Investors Department (7) End use Department (8) Audit and Methods Department (9) Shares Department (10) Secretary's Department (11) Mutual fund Department and (13) Unit Certificate Department.<sup>69</sup>

**FUNCTIONS :** The Investment Corporation of Bangladesh or the ICB performs a variety of functions for the development of commerce and industry in the country . The main functions are (a) under writing public issue of shares : as per the present policy of the government at least 50% of the paid up capital of public limited companies has to be offered to the public for subscription . The ICB underwrites the public issue of such shares under consortium arrangement with nationalised commercial banks , Sadharan Bima Corporation and financial institutions (b) Debenture Finance : the corporation purchases corporate debentures to meet a part of the local currency needs of the industrial enterprises in consortium with nationalised commercial banks financial institutions and Sadharan Bima Corporation. The ultimate aim of debenture finance is to develop a bond market in the country.(c) Bridge Finances : through bridge finance investment corporation and the co-under writers advance money to the companies which promote new industries . Subsequently , when



the project goes in to commercial and profitable operations , shares are floated in the market through publication of prospectus and the bridging loan is adjusted against the sale proceeds of the shares (d) Investors scheme : Investment Corporation maintains investors accounts for purchase and sale of corporate securities . It provides credit facilities at considerable rate of interest . Through investors scheme savings of the people of small and medium means are mobilised of eventual investment in productive industrial sector . In addition ICB provides its Management services and counsel to the investors in designing and managing investment portfolio free of cost .(e) The investment Corporation floats 'ICB Mutual Fund' from time to time . It also issues certificates in order to mobilise domestic resources.<sup>70</sup>In Bangladesh ,it is known to all concerned that the ICB has been facing problems in their day to day business by the political pressure group . The political posting of the chairman of the corporation in the previous period has in fact ruined the image and managerial capability of the office .

#### **BRIEF PICTURE OF DFI'S IN BANGLADESH**

The Development Financial Institutions or DFI have been facing serious liquidity crisis during the last one year and industrial GDP declined by 3.3 percent. The GDP was 5.5 percent in the financial year 1996-97. No long term loan was provided in 1997-98 from four DFIs Bangladesh like Shilpa Bank or the BSB, Bangladesh Shilpa Rin Sangstha or the BSRS, Bangladesh House Building Finance Corporation or the BHBFC and Bangladesh Krishi Bank or the BKB . Not only this, none of the the DFIs able to show any development in loan recovery nor lodge any case with the Bankruptcy Court within six months time since its inception in February,1998. Among the four DFIs Bangladesh Krishi Bank shows highest performance by recovering Taka 880 crore in 1997-98 . While the BSB , the BSRS and the BHBFC have experienced worst performance compared with the previous years recovery .The DFIs excluding the BSRS were not able to make any operational profit in the year 1997-98.The BSRS has earned a pre tax profit of Taka 4.45 crore during the last financial year . Out of the profit Taka 1.25 crore was provided for payment of in

come tax and Taka 70 lakh was paid to the national exchequer . The BKB incurred huge loss amounting more than Taka 100 crore .The losses of the BSB and the BHBFC are yet to be ascertained . In the year 1996-97 the BSB could not achieve target in outstanding loan recovery . The cash recovery of the BKB was Taka 113.70 crore against a target of Taka 160 crore. In the same year , the BSRS performs significant recovery of dues and overdue amounting Taka 40.47 crore against a target of Taka 39.40 crore . The liquidity position of the institution is better than others , says recently Mahmudul Karim , MD of the BSRS.In the mean time , the BSB has served notice to its top twenty borrowers for adjusting Taka 500 crore of their overdue within three months time. Those are facing the notice are Bangladesh Solvent Oil Ltd.(Pabna) for Taka 51 crore , Khaleque Textile Mills Ltd ,( Narayangonj) for Taka 43 crore , Zahid Ware and Alldie Industries ( Bogra) for Taka 27 crore , Delta Millers Ltd ( Mymenshig) for Taka 26 crore , Faridpur Textile Mills Ltd ( Jessore ) for Tk 23 crore , National Electric Co Ltd ( Dhaka ) for Taka 22 crore , Al-Farook Textile Mills Ltd (Gazipur) for Taka 21 crore, Rahman Chemicals Ltd (Narayangonj) for Taka 20 crore , Bangladesh Red Crescent Society for Taka 14 crore, Banani Complex Ltd ( Chittagong) for Taka 18 crore, Osman Industries Ltd (Narayangonj) for Taka 18 crore .Bay Trawling (Dhaka) for Taka 17 crore, Quyan Dyeing & Printing Mills Ltd (Comilla ) for Taka 16 crore ,Quashem Textile Mills Ltd (Gazipur) for Taka 14 crore , Excelsior Shoes Ltd (Chittagong) for Taka 13 crore , Rupayam Textile Mills Ltd (Comilla) for Taka 12 crore , Crescent Textile Mills Ltd (Pabna) for Taka 11 crore , Doulatpur Leaf Tobacco Co Ltd ( Kushtia ) for Taka 11 crore and Specialised Jute Yarn and Toyel Manufacturing Co ( Khulna) for Takas 11 crore . Economic experts say that the main reason of liquidity crisis in DFIs is heavy public sector borrowing . As a result , crowding out effect took place in the economy which was more competitive than ever before . By this time five new commercial banks, including three foreign banks , six insurance companies , one credit rating agency and one private sector housing company entered the market but the contribution of this sector to GDP remained at an unimpressive level of about two per cent. During the year 1996-97 the BSB received Taka 150 crore as loan from

Bangladesh Bank . The BKB received Taka 100 crore from Agri-subsidy Fund and the BSRS issues debentures of Taka 15 crore in the capital market but last year the DFIs did not receive any loan or grant from the national ,regional and international funding agencies.<sup>71</sup>( Table-9- presents the list of loan defaulting government owned enterprises. )

#### **BANKING SECTOR REFORM AGENDA : CRITICAL ANALYSIS**

Bangladesh has a small and undeveloped financial sector . It contributed 2.1 percent to GDP in 1989, declining to 1.8 percent by 1992 , the sector is growing slower than GDP. In terms of the usual measure of financial deepening , however , there was a small gain ,from 29 percent in the FY 89 to 33 percent in the FY 93 while the extent of bad debts in the nationalised commercial banks is now known with accuracy , they are believed to be substantial . If these bad loans are also bad investments , national capital or output ratio will have been adversely affected , lowering the rate of economic growth . If the annual impact of bad investments were compounded over the twenty three years since independence , the overall effect on economic growth would be substantial . The main challenge for Bangladesh financial system for the near future is to improve the quality of intermediary and resource allocation to contribute to a more rapid rate of economic growth and higher levels of savings and investment.<sup>72</sup>

Until the early 1980s, the government owned , controlled and directed Bangladesh banking sector was involved in the financial system with the objective of allocating funds to priority sectors . Loan recovery initiative was not emphasised because loans were collateralized and considered ultimately collectable . The quality of financial intermediary , judged by loan recovery rates , was dismal . Bangladesh had virtually no private banking and the role of the private sector was considered secondary . In the early 1980s , the government began to reform the financial sector . Interest rates on deposits were raised to provide a positive real return on deposits, private banks were allowed to enter , the two NCBs were denationalised and another nationalised bank was converted into a limited liability company and partially privatised .<sup>73</sup>



TABLE-9

## DEFAULTING LOANS OF DIFFERENT SECTOR CORPORATION

| Name of Corporation                 | Total Loan     | Bad Debt       |
|-------------------------------------|----------------|----------------|
| <b>INDUSTRIES:</b>                  |                |                |
| BTMC                                | 634.12         | 550.33         |
| BSEP                                | 798.65         | 477.95         |
| BSFIC                               | 194.29         | 29.46          |
| BCIC                                | 140.80         | 37.03          |
| BFIDC                               | 0.00           | 0.00           |
| BJMC                                | 1623.76        | 77.27          |
| <b>SUB-TOTAL</b>                    |                | <b>1172.04</b> |
| <b>UTILITY:</b>                     |                |                |
| BGMC                                | 0.01           | 0.01           |
| BPDB                                | 31.53          | 1.48           |
| DESA                                | "              | "              |
| CHITTAGONG WASA                     | "              | "              |
| DHAKA                               | "              | "              |
| <b>SUB-TOTAL</b>                    | <b>31.54</b>   | <b>1.49</b>    |
| <b>COMMUNICATION AND TRANSPORT:</b> |                |                |
| BSC                                 | 117.42         | 76.91          |
| BIWTA                               | 0.10           | 0.01           |
| BBC                                 | "              | "              |
| BRTC                                | 12.08          | 12.08          |
| NPA                                 | "              | "              |
| MPA                                 | "              | "              |
| <b>SUB-TOTAL</b>                    | <b>129.51</b>  | <b>89.00</b>   |
| <b>COMMERTIAL:</b>                  |                |                |
| BPC                                 | 492.25         |                |
| BJC                                 | "              |                |
| TCB                                 | "              |                |
| <b>SUB-TOTAL</b>                    | <b>492.25</b>  |                |
| <b>AGRICULTURAL AND FISHERIES:</b>  |                |                |
| BADC                                | 192.43         |                |
| BFDC(FISHERIES)                     | 0.48           |                |
| <b>SUB-TOTAL</b>                    | <b>193.91</b>  |                |
| <b>SERVIVE AND OTHERIES:</b>        |                |                |
| BSCIC                               | 13.32          |                |
| BFDWT                               | 45.40          |                |
| BWDB                                | 3.99           |                |
| DTB                                 | 5.07           |                |
| BPRC                                | 1.51           |                |
| BFDC(FILM)                          | 0.06           |                |
| BSB                                 | 0.25           |                |
| BSCIC                               | 13.32          |                |
| REB                                 | 0.27           |                |
| <b>SUB-TOTAL</b>                    | <b>5.87</b>    |                |
| <b>GRAND TOTAL</b>                  | <b>4298.70</b> |                |

Source : Ministry of Finance of Bangladesh.

Recognising the need to reform the financial sector , the Bangladesh Government appointed a National Commission on Money , Banking and Credit to undertake a major study of the financial sector in late 1984 .The Commission made its recommendations for financial sector reform in 1986 . The problem of loan delinquencies was recognised as a key issue that needed to be addressed . Restoring the financial strength of banking institutions and introducing more flexibility into the financial system were identified as important strategies to revive the banking sectors crucial role in financial intermediary and ensure its stability .In 1990 , the Bangladesh Government started with a five year financial sector reform project with the following ten agenda .

- (a) to introduce a more liberal interest rate policy
- (b) to introduce and implement an improved loan classification system
- © to introduce capital adequacy requirements and enforce these on the banking system
- (d) to develop improved supervision systems for the banks and use such systems to manage short falls in capital adequacy and to identify problem areas within the banking system
- (e) to develop money market instruments and initiate the auctioning of a short term money market instrument
- (f) to improve the operation of the capital markets and take the regulatory steps needed to improve such markets .
- ( g) to clean up the jute debts in the commercial banking system and eliminate any risks to the commercial bank portfolio
- (h) to reform the NCBs in a three steps process
  - (1) to recapitalize the NCBs
  - (2) to improve their operating systems
  - (3 ) to develop strategic approaches to their future development
- (i) to improve loan recovery through introduction of better legislation and courts to collect delinquent loans , improve the bankruptcy law to ease the problems of liquidating companies , improve the flow of credit information for new loans , and require the NCBs to improve their debt collection ;

(j) to initiate an immediate program of improvement in manpower through upgraded training for bankers .

Policy changes under this program have introduced flexibility in interest rates on deposits and loans and improved prudential regulations and supervision of banks . The impact on the quality of intermediary is , however , not known yet and a private industrialist still can not obtain financing for a large project without having to approach a government owned commercial or development bank .<sup>74</sup>

It is apparent from the above discussion that the NCBs can improve their efficiency and profitability to restore viability , through the improvement of their management , organisation, credit extension procedures, financial management , accounting and information of managers . Thus the NCBs can monitor and evaluate against targets and can offer rewards and penalties to the staff accordingly to motivate . Credit criteria for lending should be strengthened with more emphasis placed on a borrowers credit worthiness than on his collateral . Monitoring and collection of loans needs to be streamlined . Uniform accounting standards for branches and reconciliation of inter branch accounts are necessary . In this regard effective internal auditing should be introduced.<sup>75</sup>

## **FINANCIAL DEVELOPMENT & ECONOMIC OUTLOOK**

Financial development is a prerequisite for economic development . With very low levels of both domestic and national savings and together with rapid population growth Bangladesh has the need to mobilise its financial resources more effectively to make resources available for investment .The Mckinnon and Shaw model in 1973 of financial development states that development of a country's financial structure is a precondition for economic growth , but the two authors provide alternative theories of the transmission mechanism by which financial conditions affects savings and investment. According to Professor Mckinnon , economic units must accumulate money prior to investment. Mckinnon's hypothesis emphasises the importance of money broadly defined as the primary vehicle through which savings occurs .



Complementary hypothesis implies that domestic saving shares a positive relationship with the demand for real broad money.<sup>76</sup>

According to Shaw, economic units must not necessarily accumulate money prior to investment. The financial deepening hypothesis asserts that saving and investment may occur through the accumulated money prior to investment but may occur also through the accumulation of non money assets. This hypothesis implies a negative relationship between domestic savings and demand for real broad money, suggesting a substitution from money to other non money financial assets as the primary repository of domestic savings. The importance of financial institutions for rapid growth is undisputed.<sup>77</sup> A comprehensive study by King and Ross in 1992 from across more than one hundred developed and developing countries over the 1960 - 1989 period provides compelling evidence that economic growth is dramatically dependent on financial sector size, private sector banks credit to private enterprises and interest rates. The larger the financial sector in the context of the overall economy, the greater the share of lending by depository rather than central banks and the greater the share of credit to the private rather than public sector, the greater is the rate of economic growth. These factors increase growth by raising both the amount and efficiency of investment.<sup>78</sup> Some other scholars in 1994 also investigate the relationship between the volume of demand deposits and economic output in developing economies. Many authors have accepted the theory that financial development is a prerequisite for economic growth in underdeveloped and developing nations and have emphasised the important role assumed by the commercial banking system as an intermediary between savers and investors. Although much empirical analysis has been presented which supports the financial development theory, most has been indirect in nature.<sup>79</sup>

Many researchers recently in 1994 empirically examine the determinants of income velocity of money in Bangladesh and find that proxy for financial development meaning demand deposits over time deposits, affects velocity negatively, implying that the development of financial institutions in Bangladesh remains at a primitive stage. More recently, some researchers in 1996 find evidence for Mckinnon's

complementary hypothesis for Bangladesh, suggesting that Bangladesh financial system has not yet achieved a level of development whereby alternative non monetary assets have replaced money as the primary repository for domestic savings. The researchers show that private sector banks are more efficient than NCBs in Bangladesh. The efficiency of existing commercial banks in Bangladesh should be improved so that these banks can accelerate the pace of economic development by modernising the domestic savings and channelling these savings to productive ventures. The relative merit of private banking and the national commercial banks and its role in the development of Bangladesh can be seen in the following ways.

First, private sector banks are viable alternatives to the inefficient NCBs. At present, potential investors are fully aware of the overvaluation of the NCBs. At present potential investors are fully aware of the overvaluation of the NCB loan portfolio and hence overstated net worth and have little interest in purchasing shares. For privatisation to occur the NCBs need to be restructured so as to attain a reasonable ability to function as business like operations. The sale of equity shares in the NCBs to the public through the capital market should be viewed positive benefits both for the government and for the market itself. The government would gain revenue from the sales and the BB would no longer have to use its limited resources to subsidise the NCB operating costs. The offering of the NCB equity shares would increase the volume and variety of shares available for trading thereby broadening the securities market.<sup>80</sup>

Second, funds are mobilised primarily through the banking system in the formal financial sector. There is no secondary market for government securities, no market for corporate debt and the equity market is small. Hence there is preponderance of debt financing relative to equity financing. The banking system cannot provide for large scale long term funds. Most deposits in the banks are short term. The banks are limited in their ability to provide for long term lending because of the large risk factors associates with short term borrowing and long-term lending. Furthermore the banks have a tendency to make loans based on collateral or personal relationships, not on projected cash flows. As a result most companies are highly leveraged and small

and medium scale enterprises are virtually unable to obtain financing. Equity market are in a rudimentary state and have yet to fulfil their potential to foster efficiency in the mobilisation and allocation of long term finance. Increases in long term interest rates would provide increased incentive for the capital market to play an expanded role in financial investment to augment commercial bank lending.<sup>81</sup>

Third, a risk averse investor would expect a positive relationship between risk and return from a financial investment in a capital market. Varley in 1992 finds that this positive risk return relationship does not exist for Bangladesh. The low risk National Savings Certificates offer a yield ( 16.6% APR) which is higher than the yield offered on high risk equity investment (16.0% ) and this difference is larger on an after tax basis because NSC yields enjoy tax subsidies while equity returns do not. Given a negative relationship between risk and return it is paradoxical to observe that most businesses in Bangladesh have higher leverage ratios. This paradox exists because of regulatory laxity on the punishment of loan defaulters. It is expected that with a proper enforcement of a loan recovery act the inverted risk return relationship will become direct and will encourage businesses to float their shares in the capital market.<sup>82</sup>

Fourth, reform of the financial system is a crucial aspect in the development of the Bangladesh equity capital market. The system reform would increase the supply of loan able funds. The securities of privatised the NCBs become available for trading to increase the scope of equity financing as well as privatisation of the NCBs would help alleviate the current problem of a lack of securities which, in turn would foster further financial market development. Deregulation would also help to convince the private sector of the government commitment to developing financial markets and increase investors confidence in the equity markets. Over time it is expected that private business would be able to finance expansion by publicly selling debt and equity securities. However development of the equity market is dependent on financial market reform and expansion of private banking.

Fifth, the establishment of flexible interest rates would give both the private banks and the NCBs greater scope to improve and expand their aspects of the banking



industry as cost of funds credit risk and local comparative pressures will provide both opportunity and risk to the institutions involved . It is anticipated that private banking will expand as a result of private bankers sharper competitive instincts and superior experience . This competitive opportunity should make the issuing of additional private bank charters more attractive and thus increasing the financial and political strength of the private banking sector .The likely expansion of private banking should not be mistaken however for a guarantee of security and continued existence of all banks private or nationalised . In a competitive environment where banks are required to meet financial soundness such as capital adequacy , some banks private or government may fail and go out of business . It is recognised by all experts that reward and penalties are inseparable from a well functioning competitive market environment . For banking sector the principle 'just as profits are the reward for efficiency , the failures are the penalty for inefficiency' should be established .

Sixth , without a substantial improvement in the NCBs operations and financial soundness, it would be difficult to sell them to private investors. Improved supervision is also necessary to lessen the risk of bank failure or losses to depositors. Privatisation of the banking system and its consequent increase in the number and soundness of loans made to private entrepreneurs would increase the relative size of the private economy purse . In particular , it would increase the size of that portion of the private economy comprising publicly traded companies, that is accessible to prospective individual investors not simply members of families or closed groups. Seventh , a private banking system is also essential to the development of private enterprise firms as fully independent , since government owned commercial banks are generally able to and frequently do , exert excessive control over enterprises to which they lend.<sup>83</sup>

#### **CURRENT PICTURE OF BANKING SECTOR**

The formal banking sector in Bangladesh includes . (a) Bangladesh Bank as the central bank (b) Twenty two commercial banks , including four nationalised commercial banks two denationalised private banks ten domestic private banks and

six foreign private banks (c) Four government owned specialised banks two of which have targeted the agricultural sector and the two others for industry (d) One government owned investment company (e) Four non banking financial institutions (f) Two leasing companies (g) Two large government owned insurance companies (life and general saver (private insurance companies including one foreign owned) and (h) the Dhaka Stock Exchange . As it has been already mentioned that the roots of Bangladesh Bank date back to Reserve Bank of India out of which the State Bank of Pakistan was created in 1948. Bangladesh Bank took over central banking functions from the state Bank of Pakistan at the end of 1971 . The Bangladesh Bank order contains of substantial power to formulate and implement monetary and supervisory policies and to advise the government on economic policy .The Banking Companies Act in 1991 and Financial Institutions Act in 1993 specify a wide range of prudential requirements and extend the power of the BB for issuing directions to banks and financial institutions .The financial health of the BB is good without any open or hidden losses . Its lending to the government is moderate . The BB operates the country's payments system reasonably well even with a poor transport and communication infrastructure . However the BB supervision is rather weak because of an inadequate number of bank auditors . There is a strong need to continue to strengthen BB as it would otherwise not be capable of supervising an expanding and increasingly liberalised banking system.<sup>84</sup> However deposits are increased in the year of 1997 for various reasons . During the period of the financial sector reforms deposits have grown at rates of ten to fifteen percent per annum while advances rose first and then dropped sharply in 1997 . The drop was probably caused by loan provisioning and agricultural credit write off rather than a decline in the volume of advances . The commercial banks dominate the financial system of Bangladesh .In Bangladesh as mentioned earlier , four nationalised commercial banks dominated the banking system with sixty three percent of bank deposits and fifty three percent of advances in 1993. These banks have lost market share between 1986 and 1993, in deposits from sixty nine percent to sixty three percent and in advances from fifty six percent to fifty three percent .They continue however to exert market power over the

banking system . The NCBs although have helped to further the government's socio-economic objectives by expanding their rural branch network and lending to agriculture lending to small scale and cottage industries and funding state owned enterprises.<sup>85</sup>

#### **PRIVATE BANKS : MOVING FORWARD**

The domestic private banks which include two denationalised banks, increased their market shares between 1986 and 1993 in deposits from twenty percent to twenty seven percent and in advances from fourteen percent to twenty five percent . These banks expanded their network by thirty three branches comprising eighty five percent of the thirty nine new branches created during fiscal year 1992. The domestic private banks growth is more impressive if data for the two denationalised banks are excluded . The denationalised banks share many of the same problems as the NCBs have. The domestic private banks offer higher interest rates to attract deposits and charge higher rates on loans. Their service is considered better than NCBs and they have expanded into fee based and international services . These banks compete for a limited number of creditworthy borrowers but not with the NCBs for priority of public sector lending . As the BB's supervision improves , however problems in the private banks are also emerging including insider lending . They also face problem of capital adequacy . The foreign banks lost market share in deposits from six percent in 1986 to five percent in 1993 , partly because of the failure of Bank of Credit Commerce International or BCCI now Eastern Bank and partly because they offered lower deposit rates .These banks cater to multinational , international transactions and high net worth to individuals .The government and the public sector accounted for twenty three percent and the private sector seventy seven percent of deposits in the FY 93 , about the same distribution as in the previous year . The government and public sector increased their share of bank credit from thirty one percent in the FY ,94 to thirty nine percent in the FY, 97, reducing the private sectors share commensurably . Over the medium term the share of public credit has remained more or less unchanged.(Table -10 gives the number of branches for the different types of



banks) . This figure indicates that there are a number of large banks followed by the foreign and private banks which have much more limited branch networks.<sup>86</sup>

#### **THE NCB & WRONG OUTLOOK**

The NCBs have branch networks average nine hundred branches which are extremely large in number. The networks have emerged from the years of management concentration of deposit mobilisation and providing banking services to rural areas. The NCBs drive to expand their deposits arise from the continual need to provide fresh funds since an environment of poor loan recovery . As deposits are clearly associated with branch numbers , while advances are industry and location specific , the need to expand deposits leads directly to expanding branch networks .The urban branches are better sources of deposits than rural branches so the primary objective is to increase urban branches . However the central bank policy required that the rural branch network can be expanded at the same time to provide banking services in such areas. These two factors in fact influenced the policy makers to increase the NCB branch network rapidly.<sup>87</sup> The two denationalised banks have much smaller branch networks than the NCBs . Their rural networks have been cut back since denationalisation . Of the specialised banks , two have large network and one have a very small network . The two Agricultural Credit Banks have more than one thousand branches . The domestic private banks have in average fifty branches and foreign banks have only four . This structure of the banking system is very clear . The government banks have very large urban branch networks and the denationalised banks have smaller network . Apart from the very large rural networks of the NCBs , their urban networks are 7-8 times larger than that of the other banks . A large branch network is important for collection of deposits and to provide the public with general banking services. The companies and people want to maintain deposits at a convenient branch .So the number and location of branches are an essential element of any strategy to mobilise deposits . The massive branch networks reflect the explicit of NCB strategy of deposit mobilisation . The growth of the branch network has been an important element in the growth of deposits over the past fifteen years but it created another

**TABLE-10**  
**NUMBER OF VARIOUS KINDS OF BANKS & BRANCHES IN BANGLADESH**

| Type           | Number    | Branches    | Average Branches/<br>Banks |
|----------------|-----------|-------------|----------------------------|
| NCB            | 4         | 3617        | 904                        |
| Denationalized | 2         | 556         | 278                        |
| Other Private  | 18        | 1125        | 26                         |
| Specialized    | 4         | 1173        | 293                        |
| Foreign        | 14        | 29          | 2                          |
| <b>Total</b>   | <b>42</b> | <b>5944</b> | <b>256</b>                 |

Source: Bangladesh Bank

problem for the banking sector .88 (Table-11 shows the percent of distribution of urban and rural branches of Banks )

#### THE LARGE NETWORK OF NCBS

The large branch network is very difficult to monitor and control .The NCBS have shown to date , limited capacity to control their branch operations . The poor control of the branches is reflected in the high costs to the banks of the inter branch reconciliation balances and the high levels of bad debt . The NCBS have not effectively decentralised control of the branches so that the span of control required of the head office far exceeds anything that effective management can handle .All nationalised and denationalised banks in Bangladesh are undercapitalised even under the current standard which is somewhat lower than the minimum recommended by the 1992 Banking Reform Committee . The government re-capitalised the NCBS to the tune of Taka 17.3 billion in 1996 and Taka 14.6 billion in November 1997. The recent capitalisation has been necessary because of recognising losses and continued bad lending . In addition previous recapitalization did not cover bad jute loans while estimates of bad debts are not definitive because of weak prudential standards , they are likely to be substantial .The high default rate among the NCB borrowers has occurred because of poor management lack of little incentive to make good loans and government direction and intervention . The NCBS were required to make high risk loans to priority sectors , new entrepreneurs , public corporations , sick industries and borrowers with political influence. In addition , these NCBS were obliged to endure loan for given programs by the government . Their own lending practices were not based on sound lending principles . For example these NCBS have used imprudently high equity ratios as a basis for lending . They had also regarding this aspect, a false sense of security because their lending has been collateralised and bad loans were masked by inadequate accounting practices .It is nearly impossible to foreclose on collateral and liquidate it . The recent legal reforms which have been undertaken as part of the financial sector reforms have enabled the banks to obtain decrees in their favour from the Financial Loan Courts against defaulters . However ,a very little collateral has actually been liquidated because of weak legal enforcement mechanisms



TABLE-11

**DISTRIBUTION OF URBAN AND RURAL BRANCHES OF BANKS IN  
BANGLADESH**

| Type           | Urban<br>Branches (%) | Urban<br>Branches/Bank | Rural<br>Branches (%) |
|----------------|-----------------------|------------------------|-----------------------|
| NCB            | 33                    | 300                    | 67                    |
| Denationalized | 48                    | 130                    | 52                    |
| Other Private  | 100                   | 41                     | 0                     |
| Specialized    | 10                    | 37                     | 90                    |
| Foreign        | 100                   | 4                      | 0                     |
| Total          | 34                    | 84                     | 66                    |

Source: Bangladesh Bank

. These problems will have to be strengthened by substantial improvements in enforcement .The two denationalised private commercial banks inherited substantial bad loans from the nationalised period . At the time of denationalisation , the quality of their loan portfolio was not fully disclosed to their former owners . Equipped with a bad loan portfolio and poor lending practices , these banks have conducted their business as if they were still NCBs . Not surprisingly they have not come up to normal commercial banking standards under the new and tighter banking control and supervision . Their net worth is likely to be seriously eroded specially since they have not had the recapitalization support provided for the NCBs.<sup>89</sup>

#### **PRIVATISATION OF NATIONALISED BANKS : CRITICAL VIEW**

In spite of reforms implemented since 1989 and significant progress made in financial policy , Bangladesh's financial sector remains underdeveloped and continued reforms are needed along a broad front . The main issue is that the quality of financial intermediation remains poor . Lending to priority sectors had inflicted enormous cost to the economy's growth . Thus improving the quality of intermediation , dominates other important concerns such as resource mobilisation and money and capital market development . Under present circumstances , additional resources at the disposal of the NCBs would only result in more bad loans . Money and capital market development is contingent on the participation of healthy financial institutions and reputable firms in need of financing for expansion . A sound efficient banking system, the main financier of industry , agriculture and trade , is essential for economic growth . It should be noted that the bankers role for independently screening and monitoring investments and sharing risk is crucial for the development of entrepreneurs and the economy.<sup>90</sup>

Many of the South Asian countries have implemented reforms gradually for many years to improve the performance of its banks, but they are still inefficient and provide poor service and are saddled with bad debts and inadequate capital . International experience suggests that developing a competitive , efficient banking system under government ownership is difficult at best . Thus , Bangladesh should privatise the NCBs and allow new banks and financial institutions entry and permit the orderly exit

of failed banks and financial institutions to develop a competitive, efficient private financial sector which can contribute fully to industrial and economic growth. Commercialisation of the NCBs while desirable, will not substitute for their ultimate privatisation. Rupali Bank, the partially privatised NCB, has been identified by the government as a candidate for privatisation. The privatisation strategy should minimise restructuring prior to privatisation and fully disclose the condition of the Rupali to enable to make informed bids. Restructuring prior to privatisation could include a financial package to restore solvency and some downsizing of staff and branches that could be done quickly, leaving the main effort to the buyers judgement and strategy. It may be advisable to amend the regulations restricting bank ownership by a group of five percent to interest buyers who can also manage the bank. A successful privatisation will also require imposing a hard budget constraint on the state owned enterprises, the main debtors of these banks the major restructuring efforts, in the jute sector will assist in this regard. The privatisation process should be transparent and utilise an auction to gain political support.<sup>91</sup> To reverse the poor public perception of bank privatisation, previous unsuccessful attempts should be rectified as a priority. The denationalised banks, such as Uttara Bank and Pubali Bank have performed as the NCB. Uttara Bank and Pubali Bank need to be restructured urgently by the government with BB's intervention and assistance. Restructuring could include a financial package to restore solvency, management and staff reorganisation and branch closure. Where necessary, the problems in domestic private banks also need to be dealt with. The government should now take decision to privatise the remaining NCBs. Opposition to privatising the remaining NCBs may arise from bank employees, bureaucrats, loan defaulters and the general public. The employees may not want this because they fear of losing jobs. The Bureaucrats may oppose such move purely on ideological ground and belief that selling price is not fair. The loan defaulters may oppose it because they believe that private owners will be more stringent in collecting overdue loans and the general public may oppose it on the ground that the selling price is too low and selling a bank to a group of individuals is the result of nepotism.<sup>92</sup>



## **THE GOB ROLE**

The government has not taken an even-handed approach between the NCBs and the private banks in meeting its debt obligations . In one case, whereas it compensated all the NCBs for its guaranteed debt for a closed out government consumer corporation , it refused to pay the privatised bank , which had to ultimately seek a decree from the High Court . Another important aspect which has seriously undermined commercialisation of these banks is the continuing lack of autonomy on staffing issues . The privatisation terms not only bound the purchasers to abide by the service and employment rules agreed to by the government in 1982, the banks were also required to follow strictly the frequent pay raises and annual bonuses awarded to public enterprises . In short , the basic ingredients for successful privatisation a healthy cash flow and managerial autonomy were missing thereby eliminating the possibility of any genuine commercialisation .The following three major lessons can be learnt from the early experience with bank privatisation in Bangladesh . First while change in ownership is a necessary condition , it is not a sufficient condition for successful privatisation .There is a need to successfully develop privatisation strategy which includes a thorough exact analysis of financial and managerial aspects of the enterprises targeted for privatisation. This must be done within an environment of strong banking supervision . Second, the failure to reap clear economic efficiency gains results in deepening public scepticism about the privatisation process and provides government with a disincentive for further divestiture programs . Third , the choice of the sale strategy of public offering wide ownership , as opposed to a closed deal is also an important determinant of the ultimate success of the enterprise . In the case of the two banks , the mere transfer of shares to the previous owners did not precipitate major efficiency changes . The doubts surrounding the value of assets and the task of fixing responsibility for past debts has preoccupied the attention to the owners , to the detriment of introducing such changes.<sup>94</sup>

## **BANKS PRIVATISATION : GOALS AND BARRIERS**

While the importance of a private banking system is paramount , the relevant question is what is the best way to develop one . The competitive approach of starting more private banks and supervising these closely to insure that there is compliance with the various regulations governing the banking system seems to be the best way to expand the private banks . There are three important points that relate to the development of private banking (a) it must be recognised from the outset that more private banks will certainly lead to problem cases but , these problems can be handled by protecting the depositors to some extent and punishing the owners of the private bank by closing them when their net worth goes below a specified amount . (b) the recent amendments to the Banking Companies Act restricting ownership to five percent is certain to cause difficulties with the development of private banks while the idea of restricting the concentration of economic power is a valid objective , this can be better achieved through the issuance of many bank licenses. © the question of more foreign banking may be considered . If respectable foreign retail and merchant banks are interested in opening up branches , then these banks should be encouraged to start up business . The foreign banks are one of the best ways to encourage private foreign investment. At present the policy towards new financial institutions in Bangladesh is a case by case approach . There is no strategic policy with respect to the vision of how the financial system would develop . At present Bangladesh has a branch banking system which means a few banks each with a large member of branches in contrast with a unit banking system comprising a large number of banks each with a few branches . The relevant question is what is an optimal banking structure for Bangladesh .The advantage of a large branch network is based upon the preposition that deposits are collected from many small depositors and concentrated to fund the loans . One should note that by learning to participate in consortium , large loans can be managed by groups of small banks . Small banks can also mobilise funds and make these available to large city banks for lending . The connection between concentration of deposits and large loans within a single bank is not necessary .The management of the banking sector has two primary objectives (a) to create competition to ensure efficiency and

access to banking services (b) to perform financial inter mediation at low total cost . In the context of Bangladesh these objectives have several implications .Competition is effective only when there is profit maximising behaviour . This means that the financial institution has no objective other than to earn as much profit as possible . Thus in particular reference to Bangladesh , this profit maximising behaviour means that (a) employment levels should not be maintained except in so far as it contributes directly to bank profits (b) salaries and other labour compensation should be managed to promote profit maximisation (bonuses are incentive based ) etc (c) loans are based on the banks assessment , not directed to achieve government development objectives (d) banks do not have social objective . If the government works to encourage loans in some sector, the government should provide the necessary incentive through direct subsidy .Any essential deviation from the principle of competition will lead to a loss of efficiency , reduced return to investments financed by the banks and reduced payments to savers or depositors . All of these will reduce the rate to growth of the economy . Those who believe that there is wide spread market failure cannot provide convincingly a mechanism to estimate such failure and correct for it . Experience in Bangladesh and elsewhere suggests that if there are market failures , the regulations of the government have generally not succeeded in correcting these . Claims to subsidise sectors to off set market failure cannot be and have not been justified analytically .

#### **STEPS TO SUCCESSFUL PRIVATISATION OF BANKS**

A successful privatisation of the banking sector of Bangladesh may require the followings steps .

First , the branch network must be reviewed and the losing branches must be closed . For the most NCBs , this will lead to a substantial reduction of rural branches . Their rural branches may be co-ordinated with the BKB and the RAKUB , the specialised agricultural and rural credit banks.

Second , the labour force must be trimmed to a size consistent with the profitable operation of the bank and the pension facility of retained staff must be funded . Golden hand shake program to discharge employees must also be funded .



Third , the future tax liability of the banks must be assessed prior to privatisation and the government should be ready to pay any overpaid taxes as they are likely to receive any underpayment .

Fourth , the management responsibility must be clearly defined . It may be desirable to relax the restriction of five percent ownership in order to find prospective manager owner .

Finally the loan portfolios of the NCBs must be cleaned up .The privatisation of two nationalised commercial banks in the early 1980s offers some interesting lessons in the pitfalls of implementing a policy of privatisation. While the privatisation of one bank Rupali Bank , was stalled after partial sale , the government disinvested two other banks, Pubali Bank and Uttara Bank. The decision to disinvesting these banks was related to the fact that their previous owners were not the citizen of Bangladesh and thus no legal entanglements were expected . The process of disinvestment was therefore limited to negotiating only with the previous owners. However to make it politically , a portion of the shares was reserved for the employees and a small part for the government . The sale prices of Pubali Bank and Uttara Bank were fixed by the government on its valuation of net worth . The government skipped the essential task of properly evaluation asset values and restructuring finances where necessary . Even the asset valuation was reportedly unavailable to the prospective owners. Almost a decade after privatisation , the competitive position and operational efficiency of the two banks has hardly changed , no major management changes have occurred , additional staff has not been released and the banks are suffering huge operating losses . In spite of the fact that both banks did not provide for classified loans, their combined loss in 1991 alone amounted to about Taka 243 million . A large part of the ongoing problems of the privatised banks can be traced to the history of mismanagement during the period of public sector management . Substantial advance transferred during privatisation as asset have not turned out to be non performing , over manning continues under threat of multiunit unionism and unprofitable branches cannot be closed as they serve the government's social program , while one bank is owed almost Taka 240 crore by the government owned

corporations , mainly textile mills and on account of the recent government agricultural loan forgiveness scheme , the other carries almost Taka 200 crore on account of the directed jute credits.<sup>95</sup>

### **BANKING COMPETITION : ISSUES & ANALYSIS**

There is no evidence that one can successfully replace competition by regulation . Encouragement of competition should be the objective of government policy , not its destruction .Often it is the very private interests already in the sector that wish to restrict competition through restricting entry.<sup>96</sup> A second aspect of competition is to create access to the banking system for all persons with good projects. Access is restricted by a number of behaviours (a) government banks where access to funds is regulated by special programs , official objectives or traditional regulation (b) banks controlled by an industrial trading group where lending is largely made available to or through members of the group . Such banks may not provide access to funds for outsiders . Good projects presented by outsiders may be joined by group interests or in some cases taken over .This suggests that entry of new banks should be straightforward . Otherwise access of borrower will be restricted . It is a myth that only a few private banks promote competition many are required . It is also a myth that the government intervention can select good investments or that the government enterprises work efficiently . One of the conditions of competitive market is that when profits rise above normal returns entry should be sufficiently to say that new entrants will increase the level of competition . In the Asia ,there has always been concern that banks will fund largely the financial interest of the owners or the business grouping to which the owners belong . The nature of business and investment has tended to emphasise family ownership and management; the separation of management and ownership that characterises . The European , Japanese and North American industry is far less widespread in the South Asian countries and Bangladesh in particular. Rationed financial access is the characteristic of much of the Asian countries . The transition to a world of separation of ownership and management , with owners solely concerned with the return on their investment is probable decades

away . One has to expect strong group and family interests to be manifest by private banks . To insure more equality of access to capital , the South Asian Governments in the past have nationalised their banks and encouraged the development of directed leading . The alternative approach to achieving increased competition and greater access to capital is to allow easier entry into the financial sector . There is little that can be done to limit group concentration through their ownership of a bank but it is feasible to have a large number of groups . As competition increases ,banks become more efficient and the group orientation can survive only if the group can generate good projects . One hundred groups are better than ten .In Bangladesh efforts are made through the Banking Control Act 1991 and amendments to achieve broad based ownership and to limit the lending to directors .The concept of broad based ownership is promoted by limiting the voting power and ownership of any person to five percent of the shares . This concept is actually difficult to make effective and the private banks, with few exceptions do not really reflect abroad based ownership . Instead of banks come under control of a group , such control may be majority ownership or it may be the confidence of other share holders if management permits such management to operate the bank . The broad based ownership which does not permit bank management to operate with an effective strategy is not likely to prove beneficial. The willingness of person to invest in banks on the basis of the after tax rate of return is limited , since the dividends are not particularly high. The broad based ownership would be in banking sector , a hard path to follow . It may be more effective to increase the number of banks but allow greater ownership share in a bank . The competition in any economic sector requires relative ease of entry and exit while some borrowers may have access to foreign financial institutions , most do not so . Hence effective competition can only result from entry when the potential for high profits exists .This point is often overlooked . If there is a perceived potential to earn a surplus then entry should be available even if there are no supernormal profits being earned by existing banks . There may be technologies or ideas that a new entrant can bring to bear on the sector that will lower production costs . The new financial institutions may have better ways to collect loans , establish collateral design , more



appropriate financial instruments etc. It is wrong to use a concept of capacity of the banking system to limit entry since this reduces the pressure on existing banks to become more efficient. The exit question is particularly difficult in the financial sector although in Bangladesh, this is a pervasive problem in the economy. A financial firm can leave the market in a number of ways (a) go out of business or be closed down by the bank supervision authority (b) merger with another financial institution or (c) take over by the bank supervision authority and subsequently resolved to the public. These methods are important to ensure that unsuccessful financial firms do not continue to risk depositors and government's money. The management of failed financial institutions should be fired or demoted. However, the authorities have generally been permissive in allowing continued operation by existing management of the banks. It is important that the inefficient banks should be reduced in number.<sup>97</sup>

#### **NEW BANKS : QUESTION OF PATRONISATION**

New banks are needed to provide the necessary financial services while old and inefficient banks strive to survive. If the existing inefficient banks can reform themselves, then they can fight for market share with the new banks. However, if inefficient losing banks are left in the market without reduction in size, then the scope for new banks is reduced and the financial system cannot be improved. In conclusion achievement of efficient financial intermediary requires three simultaneous conditions (a) recognition as par to costs of bad debts and adequate return to capital by the banks (b) profit maximising behaviour by financial institutions and (c) effective supervision by the central bank to insure that the banks perform within the prescribed law. The BB should be given responsibility for determining who should receive bank licenses. The issuance of new licenses should be determined with the objective of developing the financial system and should be made by the political authorities whether the nation wants a private, competitive banking system or a state owned system. Once this choice is made, it becomes the responsibility of the central bank to develop satisfactory commercial banking system. For a competitive system, the central bank determines the number of banks it believes appropriate and then award

licenses to achieve this target .The management of granting licenses should be a routine procedure of the central bank . First the BB should design a grading system for applications which reflects the developmental objectives for the financial system . This grading system should be approved by an appropriate committee to insure the reflects of the intent of the government policy . Upon approval , this grading system should be promulgated to the general public .Second , an application form should be designed and this should include the following (a) a business plan including projected balance sheet and profit and loss statement and branch plan (b) sponsors and their financial history including reputation (c) a plan for raising the requisite capital (d) a demonstration of sufficient banking and business experience in the proposed managerial staff . Third , the BB would determine annually the number of new banks to be established during the year based on the need to increase capital in the banking system over the next few years and applications would be accepted up to a cut off date .All such graded and ranked charters would be granted from the top with a minimum score needed until the target number was marked or there were no more acceptable proposals.<sup>98</sup>

### **BRC RECOMMENDATIONS: OVERVIEW**

The Financial Sector Reform Program of the GOB started in 1990 and ended in June ,1996 . In order to more strengthen the banking sector ,with the help of international donor agencies ,the GOB started the 'Commercial Banking Restructuring Project' from 1st of May ,1997 .The 2nd Phase of the project is continuing . However , the Banking Reform Committee was formed by a government notification dated 23.10.96 with a view to investigate the problem of banking sector for and to put necessary recommendations to the government .The committee held meeting for several times and time to time the committee submitted the recommendations to the government . The first report containing recommendations was submitted to the govt on 24-12-1996. The second report of the committee was submitted on 27.04.97 . The third report was submitted on 11.09.97 and the fourth or final report was submitted to the government on 26.01.98 . The committee on 07.05. 97 , submitted another extra

ordinary report of financial and accountant law, 1997 containing the draft of the law. In their reports, the committee recommended lot of things for immediate execution. Some of the recommendations have already been materialised and some are on the way. Whatever the recommendations are, the main barriers of execution of recommendations are the will of the government. The government of developing countries has had many socio-political problems. The government is to work under many kinds of pressure groups and Bangladesh is no exception. The BRC recommendations are placed before the policy makers and decision makers for implementations but the nation have to wait to see the real implementation of the recommendations. In Bangladesh it is very easy to form a committee or commission but it is very difficult to have implemented the recommendations of the committee or the commission. However, the government has taken initiative to set up 'Financial Loan Court' and 'Bankruptcy Court' as per recommendations of the BRC. This is a forward step towards reform but abolishing of trade unionism, punishment of loan defaulters, extension of power of central bank etc are urgently required to be implemented.<sup>99</sup>

### **PROBLEMS OF BANKING IN BANGLADESH**

Instead of a banking system that collect and allocate savings efficiently and contributes to economic growth, Bangladesh has a system in which borrowers fail to repay loans, foreclosure is almost unheard of and the government has to bell out banks. The business men borrowing from the local commercial banks of the country pays a high cost for the accumulated sins of the past borrowers, private and public who have not repaid their loans. To maintain spread, the banks pass on the costs to new borrowers and thus lower service guilty but still the bank looses money. The nationalised banks pass on their loans to the shoulder of the government and receive periodic capital transfusions to keep themselves going but the businesses in stuck with the commercial banks because he has few alternatives. As a result he often postpones investments because of the high cost of borrowing. The banking sector of Bangladesh is a problematic sector. The country has out of a total domestic credit of



about Taka 35000 crore, Taka 15000 crore as classified. It means strongly twelve percent of the loans has been misused by some people from whom the state is not getting either the money return or only return on its investment. This is a large amount of money and its absence dries up investment in the country. The banking sector of Bangladesh is caught in a vicious circle. The banks can earn no money on huge non-performing loans to both private and public sector borrowers. The weak and unaccountable bank management does nothing to change the situation. The government is caught up in the conflicting roles of bank owner, customer, regulator and provider of the legal framework for debt recovery but this kind of behaviour would be impossible to sustain in a competitive, well resulted banking system. The market of Bangladesh held for the four large nationalised commercial banks remains secure in the government's implicit guarantee against failure. The problems of banking sector of Bangladesh are discussed in the following paragraphs below:

**(a) GOVERNMENT OWNERSHIP**

It is a fact that government ownership of commercial banks is the biggest barrier to the financial development as well as financial reforms in the country. The poorly managed nationalised commercial banks, without incentives to make good loans, have fallen easy prey to political and administrative interventions. The banks have made high risk loans to priority sectors, state enterprises, sick industries and borrows with politically powerful under the false comfort of collateralised lending behind a screen inadequate disclosure requirements and tax provisioning practices. Similar problem afflict the four specialised banks for industry and agriculture that are also owned by the government. More than eighty percent of the portfolio of Bangladesh Shilpa Bank, one of the industrial development banks of the country, is in arrears. Its collection rates have been than five percent and it has a negative net worth. The two agriculture banks also have a net worth poor portfolio quality and low loan recovery state of sixteenth percent and twenty nine percent.<sup>100</sup> All of these happening because of government ownership of such banks.

**(b) UNSOUND PRIVATE BANKS**

As a group, the domestic private banks are hardly better off. They offer no serious competition to the nationalised commercial banks. Also the ten private foreign banks operate essentially in niche markets and trade finance. Better examination in revealing imprudent insider lending and capital short falls in several instances. Estimates based on un-audited financial statements suggest that at the end of the financial year of 1994, the private banks at Bangladesh needed more than Taka 13 billion just to meet current regulations on capital adequacy. Bangladesh Bank has entered into a dialogue with the worst offenders and initiated memoranda of understanding to rehabilitate five banks but few sanctions have been imposed no signs of any capacity or willingness to enforce the terms of these memoranda.<sup>101</sup>

**© INADEQUATE SUPERVISION AND ENFORCEMENT**

Inadequate prudential regulate and weak supervision are a recipe for banking problems. Poor enforcement capacity, weak supervision are the problems of banking sector of Bangladesh. Both provisioning and capital adequacy requirements have been well below international standard perhaps in the belief that banks owned by the government would some how behave more responsibly. Bangladesh Bank has taken recently to move closer to international standards of capital adequacy and to phase in international standard loan classification and provisioning by 1999. Despite recent improvements in bank supervision capabilities and some staff training, Bangladesh Bank remains a weak regulator and its staff lack incentives and analytical capacity. Enforcement remains a major problem. The organisational structure of Bangladesh Bank is not yet functionally based. It is unable to react boldly and decisively to the problems. These weaknesses have been used to justify government interventions on all critical issues that are with in the central bank's domain.

**(d) DIFFICULT LEGAL FRAME WORK FOR LOAN RECOVERY.**

Poor prudential regulation and supervision are made all the worse by an inadequate legal framework. Banks can absorb some low level of non performs loans if there is a strong legal framework for loan recovery , foreclosure and liquidation. Bangladesh Bank can make such a framework . New legislation to deal with loan recovery through the 'Financial Loan Court' has fallen short of dealing with the sheer volume of cases and of actually executing decrees and foreclosing on collateral. The Bankruptcy court must work with a view to punish the loan defaulter.<sup>102</sup>

**(e) SHALLOW CAPITAL MARKETS.**

The banks ore not only problem in the financial sector they are also the problem for the capital markets .The capital markets are small and do not offer a competitive alternative to bank borrowing . The stock market capitalisation in mid June 1996 in Bangladesh was around Taka 63 billion and relative to GDP is some twenty five to seventy five times smaller than in neighbouring South Asian counties. Demand for equities remains weak because of the availability or risk less government securities with higher after tax returns. The government levies and controls over new instruments discourage the supply of securities while weak regulation and enforcement and inadequate infrastructure of stock exchange further inhibit market growth . The Bangladesh Bank only recently stagnated sanctioning short term paper. The commercial banks which are just about the only purchasers , hold the bills to maturity since there is no secondary market in which to trade them. The corporate debt market is also thin .Only two blue chip companies have issued corporate bonds. Finally , the development financial institutions which might have supplied longer term money, have become moribund since donor funding for them dried up .It should be noted that band aid fixes will not stop the haemorrhaging of losses from the banking system . During 1994-95 the government poured Taka 32 billion into re-capitalising the nationalised banks and already that need more funds. Earlier the World Bank studies show that about sixty percent of commercial bank loan would have been non-performing in 1995 by international standards, implying that less than half the lending



portfolio was covering deposit and operation costs. The banks have been using new deposits to cover loans on a cash basis as well as liquidity support from the Bangladesh Bank. Re-capitalising the banks will clearly not improve portfolio performance unless performance incentives change.<sup>103</sup>

The problems will not go away on their own and negligence will only make matters worse. The shortfall in loan loss provisions for the nationalised banks was estimated Taka 11.1 billion at the end of 1994 . A study estimate suggests that by the end of 1995 the provisioning shortfall had gone up by fifteen percent to Taka 12.8 billion. For the banks to recover unaided and without restructuring many defaulting borrowers would have to resume servicing their debts . The spread between lending rates and the bank's costs funds would have to be well over twenty percent a year just for the banks to break even , according to a simple bank earnings model that assumes forty percent of loans to be non-performing far out number the losers which should tip the political balance in favour of the gainers but a handful of potential losers who perceive an immediate threat can often slowdown reform . It will take firm political commitment from the government to stay the course . In Bangladesh , the powerful social , political elite are the most beneficiary class regarding getting loans from commercial banks so they are not interested for financial sector reform .<sup>104</sup>

#### **(f) TRADE UNION PROBLEM**

The banking sector of Bangladesh has peculiar problems like trade unionism . The leaders of the trade union get undue benefit from the management and they interrupt day to day business of the banking offices .Also they give pressure to sanction loans to some parties for their private benefit . Some of the trade union leaders are very rich persons in the country . By the name of CBA and getting support from the leaders of the party in power ,the trade union leaders have made the banking sector so undisciplined that without banning the trade union activities in the banking sectors ,discipline can not be restored.<sup>105</sup>

## **ASSESSMENT**

The banking sector of Bangladesh recently is widely discussed issue for the nation. The banking sector in Bangladesh is one of the undisciplined, uncoordinated and politically motivated organisation of the government. This sector is highly controlled by the political business elite of which most of them are loan defaulter. Only a few persons, by the name of party in power, take loan from the nationalised banks and never return. It is very unexpected that Bangladesh as a developing country, can not protect the money of the people for lack of substantial laws. Only 1800 persons have got seventy five percent of the total bank loan of Taka 130 billion in the country while Taka 50 billion over due loans are lying with only 156 defaulters. However, Taka 8796.67 crore from defaulters borrowing and rescheduled Taka 2890.40 crore has been realised since the formation of the task forces in December, 1996. It is disclosed from a report of the Ministry of Finance that from among the directors of all the private banks only seventy five were given notice. The total loan of the banks to them are three hundred and nine crore. Among the seventy five loan defaulters, thirty one directors have taken shelter of court. Total amount of the thirty one defaulter are two hundred and forty five crore Taka. In December, 1998 the total amount of defaulting bank money in the country was fifteen thousand five hundred and seventy five crore. This is no doubt an alarming situation. For structural and functional barriers the banking sector is still the replica of the old system. The nationalised banks are now in fact burden of the government. The wrong nationalisation policies have made sufferer a lot the national economy. The policy makers should think of it seriously that all the nationalised banks should no more work under government. They all should be placed under privatisation. The situation of banking sector is no doubt alarming for the national economy. It is now necessary to improve professionalism, monetary policy accountability and financial supervision in the banking area. Side by side strict enforcement of laws against white colour financial crime is also highly desired. There is no alternative to stopping the bankruptcy culture in order to restore discipline in the banking sector.

It is a fact that the nation would be in difficulty till country's banking sector continues to remain mismanagement. A section of corrupt officials of the banks and government offices as well as leaders of the so called collective bargaining agents are involved in the default culture. This section must be singled out as the nation wants to get rid of them. Banking is a very delicate financial profession. It plays one of the most important role in economic development of the country.<sup>106</sup> The economy of the country is dependent upon healthy banking operation and that of other industries as well. So for healthy and steady economic growth, banking is a prerequisite factor. In spite of sincere efforts of the government, the prevailing conditions in banks rampant through a decade, have not improved and unfortunately, it could not regain the lost image of the past.



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## CHAPTER -EIGHT

# FINANCIAL ADMINISTRATION AND TAXATION IN BANGLADESH

### INTRODUCTION

Financial Administration and Taxation are closely associated for the purpose of maintaining balance in economic and financial activities of the government as well as to ensure effective financial management .Because without imposing taxes it is not possible to make balance between the two traditional classes of the society the rich and the poor . Taxes are also required to reduce the gaps between the owner and the labourer , the landlord and the peasant and the ruler and the ruled. In every country , Taxation is the important financial mechanism in order to control ,check and ensure balance in all economic and financial activities of the nation. From economic point of view, it is necessary to control inflation, from social point of view , it is necessary to maintain equality and balance in the society and from financial administration point of view, it is a must for the execution of financial policies and rules of the government . Taxation as a vital part of financial administration has been playing significant role from very beginning of its journey . In the developed countries , the tax policies are strictly applied and tax evasion is considered as a serious crime but in the developing countries tax administration is rather weak and relaxed . In Bangladesh , about eighty percent of tax revenue comes from indirect tax and the remaining twenty percent from income taxes, including property tax and land revenue tax etc. Taxes on imports account for a large part of indirect tax revenues. The next major source of revenue is tax on domestic products such as excise duties and sale tax .Income tax as a percentage of total revenues remain one of the lowest among developing countries .



The government has undertaken schemes to promote domestic competitiveness and to rationalise the duty structure on import of raw materials and capital goods. Important among these is the duty drawback system which allows exporters tax free access to imported inputs. This advantage however has not been fully used and the result has been mixed. However diversification of exports and further growth of imported inputs might change this. Recently the administrative machinery for promoting duty drawback system has been strengthened by establishing a 'Duty Exemption and Drawback office' in the organisation structure of the National Board of Revenue.<sup>1</sup>

There are many problems of collection of taxes in Bangladesh. There are of course, structural limitations in the tax administration. Besides this, the main constraints of collection of taxes in Bangladesh are tax evasion, tax avoidance, smuggling, inadequate administrative machinery and procedural barriers where a very small number of people is paying taxes which is inconsistent with the number of people indulging in conspicuous consumption in cities and towns. Even those who pay taxes, it is felt, do not make full disclosures of income. Besides at present there are many loopholes in income tax law. Some firms and persons escape tax by using false identities or under some little known legal provision or by suppressing information on income. In order to recover taxes properly, it is necessary to strengthen the collection machinery as well as to simplify the system of assessment and payment. At present the system for collecting information on income is very weak. The enforcement machinery and the logistics needed for it are still weaker, there is lack of trained manpower and facilities for quick response to check smuggling, fraud and faulty documents and to conduct surprise checks etc. As a result many opportunities for collection of customs and excise go undetected, particularly because of lack of inspection and research on the behaviour of the tax evader. The procedures for payment of income tax and other fees and charges are sometimes unnecessarily complex and give people a sense of harassment. Consequently marginally taxable groups sometimes do not venture to pay taxes.<sup>2</sup>

## ORIGIN AND DEVELOPMENT OF TAXATION

### TAXATION DURING ANCIENT TIMES

In order to get a clear picture of Tax Administration, it would be better to have a look on the origin and development of taxation. In the development of human civilisation the role of taxation is very significant. No civilisation could develop without financial system. The ancient world had developed either good or bad, a revenue collection system to meet up their necessity. In most of the cases, the rulers or the Kings used to collect revenues from the people by force. The feudal lords were the most notorious and cruel tax collector. Nevertheless it is an admitted fact that without revenue collection, the Kings or the Rulers could not administer the country. So one needs to recall only a bit of general history to appreciate what a central place the public purse has had in the development of human affairs. There are also lot of stories in the history regarding revenue collections from the people. In ancient history it is found that the secession of the ten tribes of Israel and thus the disruption of the Jewish monarchy, was in large part a tax phenomenon.<sup>3</sup>

Early governments had little need for revenues since they levied tribute upon their conquered and weaker neighbours. The Greeks financed a goodly share of their public expenditures out of the generosity and patriotism of their wealthier citizens which was in many times by free gifts. The historian writes that the Athenians armed the fleets which were so long supreme on the seas by free gifts that they formed the choirs which performed the dance and recited the songs taught them by the poets. Another rich source of public revenue enjoyed by many of the ancient nations was the public domain. Athens and a few other of the city states derived a considerable profit from their mines. According to one historian, Carthage obtained nearly half of her revenues from the mines in Spain which in later years also proved to be a good source of revenue for Rome<sup>4</sup>. Other revenue sources known to the ancient world included licenses and special assessments. Both of these are of ancient origin. Many of the countries of the Greek and Roman empires required a license fee or occupation tax for certain callings of shady reputation, notably, oracle mongers, jugglers and

prostitutes . Egypt levied a special payment for irrigation projects similar in many respects to our special assessments.<sup>5</sup>

### **TAXATION AND CONSTITUTIONAL DEVELOPMENT OF GREAT BRITAIN**

Anyone with even superficial knowledge of English history can appreciate the role that taxation played in the political and constitutional history of that nation . A considerable portion of this history is the story of the struggle between the king and parliament for control of the government purse strings . In describing the significance of this struggle to constitutional development , one authority writes that no constitutional change has been more important in securing popular control over the executive government , than the voting of supplies by the House of Commons nor has any expedient been better calculated to restrain the undue influence of the crown , than a strict settlement of its revenues by the parliament.<sup>6</sup>

### **THE MAGNA CARTA**

The historical Magna Carta played a vital role in the development of taxation . The resentment which has been voiced against arbitrary taxation in England goes back almost to the days of the Norman conquest . It began with only a few powerful nobles and clerics who protested that they would not pay a tax to which they had not consented <sup>7</sup>. These were the protests of individuals . But in 1215 they joined forces and compelled King John to grant them a charter of liberties , known in history as the Magna Carta . This celebrated document, among other things promised that no scutage or aid shall be imposed in the kingdom unless by the common counsel of the realm, except for the purpose of ransoming the kings person, making his first born son a Knight and marrying his eldest daughter once and the aids for these purposes shall be reasonable in amount. <sup>8</sup> Notwithstanding its promises to lighten the public burden, the Great Charter is significant in taxation history not because of its actual provisions but rather because of what succeeding generations of Englishmen were pleased to read into it . The scutage and the aids it refer to were not taxes in the modern sense, they were feudal dues which the tenants of the kingdom were expected



to offer to the king .This was treated as overload out of the later versions of the Charter but the idea of representation, on revenue measures , that the sovereign agreed to treat with the representation of the nation persisted from that time on . It was this principle of national consent to taxation upon which Englishmen always relied in their long fight with their sovereigns on the question of public levies .<sup>9</sup>

### **PARLIAMENT AND CHARLES- I**

One of the major issues in the great struggle between the British Parliament and the Stuart kings was the right of the king to levy taxes without the consent of parliament . This conflict came to a head under Charles the First . He quarrelled with parliament and sought to raise revenue independently of its sanctions, One of the many expedients he resorted to was the forced loan. This was a mere subterfuge . There was no pretence for that the loans would ever be repaid . Five gentlemen who refused to comply with Charles requests were imprisoned but shortly after this incident , the parliament submitted to the king the petition of Rights , which in 1628 he reluctantly accepted . Among other requests agreed to was that none need thereafter make or yield any gift , loan , benevolence, tax or such like charge without the consent of the parliament<sup>10</sup>. Nevertheless , the conflict continued and for more than a decade following Charles attempted to govern the country without parliament .He again resorted to various devices to secure money .One of these was the Ship Money which was based on an old tradition that each Port must provide the monarch with a ship .Charles version of it , however , called for payment in money rather than in kind and payment by inland taxpayers as well as by those located in seaports <sup>11</sup>. But the king's financial embarrassment was not at an end In 1640 he resorted to the desperate expedient of buying on credit a large cargo of pepper , which had just arrived in the ships of the British East India Company and selling it cheap for cash.<sup>12</sup> The culmination of this strife was a civil war in which Charles was defeated , imprisoned and beheaded .

## **BILL OF RIGHTS**

Forty years after his fateful blow to the Stuart James II , the last of that dynasty on the English throne, incurred the displeasure of his subjects and was deposed by the parliament . He was followed by his nephew, William of Orange, who accepted the Bill of Rights in 1689 . This important document included among its provisions that the levying of money for or to the use of the crown by pretence of prerogative, without grant of the parliament for longer time or in other manner than the same is or shall be granted as illegal<sup>13</sup>. Having reasserted this principle and given it the effect of a law, the Bill closed a turbulent chapter in English constitutional history . This principle was never again seriously challenged except in connection with the colonies and then not only the king but also his parliament were opposed to extending its application to their outlying possessions .

## **TAXATION AND THE AMERICAN N REVOLUTION**

After the close of the seven years war , known in American history as the French and Indian War, England was in great need of additional revenue to meet the resulting expenses. George the 3rd and his parliament attempted to levy certain taxes for this purpose upon the colonists and their trade, It was argued by proponents of this policy that it was but natural to expect the colonists to make some contribution for their own protection including the debt which had grown out of the recent war . Accordingly parliament passed the Stamp Act, which required the colonists to purchase stamps from the British Government and apply them to leases, deeds and other documents as a condition of their legal standing . The colonists resented these levies on the grounds that the colonists were not represented in the British parliament and thus had not consented to such taxation .An assembly of colonial representatives in New York in 1765 protested that the Stamp Act indicated a tendency to subvert their rights and liberties.<sup>14</sup>The protest of the colonists had a familiar sound in England and won the support of a considerable followers in the parliament. The Stamp Act was repealed despite the opposition of King George and the British Tories . The issue again arose when the British Government imposed certain tariff duties on American trade,

including the importation of tea . With the exception of the latter, these duties were repealed within three years . The retention of the levy on tea was more for the purpose of smoothing the feelings of the King than for raising revenue . However , tea was destined to play a notable role in American history in yet another way . The tea trade was made a monopoly and given to the East India Company . This threatened to ruin a profitable business for both smugglers and legitimate tea merchants of the colonies . Opposing to this new measure , soon came to a head in the famous Boston Tea party which contributed much toward bringing on the American Revolution.<sup>15</sup>

### **TAXATION AND THE FRENCH REVOLUTION**

The American Revolution had a profound effect upon the French who were discontented with the conditions imposed upon them by the ruling class . The economic status of the masses during the ancient regime, partly because of the burdensome exaction to which they were subjected, was extremely poor . The French people at that time had one of the most oppressive tax systems of all times. The French had developed no constitutional rights of taxation by consent, In England the fight against royal arbitrariness was carried to victory not so much by the common people as by the nobles . In France the nobles had less cause to follow suit, for both they and the clergy were exempted from many taxes, the former on the ground that their obligation consisted in fighting for the king and the latter on the ground that the state could not encroach upon what had been dedicated to God .

### **TAX SYSTEM BEFORE THE REVOLUTION**

Before Revolution in France, they had two sovereigns to support, the King and the Church which were both costly . The Church collected the tithe , originally a free offering of a tenth of ones produce but becoming at a very early age of French history a compulsory contribution not only in France but throughout Europe <sup>16</sup>. Far more important than the tithe were the taxes which were levied by the king . Perhaps the best known of these was the taille, one of the many levies originated in the feudal period . Like the English tallage, it was primarily a tax on the cultivators of the soil ,



based upon their supposed profits which were estimated by the value of their farms, But while the tallage as such came to an end in the fourteenth century , the taille was made a permanent annual tax<sup>17</sup> in 1439. It was supposed to have been a general tax actually however the nobles and the clergy and even the wealthy bourgeois were exempted.<sup>18</sup> This tax besides, writes Adam Smith is supposed to be dishonour whoever is subject to it and to degrade him below, not only the rank of a gentlemen, nor even any burgher who has stock , will submit to this degradation.<sup>19</sup> The administration of this tax was its most objectionable feature,. The collectors, both because they were ignorant and because of compulsion , applied arbitrary methods of assessment. Appearances were the main basis for evaluating income. Resistance therefore, often took the form of simulated poverty . Thus Rousseau, the eminent French philosopher, relates his visit at the house of a peasant where he had stopped to ask for dinner. At first , his host put before him only barley bread and skimmed milk and said that this was all he had . Convinced at last that his visitor was not a government spy , the peasant opened the larder and produced some ham, good wheat bread, an omlet, and a bottle of wine, The peasant concealed his stock, so he told his guest because of the taille, for he feared that he would be ruined by taxation if the officials had any idea that he was not dying of hunger.<sup>20</sup>

On top of this system of direct taxes in pre- revolutionary France was another and equally objectionably group of indirect taxes . During the ancient regime, France was cursed with an elaborate system of tariffs , effective not merely at the boundary of the country but also at the boundary lines of the provinces and even those of the cities, Their administration was not an easy task and was characterised by large scale smuggling, with severe penalties for those who got caught . There were also excise taxes on tobacco through a state monopoly , wines , and ciders . The most dreaded of the indirect taxes was from low- taxes provinces was common . If the physiological requirement were not sufficient , a law required every man , woman , and child over the age of seven to consume seven pounds of salt each year. <sup>21</sup> Every age is most alive to its own problems .The taxpayer , whatever age he lives in , is usually convinced that his generation is saddled with far heavier exaction than those of any

other . If ever he was justified in this information concerning the total tax burden which the French people had to carry . Taine , the French historian estimated that the combined levy of a types of taxes and feudal dues took over eighty percent from the meagre incomes of the peasants.<sup>22</sup> It is apparent , however , that taxes took the major share of the earnings of the poor , whose patience was almost exhausted . The outbreak of the Revolution in 1789 was to a great extent an indication of the desperation to which they were driven by the tax system of the ancient regime.

### **ABOLITION OF THE ANCIENT TAXES**

The immediate outbreak of the French Revolution was due to the insolence of the nobles and the clergy , but important among its underlying causes were taxes and the financial troubles of the kings household . Turbot ,one of ablest Finance Ministers of Louis xvi did labour to improve the financial situation .The national finances were further strained by the indebtedness created to finance the annually recurring deficits.<sup>23</sup>The time finally came when the king could borrow no more money and because of popular resentment . The people declared not pay taxes in the national assembly and proceeded in a series of steps to take matters into its own hands . One of its first enactment established the proposition that no tax privileges of the tax exempt classes were eliminated and the salt tax was abolished . For a long time , however , great confusion , incompetent administration and inadequate funds continued to characterise national finances .In fact it was not until the effective administration of Napoleon that anything like an adequate and rational financial system was inaugurated. <sup>24</sup>

### **FINANCIAL ASPECTS IN MEDIEVAL ENGLAND**

During the Middle Ages Public financial aspects became closely identified with the feudal system , a system which was not unknown but less important in the ancient world . One writer has referred to this system as one of patrimonial as distinguished from contributory finance<sup>25</sup>. The King , Dukes , Counts , Barons , Bishops and Convents received their income partly from the land , they were owner and partly

from the feudal dues paid to them by their subordinates . Except during certain troubles and in certain emergencies , the king was expected to subsist mainly upon the income from the property he held directly . The additional revenues he sought on certain occasions were designated , at least in England as subsidies or grants . Such grants or subsidies were often made necessary by foreign wars . These revenues were contributory in the sense that both the expenditure and the grant itself depended upon the assent of a representative assembly . The assent principle , of course , was not always conceded . It was the basis of that long constitutional struggle in England . In medieval England the kings domestic land was enormous , including at one time many towns and cities , among them the City of London was famous . This domain yielded a patrimonial or rental income almost sufficient for his needs . His forests provided extensive hunting grounds for him and his friends and a supply of venison for the royal table . In addition they brought in revenue from fines upon those who hunted in them without permission . Gradually , however , much of royal domain become partially or entirely alienated through the process of grant and charter.<sup>26</sup>

#### **TAXES ON LAND AND OTHER PROPERTY .**

The first known taxes in England were land taxes levied by area . The land tax was based upon a farm sufficient in size to support a household . It was replaced under William , the Conqueror by the carucage , the basis on which was the carucate or low land , an area that could be cultivated by one plow and a team of eight oxes . Shortly thereafter a new imposition appeared but fell only upon the knights to take the place of the personal services, they had to render to the king under feudal tenure . This was the scutage . Strictly speaking this was not a tax , but it played a leading role in the history of taxation , as previously mentioned and it was one of the grievances that the Magna Carta was supposed to have righted .<sup>27</sup> Gradually the annual value or rental value of land became the basis of assessment. Movable or personal property was assessed either on its capital value or on a calculated annual value . During certain stages this tax both on real and personal property assumed a character much like our modern general property tax . However , was it was as universal in its inclusions . As



far as personal property was concerned, it raised much the same difficulties of administration as those confronting our modern tax. As Seligman puts it, in actual practice virtually nothing was assessed except real-estate, so that the tax soon became a land tax.<sup>28</sup> As a source of revenue the land tax could not keep up with the growing expenditures of the national government in the eighteenth century. With the attempt to secure a more fertile source it was relegated to a secondary position. In 1798 it was made permanent at prevailing rates and the landowners were allowed to pay it off in perpetuity with lump sum payments. Many of these land owners took advantage of the opportunity which accounts for its gradual disappearance as a source of British national revenue. Although a property tax, called the rates, still remains in the mainstay of local revenues in England<sup>29</sup>

#### **THE POLL TAX**

The Poll tax was introduced in England in 1377 and on its second imposition in 1379, the poll tax was graduated according to the rank for which an elaborate classification was provided. It included all males and females over the age of fifteen, except beggars. Curiously enough it was argued that its harshness upon the poor would be mitigated because the rich were expected to aid the poor in paying it. But endless disputes arose over the age of tax payers and a rather insolent attempt to ascertain the age of a young girl was said to have been the immediate cause of the Kentish rebellion in 1381 under the leadership of Taylor.<sup>30</sup>

#### **INDIRECT TAXES**

Indirect taxes were also common in medieval England, particularly levies upon foreign trade. The taxes upon the latter were so well established at the time of the Great Charter that they were regarded as belonging to the king without the assent of the people and were sometimes referred to as the ancient customs. This did not mean however, that the king could levy customs as he saw fit. The heavy duty on wool, for instance, levied by royal prerogative during the reign of Edward the 1st in 1297 was regarded as a violation of the Magna Carta and was subsequently released by

the king.<sup>31</sup> In the more modern era of Oliver Cromwell, inland revenues or excises were introduced in the tax system of England. In the course of English history almost every conceivable article of consumption has been taxed through either customs or excises or both. To mention only a few there have been taxes on salt, meat, sugar, pepper, olive, vinegar, confectionery, tea, coffee, coca, glass, candles, leather, paper, newspapers, and, of course, liquor and tobacco. The tax on salt was resented in England as elsewhere, although its final repeal was not attained until 1825. The corn laws were a special object of criticism but it was not until 1846 that agitation against them finally succeeded in forcing not a completed repeal but a reduction at least to a nominal rate.<sup>32</sup>

#### **PRESUMPTIVE TAXES**

A curious species of tax, not entirely extinct and saving of both the property and income taxes were a group of levies based upon some circumstances of living which were thought to indicate one's ability to pay and one's economic and social status. Such were the health tax, the window tax, the carriage tax. The health tax was based upon the number of stoves and chimneys and the window tax upon the number of windows in the houses. Both encountered serious difficulties. The health tax had been imported from France in 1662. It had been a part of the revenue system for many years. The British resented taxes imported from France and objected to the health tax on the additional ground that it involved an invasion of their homes by the assessors. The window tax in 1696 raised the problem of defining a window and was objected to as a tax on light and ventilation.<sup>33</sup>

#### **INCOME AND INHERITANCE TAXES IN MODERN TIMES**

The net income tax was first introduced into England<sup>34</sup> in 1798 and was in effect there sporadically until 1842, when it became a permanent part of the British revenue system. Like many new revenue measures or the rediscovery of old one, its grew out of a financial distress occasioned by war. At the outset the tax was proportional rather than progressive but an exemption was allowed for necessary living expenses, the

progressive feature was not introduced<sup>35</sup> until 1907 . At present this tax is the mainstay of the financial system of Great Britain . The death duties were first introduced as stamp duties , Because of evasions they were not very productive and in 1796 , were replaced by a new law which levied the tax on the transfer of property itself . Owing to the strong opposition of the land owners this tax applied only to personal property but finally in 1853 it was also extended to real property . It was not until 1894 , however , that it assumed something like its modern form.<sup>36</sup> The development of tax institutions in other countries of Europe can be largely ignored, except for the reference already made to the taxes in effect in France prior to the French Revolution . In modern times the development of taxes institutions , on the whole, took the same course as in England , although there were many variations . The Prussian income tax with a graduated feature was introduced in 1851 . The French were slow to develop a general income tax system but after the revolution they developed a business tax which was a curious and complicated and compound of a classified occupation or license tax and a special income tax containing a few traces of the progressive principle .<sup>37</sup> However , it would be worth to maintain the continuation of the development of tax administration if a brief history of tax administration of the sub-continent is provided here . During the British regime of India , the structure of modern Tax Administration was originated . Prior to 1886, Income Tax Administration was run by temporary tax assessors and collectors . In Calcutta . Bombay and Madras , there were whole time tax officers . In other places work was carried on by land revenue officers along with their other duties<sup>38</sup>

After the first world war the necessity of whole time and specialised staff were felt for collection of income tax . For this purpose , the All India Committee of 1921 recommended appointment of skilled whole time staff and creation of the post of a Commissioner of Income Tax as the provincial head instead of Board of Revenue or Financial Commissioner for each province in the 1922 . As a result a hierarchy of Income tax authorities was created in place of land revenue officials entrusted with income tax work and the Central Board of Revenue Act of 1924 was enacted which was similar to the functions of the Board of Inland Revenue in the U K<sup>39</sup>. Under the



Act of 1922, Commissioner of Income Tax was appointed for each province and Assistant Commissioners of Income Tax and Income Tax Officers were placed under his control. Later on when revenue increased, these posts also increased and there were more than one Income Tax Commissioner in each Province. After the liberation of Bangladesh, the Central Board of Revenue Act, 1924 was replaced and the National Board of Revenue Order, 1972 was promulgated<sup>40</sup>. Before 1939 an Assistant Commissioner combined himself in the dual function of an executive and an appellate authority. After 1939 this dual function was amended and tasks were given to Inspecting Assistant Commissioner and Appellate Assistant Commissioner separately. From 1941 a right of second appeal from the order of an Appellate Assistant Commissioner was provided to the Income Tax Appellate Tribunal. After the emergence of Bangladesh these posts were redesigned a number of times. From 1963 when the Wealth Tax Act and Gift Tax Act were enacted, the Income Tax Officer was entrusted to assess these taxes and he was designated as Wealth Tax Officer and Gift tax Officer while performing the respective functions. In Bangladesh the post of Income Tax Officer was redesigned as Deputy Commissioner of Taxes as their functions being entrusted with one officer, the separate nomenclatures were done away with. In the Income Tax Ordinance, 1984 of Bangladesh, a separate appeal forum named Taxes Settlement Commission was created by the Finance Act 1984. This is one step forward appeal forum for the aggrieved assesses but except companies having paid up capital over fifty lakh Taka against DCT order or JCT order under section ten or twelve, however, appeal to Settlement Commission also allows the concerned for appeal or revision to any other forum.<sup>41</sup>

### **TAX ADMINISTRATION IN DEVELOPING COUNTRIES.**

Tax administration and its reform in developing countries involve broad issues of economic policy as well as specific problems of tax structure design. All these aspects are important and none can be neglected. There are the central problems of revenue requirement and of how to fit the revenue structure into development policy. This area of concern includes the impact of alternative taxes on savings and

investment and their implications for the macro balance which includes domestic and foreign resources of the economy.<sup>42</sup> There is also important objective of securing a fair distribution of the tax burden .Among more specific tax issues, attention needs of its major components. The problem throughout it not simply to determine what would be desirable but also to assess what is administratively practicable and within the frame work of political feasibility. The key problems are encountered in most situations because what needs to be done and when can be done depends on the geography , institutions , politics , and developmental stage of the particular country under investigation . Tax reform , like other aspects of public policy the lower developing countries , does not lend itself readily to generalisation . Markets tend to be more segregated and imperfect than in industrialised countries , mobility tends to be lower , dependence on foreign markets and markets for particular products is greater and political and administrative constraints are more powerful . In order to run an effective Tax Administration for the purpose of reform it is very necessary consider these factors to produce policy proposals that indicate not only to a sound financial policy but also a chance of effective implementation technique .<sup>43</sup>

#### **TAX ADMINISTRATION IN BHUTAN**

Among the developing countries , Bhutan is a poor country which has no strong revenue sources . The major sources of revenue are taxes on income and profit , property , goods and services and international trade .The principal organisation responsible for revenue generation is the ‘Department of Revenue and Customs’ . The department has three regional revenue and customs offices .Each regional revenue and customs offices has ( a) one revenue division with four sections , namely Sales tax section , Income tax other taxes section , Inspection and compilation of revenue collection and follow up section and Motor Vehicles section and ( b) Customs and Excise Division with two sections , namely ; Import and Export section and Preventive and Technical section, responsible for surveillance, vigilance and compilation and computerisation . Under the three regional offices there are twenty Checkpoints , two other Revenue and Customs offices and a Liaison and Transit

office in Calcutta , India. These are in addition to two customs offices and a duty free shop directly under the control of the Departments of Customs and Excise in the capital city of Thimpu. The field offices facilitate the assessment , collection and remittance of revenue to the government revenue account maintained with the authorised depository bank. Even revenue collections at the local district level are remitted to the government revenue account . This is so , because all districts are financed from the national budget . In Bhutan , collection of revenue has been enhanced through better organisation , rather than through an increase in tax rates and types of taxes . The Districts have no taxing power , neither can they levy certain fees without the sanction of the Ministry of Finance . The government does not intend to overburden the people especially those are in the villages with more taxes or higher tax rates . For this reason rural tax in Bhutan may be the lowest in the world . Collection of rural , municipal and local taxes is not very easy in Bhutan. Geographical distances between villages and the Checkpoints or the District offices require much travel time. It may take many days to collect revenue which is sometime very poor in amount . This situation is often compounded by lack of transport and roads . The departmental loans to the government employees are being discontinued in connection with a new consolidated pay scheme in which personal emoluments have been increased . Loans granted by the authorised depository bank to government personnel are recovered including interest due , through monthly salary deductions . These are subsequently remitted by the respective agencies to the lending bank . Unless the personnel concerned settle their accounts fully , they are not given clearances by the Royal Audit Authority .When they finally leave the government service , their unpaid loans , including interest , are deducted from whatever amount they are entitled to receive . Likewise , advances given them are required to be settled. No additional advances are granted unless previous advances have been fully settled and a clearance have been issued . Other loans , advances given to businesses and public enterprises are to be sanctioned only by the Ministry of Finance . A scheme for collecting principal and interest is generally provided and closely monitored by the Administrative Ministry concerned and the Ministry of



Finance. The overall financial administration of Bhutan is not very efficient and the amount of national revenues are not satisfactory. The country mostly depends on foreign loans. In order to develop a sound financial administration system for the purpose of facing the challenges of the new world, the country needs to be more alert and active. 44

### **TAX ADMINISTRATION IN NEPAL**

Taxation in Nepal is a legacy of its Kingship. Before establishing democracy, the revenues were under the direct control of the King. By the name of Royal authority, revenues were collected. The King had the supreme power to spend the money. With the passage of time, the government system of Nepal has been changed. In the eighties, the people of Nepal just formed democratic government. So the expenditure and income of the government came under a normal system of financial administration. The revenue budget includes both tax and non-tax revenue. In Nepal about seventy per cent of internal revenue is derived from taxation. Of the total tax revenue, the share of indirect taxes now ranges from seventy five to eighty per cent. The principal direct taxes are land revenue tax, income tax, house and land registration fees, vehicle tax, urban house and land, tax on interest entertainment, hotel, air flight and contract tax. The main sources of indirect taxation are customs, excise and sales taxes. These are collected through customs offices at various points, excise duties through the various excise offices and the rest of direct taxes through income tax offices. Tax policies are generally declared through the budget speeches.

The main objectives of the Tax Policies are :

- (a) To make taxes more progressive and practicable from the standpoints of tax paying capacity and administration, rather than just increasing the government revenue.
- (b) To emphasise the natural growth of the revenue base rather than increasing tax rates or proposing new taxes.
- (c) To create conditions for an increase in production by encouraging the flow of investment towards priority sectors set by the planned program for development and also to discourage activities, which do not country with achieving national objectives

(d) To reduce the unequal distribution of income and lead the country towards the welfare state through progressive taxation .

(e) To create an appropriate environment for encouraging productivity , investment and saving .

(f) To co-ordinate various objectives such as ensuring regular supply of necessary articles and development goods ; discouraging non-essential imports , protecting domestic industries through tariff measures , controlling unauthorised movements of goods through the open border and collecting revenues for the growing development expenditure of the government .

Since the financial year 1991-1992 , it has been realised that unless the rate of economic growth were to accelerate , further increments in tax rates and the introduction of new taxes would have negative economic impact . Thus efforts were directed (a) to widen the tax base by means of discretionary measures bringing a larger number of people into the tax net (b) to rationalise revenue administration by strengthening administrative capabilities and (c ) to prevent leakage . The trends of revenue collection has been upward . Tax rates have not been comprehensively changed , except for some discretionary adjustment to fulfil economic objectives as envisaged in the country's periodic plans . The Financial Comptroller General's office checks the financial statements received from the ministries and the District Treasury and Account Controlling offices . He also maintains a liaison with the taxes offices to observe the collection rate of taxes .The Financial Comptroller General office regularly transmits financial information to the Ministry of Finance .The Economic Analysis Division of the government examines the situation at the macro level and to supply necessary information to the related divisions of the Ministry to make financial decisions and issue necessary directives. Such directives help to improve the formulation and execution of the national budget as already mentioned. The income through revenue is thus estimated prior formation of budget .So the Financial Controller General is responsible to collect necessary information regarding collection of revenue . The monitoring system is impeded because of weakness in transmitting monthly details to the centre . Integrated financial statements are prepared

nine months after completion of a financial year. Given such delays , the Ministry of Finance finds difficulty in monitoring government expenditure and income on a regular basis . In 1986 , to address this problem , the Ministry of Finance installed IBM compatible computers for monitoring certain information to be collected directly by the Ministries and the District Treasury and Account Controlling offices . This system applies to seventy nine key projects in various sectors such as agriculture , forest , irrigation and roads . This has helped the Ministry of Finance to review these budget programs more objectively . Side by side , the taxes offices are being reorganised to make the offices more effective in collection of revenues . The Government of Nepal is trying to introduce new modern technology in collecting taxes and other revenues .<sup>45</sup>

#### **TAX ADMINISTRATION IN PAKISTAN**

In Pakistan , the tax administration is a legacy of British regime but Pakistan brought in changes in many stages in its tax administration and structure .The highest administrative authority of revenue matters in Pakistan is the Central Board of Revenue . The Board consists of full time members and has a full time Chairman . At present one Cabinet Minister is the Chairman of the Board of Revenue of Pakistan .The Income Tax , Sales Tax , and Wealth Tax are administered by Regional Commissioners and Commissioners of Income Tax . The Commissioners are assisted by Assistant Commissioners , Deputy Commissioners , Assistant Income Tax Officers and Inspectors .The Deputy Commissioner assesses and collects the demand raised against the tax payer .The Assistant Commissioners are assigned the inspection or appellate work . The Customs and Excise duties are administered by Collector of Customs and Central Excise . The Finance Ordinance , 1979 was promulgated on June 28 , 1979 . The President of Pakistan promulgated the Income Tax Ordinance , 1979 on June 30 , comprising hundred and sixty seven sections and seven schedules . This was made applicable to assessment year 1979 -80 . However the words , which have been used in the Ordinance of 1979 and all other notifications, rules , approvals which were in force on June 30 ,1979 and which are not inconsistent with the



provisions of 1979, the Ordinance will continue to apply until rescinded or repealed . The Pakistan government adopted the Income Tax Act , 1922 on August 14 , 1947 . In June 1958 , a Taxation Inquiry Committee was set up . Its final reports appeared in two volumes. The Central Board of Revenue set up another Taxation Committee with the objective of simplifying the Income Tax Act and procedure and streamlining the tax law in general . The Taxation Committee , set up in Pakistan , submitted its interim report in July 1997 .Tax Administration in Pakistan is not very effective .Pakistan is heavily dependent on foreign assistance but its management of revenue collection is not skilled because of inefficient financial administration .<sup>46</sup>

### **TAX ADMINISTRATION IN INDIA**

Direct taxation is not a novelty in India introduced by the British but a most ancient and well known item . The British Government which had gradually abandoned direct taxation was obliged by financial necessities to revert to direct taxation in 1860. But instead of an indigenous model, softened and adapted to local circumstances , the Government unfortunately set up that of the income tax as in force in England .With one object or another , twenty three Acts on the subject were passed between 1860 and 1886. The details of the provisions in the Acts that preceded the Act of 1886 Act are of little interest now.<sup>47</sup> The Ministry of Finance of India in fact is the highest authority for maintaining all revenue matters of the country but the Central Board of Direct Taxes or the CBDT is the highest executive authority whose powers of administration , supervision and control extends over the whole taxes departments . It is constituted under the Central Board of Revenue Act , 1963 . The CBDT has been vested with a wide variety of powers important among which are as follows (a) The Board may , subject to the control of the central government and by notification in official gazette , make rules for carrying out the purposes of the Act . These Rules may provide for certainty and determination of any class of income , computation of income from agriculture , determination of liability under section 64(2) , percentage of depreciation , valuation of perquisites , matters specified in the section , 37 , 44A , 80G , 88 , 139 , 139A , 142 (2A) and 180 , the

procedure for giving effect to the terms of an agreement for double taxation relief , calculation of interest and the form and manner of filing appeals etc (b) It has power to issue such orders , instructions ,directions etc. to other I-T authorities as it may deem fit ,for the proper administration of the Act and the I-T authorities as it may deem fit , for the proper administration of the act and circulars of the Board make for a just and fair administration of the law (c ) The Board can , through these circulars , relax the rigour of law and grant relief not available under the statute . But it cannot impose a burden on the taxpayer or put him in a position which is worse than otherwise under the statute . However , the Board has no power to issue any order etc so as to (a) require any I-T authority to make a particular assessment or to dispose of a particular case in a particular manner or (b) to interfere with the discretion of any appellate authority , namely Commissioner ( appeal) or Deputy Commissioner ( appeal) .The Board shall perform its various functions as a single body .But in certain cases it may also assign its various duties and functions to its individual members .<sup>48</sup>

India is a big country with a big population but its taxation system is not very modern. For which taxes from many sectors are not collected and for lack of computerisation , there is no strong network of tax collection . Although in India there are two Board of Revenue one for direct taxes another for indirect taxes but the performance of tax collection is not satisfactory .

## **TAX ADMINISTRATION AND TAX STRUCTURE IN BANGLADESH**

### **FOUNDATION OF A TAX STRUCTURE**

In the present era , the stability of any state and its economic structure is strongly correlated with the shape and framework of its taxation system . The importance of taxes can be judged from the fact that when one is born one has to pay taxes when one lives one has to pay taxes and God forbid when one dies , taxes are after him .Every person interested in the economic affairs of a country must at least know its taxation structure .The aim of the tax structure should not be only to raise adequate resources for the public sector .The revenue should expand more than in proportion to the increase of national income so that the state can finance a continuously

expanding program of investment .<sup>49</sup> But framing of a tax structure that would maximise attainment of the goals of the tax system, is a highly complex task .In Bangladesh the tax structure is very complicated and fluctuating in nature . Table-12 shows the tax structure indicating fluctuating nature in collection )

## DESIGN OF A TAX STRUCTURE

Two important segments of taxes are direct tax and indirect tax . Direct taxes are preferred on the grounds of equity and efficiency . But in an underdeveloped country like Bangladesh an important consideration is the aspect of Indirect taxes like Excise duties or VAT, because of its easy administration and rapid collection . In order to design the tax structure , appropriate care has to be given in the curbing of inflationary tendencies of the economy which is the basic purpose of taxation . But the curbing of inflation or avoidance of inflation would not ensure rapid economic growth in the country . Because , inflation can not be avoided only by cutting down investment , rather by raising the rate of savings . A high rate of investment may be sustained without undermining stability . Taxation therefore , is to be looked upon as a powerful tool in the hands of the government for raising the ratio of savings to national income . Recent trends in thinking for the design of tax structure is in favour of insuring collective compulsory savings through taxation. Business savings also are not properly invested into agriculture and industry. They are used for speculative purposes and for investments in real estates . Taxation , therefore remains as the only effective financial instrument for reducing private consumption and investment and transferring resources to the government for economic development . The tax structure has also a direct impact on investment polices and supply of money capital in the country . The bulk of equity capital comes from the higher income groups and accordingly , the effects of taxes on these groups are of primary importance .The tax structure has a definite effect upon the incentives to persons , especially in the income classes , in the undertaking of various investment program.<sup>50</sup>



TABLE-12  
REVENUE RECEIPTS OF THE GOVERNMENT OF BANGLADESH (NBR COMPOSITION)

| Period       | Customs | Excise duty | Income Tax | VAT       |         | Total   | Supl. Tax Domestic | Supl. Tax Import |
|--------------|---------|-------------|------------|-----------|---------|---------|--------------------|------------------|
|              |         |             |            | Domestics | Import  |         |                    |                  |
| 1991-1992    | 27460.2 | 14033.4     | 12940.3    | 4555.3    | 12697.4 | 17352.7 | 260.1              | 27.1             |
| 1992-1993    | 28577.0 | 3309.0      | 16131.5    | 8319.6    | 17317.7 | 25637.3 | 9812.3             | 311.2            |
| 1993-1994    | 29835.8 | 15079.7     | 17049.0    | 10327.3   | 47134.9 | 27462.4 | 11824.0            | 704.1            |
| 1994-1995    | 36769.4 | 1778.2      | 14915.6    | 12483.4   | 22162.3 | 34645.7 | 13441.2            | 1876.1           |
| 1995-1996    | 7725.8  | 1830.9      | 15332.1    | 13047.2   | 25559.8 | 38607.0 | 14641.5            | 3594.9           |
| 1996-1997(p) | 40073.5 | 2001.8      | 16406.9    | 15179.3   | 27890.6 | 43069.9 | 16191.3            | 4521.9           |
| 1996-1997    |         |             |            |           |         |         |                    |                  |
| Jan          | 3380.1  | 120.0       | 1049.1     | 1128.0    | 2446.0  | 35743.0 | 1233.3             | 331.2            |
| Feb          | 2859.4  | 465.7       | 825.9      | 1250.5    | 1887.3  | 3137.8  | 1520.4             | 406.4            |
| Mar          | 3803.3  | 284.1       | 1568.7     | 1265.1    | 2642.0  | 3907.1  | 1401.0             | 495.8            |
| Apr          | 3586.5  | 143.5       | 1208.1     | 1374.8    | 2430.5  | 3805.3  | 1416.9             | 540.3            |
| May          | 3181.3  | 156.5       | 1506.9     | 1612.8    | 2132.4  | 3745.2  | 1256.5             | 410.0            |
| Jun          | 3942.6  | 134.9       | 3907.1     | 1883.7    | 2857.5  | 7441.2  | 1754.4             | 498.1            |
| 1997-98      |         |             |            |           |         |         |                    |                  |
| Jul          | 2666.8  | 113.9       | 819.3      | 1005.1    | 1789.4  | 2794.5  | 1037.7             | 195.8            |
| Aug          | 4300.7  | 119.9       | 985.0      | 1251.2    | 2682.7  | 3933.9  | 1418.0             | 528.6            |
| Sep          | 3995.5  | 126.3       | 1533.9     | 1266.1    | 2601.3  | 3867.4  | 1356.7             | 510.6            |
| Oct          | 3843.3  | 127.0       | 1173.6     | 1436.6    | 2469.2  | 3905.8  | 1419.0             | 443.6            |
| Nov          | 3323.5  | 128.7       | 1121.8     | 1212.7    | 2121.2  | 3333.9  | 1399.4             | 443.6            |
| Dec          | 3518.9  | 126.2       | 1741.4     | 1386.3    | 2084.7  | 3471.0  | 1230.8             | 417.3            |
| Jan          | 3694.6  | 125.2       | 1160.0     | 1290.7    | 2175.3  | 3466.0  | 1460.8             | 437.5            |

Source: Bureau of Statistics, GOB

## MAIN CHARACTERISTICS OF TAX STRUCTURE

The tax structure of Bangladesh is changing bound for various reasons. The main causes of tax structure changes in Bangladesh can be best explained under the following heads :

**(a) NEW BASES OF TAXATION :** One of the most significant developments in the tax structure of Bangladesh has been the extensive widening of the base of taxation and the induction of a number of new bases such as gifts and estates at death , wealth , expenditure , agriculture , sales etc. At the same time , it needs to be pointed out that the bases of various taxes have been constructed and provided a number of exemptions and deductions of taxes leaving a big loophole in the tax system of the country .<sup>51</sup>

**(b) CHANGING ATTITUDES IN TAX RATE :** Personal tax rate has also been changed in respect of earned income relief both from salaried and non salaried source of earned income . The rate of all personal taxes should be progressive . It is perhaps the easiest to manipulate.<sup>52</sup>

**(c ) COMPLEX RATE :** Slab rate of tax and flat rate of tax sometimes make the structure complicated in most of the years . When a flat rate is followed no consideration is given in the principle of progressive taxation . The effective tax rates at different income levels have fluctuated throughout the decade . No uniform pattern is visible as to their increase or decrease . Even if equity suggests a progressive tax structure , it remains the same type of progression, particularly the income tax rate structure which has possessed from year to year.<sup>53</sup>

**(d) UNSTABLE TAX STRUCTURE .** Bangladesh has followed the British tradition of budget secrecy which prevents any effective pre budget discussions . The tax structure in Bangladesh is erratic and unstable . Though one of the characteristics of tax system is its flexibility , but the great defect is its ever changing character . Certainly this indicates lack of due thought and consideration before a fiscal measure is enacted by the government in the country.<sup>54</sup>

**(e) WEAK TAX ADMINISTRATION :** The country requires a top grade tax department to run the tax administration efficiently . The administrative personnel are not trained

enough . They are not acquainted with the new sophisticated tax structures and these tax structures are not also properly designed for understanding easily.<sup>55</sup>

**(f) TAX AVOIDANCE :** Tax evasion results in revenues lower than expectation . This evasion sometimes forces the government to raise taxes further and this process leads to more and more evasion of tax . This avoidance of tax cannot be completely eliminate unless gifts and bequeaths are treated as income . It can also be checked partially by the full integration of gift with income tax . The Ceylonese Estate and Gift tax laws could perhaps serve as model for Bangladesh .<sup>56</sup>

**(g) ACCOUNTING RECORDS :** In our country many businessmen keep no records and books of accounts at all . Others maintain two or more sets . Preservation of accounting records with honesty and reliably is an important condition for satisfactory collection of tax . Vigorous tax administration can do much to improve accounting standards if combined with an educational campaign .<sup>57</sup>

**(h) LIMITED COVERAGE :** Present coverage of income tax in Bangladesh is very limited . Moreover , the minimum exemption limit of taxable income from 1995 -96 is fixed at Taka 60000.00 which is highly comparable with the average income in the country . Persons below this minimum level should also contribute to the national development .

The tax structure in Bangladesh has not been excessive to the industries as the government allows the industries with the facilities of tax holiday benefit and other tax exemptions . The tax structure trends in Bangladesh show that about eighty percent contributions to the total tax revenue of the government come from indirect taxes . This trends of contribution has been increasing day by day.<sup>58</sup>

Problems arising from taxation rest on the question of incidence as more revenue comes from income taxes which can easily be shifted to the consumers and ultimately the consumers have to bear the incidence of these taxes . Therefore , the view of Industrialists in respect of high tax structure , regarding the growth and development of industries and investment , carries no importance as incidence of all those taxes is on the consumers . Moreover , tax concessions , liberal depreciation allowances and tax evasion have reduced the incidence of taxation in industry.<sup>59</sup> However , the tax



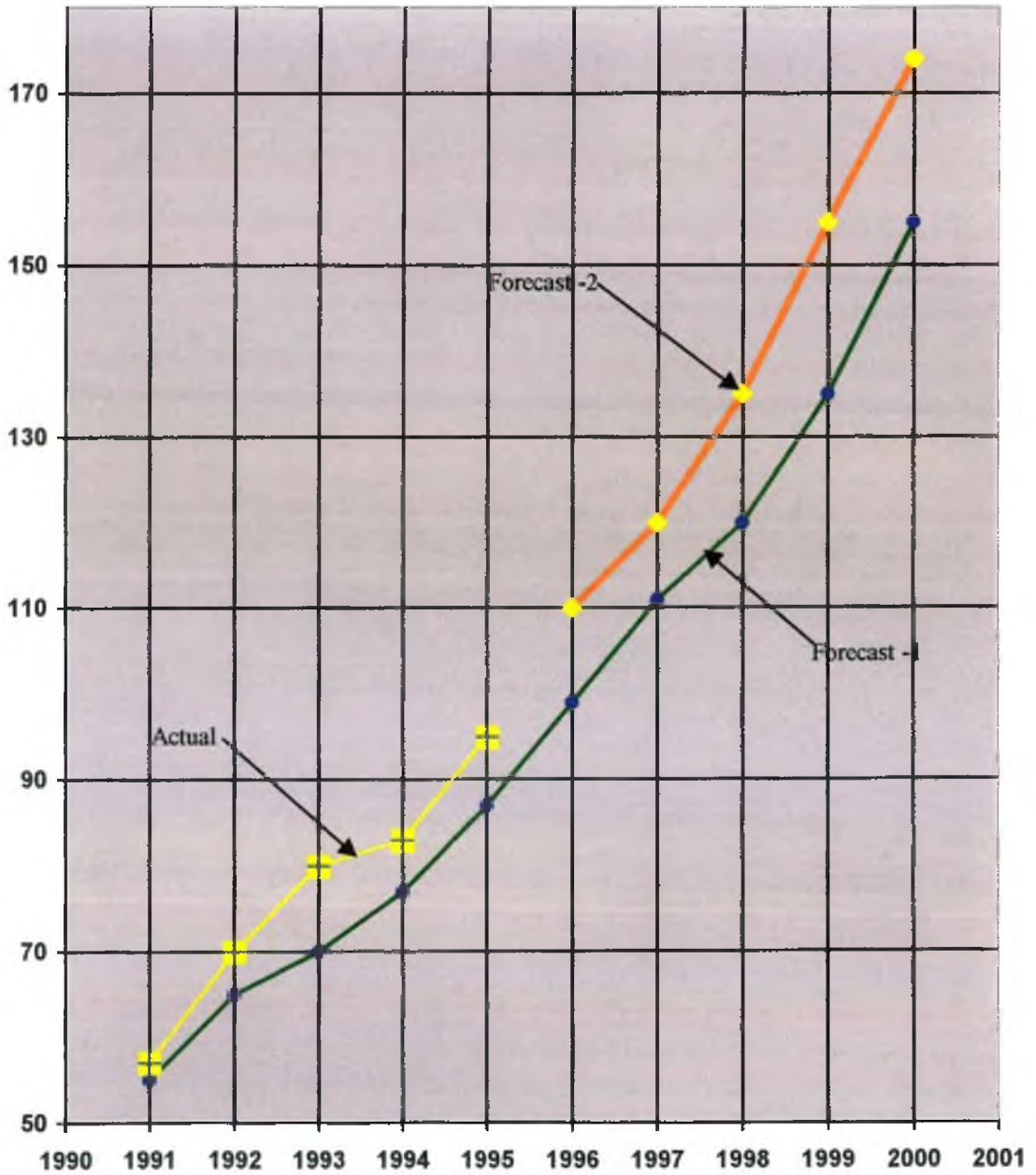
structure of Bangladesh is changing in nature .It differs from one year to another. (Table-13 shows the changing nature of Tax Structure of Bangladesh ).

#### **FIELD REVENUE ADMINISTRATION:THE NATIONAL BOARD OF REVENUE**

In the field financial administration ,the National Board of Revenue or the NBR is the main organisation for the purpose of collecting all sorts of revenues for the government of Bangladesh with a few exception<sup>60</sup> but the National Board of Revenue originated on the basis of Income tax laws made by the British ruler . Income tax Act , 1860 is the first section of written laws for collecting taxes in the subcontinent .With the vicissitudes of time , this called for improvements and the British introduced a more developed set of law which is the famous Income tax Act , 1922 . This Act introduced , with effect from 1.4. 1922 a rational , legal method of collection of direct taxes with full powers for the assessors to challenge legally any tax demand that they may consider as violation of the provisions of the Act . It is a great leap to forward in respect of the concept of fundamental rights of the Indians who , under the previous kings and monarchs , had no such right to object . Income Tax , 1922 was in force until the partition of India on the 14<sup>th</sup> of August , 1947 and after that both the governments of India and Pakistan continued the law with necessary amendments . Bangladesh , then called East Pakistan , inherited the law with effect from 26.3.71 . Income Tax Act 1922 used to be branded in many quarters , as a complicated piece of British legislation . Primarily this feeling was developed with the idea of attaining the tax laws to the needs of the new Republic . However , Income Tax Act , 1922 has been redrafted and Income Tax ordinance , 1948 has been brought into force with effect from 1.7.48 . The constituent element of each provision of old Income Tax Act , 1922 , has been brought to the fore in a simple and comprehensible manner . The different fiscal statues as inherited from Pakistan are now being administered in Bangladesh . The foremost objective of taxation is to provide revenue for the government with a view to financing the manifold expenditures . Taxation is thus essentially a revenue measure but as in other developing countries , taxation is being increasingly used in Bangladesh for achieving other social and economic

TABLE -13

**CHANGING STRUCTURE OF TAX REVENUE IN BANGLADESH  
(Billion Taka)**



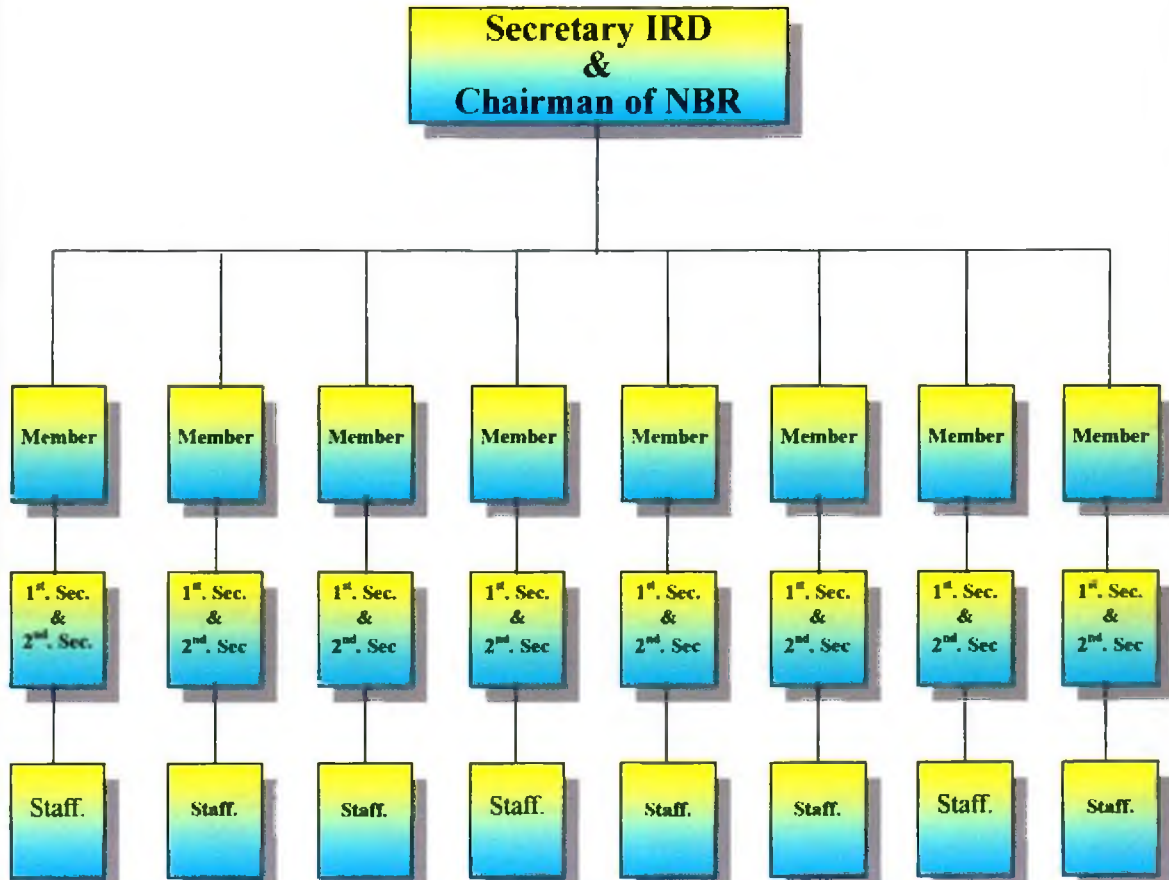
Source : National Board of Revenue of Bangladesh

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objectives , such as reduction of inequality of income , reducing concentration of wealth in the hands of a few , control of capital market , incentive for savings and investment and also for industrial and economic development.<sup>61</sup>The President Order No 76 of 1972 , which consists the National Board of Revenue Order , 1972 created the National Board of Revenue.<sup>62</sup> (Figure -20 shows the administrative structure of the NBR) . It is the successor of the former Central Board of Revenue of Pakistan . In Bangladesh , the highest field administration for taxes is the National Board of Revenue as mentioned earlier . The good performance of the Board of Revenue is the precondition of dynamic financial administration , policies and activities of the government . So it is very important part of the financial administration of the country . In Bangladesh, the National Board of Revenue administers (a) customs duty on imports and exports , sales tax , regulatory duty and development surcharge of imports (b) excise duties on domestically manufactured goods and on narcotics , liquor ,regulatory duties on excise and the turnover tax on specified goods and services(c) direct taxes including income and corporation taxes (d) It helps the government to formulate tax policy in preparation of national budget and extends assistance to the government regarding contracts of taxes with the international organisations and countries .It is also involved in preventing smuggling ,formulating import export policies too. However, land development tax is administered by the Ministry of Land and vehicle tax by the Ministry of Home Affairs. The Secretary of the Internal Resources Division under the Ministry of Finance is the ex-officio Chairman of the NBR . He is assisted by the five senior officers as members of Board from customs and excise department and four senior officers as members from Income tax department . Moreover , there are eighty two posts of class - 1 officers , one hundred and ninety eight posts of class - 3 employees and ninety one posts of class - 4 employees in the organisation structure of the NBR.<sup>63</sup> The different fiscal statues as inherited from Pakistan are still being administered in Bangladesh with changes here and there to suit the changed circumstances .After the independence of Bangladesh , the National Board of Revenue is the field body to implement the fiscal policies of the government .The Parliament is the highest authority for imposition of



**FIGURE -20**  
**STRUCTURE OF NATIONAL BOARD OF REVENUE OF BANGLADESH**



taxes but collection of such taxes are administered by the National Board of Revenue in Bangladesh with the help of its subordinate departments .It is very unfortunate that the NBR is still functioning on the basis of the rules and regulations of the former Central Board of Revenue of Pakistan . New rules and regulations to run the NBR are yet to be framed.<sup>64</sup>

## **STRUCTURE OF TAX ADMINISTRATION**

The NBR is the field body to implement the fiscal measures of the government as already mentioned . It operates also above the Commissioners of Taxes and Collector of Customs in the pursuit of collection of revenue budget .In the revenue or taxes organisational set up of Bangladesh, there are two set up and one is Income Taxes Department known as Office of the Commissioner of Taxes and another is Customs VAT Department . For the purpose of present study attention have been given to the taxes department .However , the hierarchy of the whole Taxes administration could be seen in the following stages :

- (a) The National Board of Revenue
- (b) Director General of Inspection (taxes )
- © Commissioner to Taxes (appeal)
- (d) Commissioner of Taxes
- (e)Additional Commissioner of Taxes who may be either Appellate Joint Additional Commissioner of Taxes or Inspecting Additional Commissioner of Taxes .
- (f). Joint Commissioner of Taxes who may be either Appellate Joint Commissioner of Taxes or Inspecting Joint Commissioner of Taxes .
- (g) Deputy commissioner of Taxes or Tax Recovery officers.
- (h) Assistant Commissioner of Taxes or Extra Assistant Commissioner of Taxes and
- (I) Inspectors of Taxes .

Appointments of Income Tax Authorities are made in accordance with the provisions of the Ordinance , 1984 subject to the terms and conditions applicable for a public servant of the country .The NBR is authorised to appoint as many Directors of Inspection & Training (Taxes) , Commissioner of Taxes , Joint Commissioners of

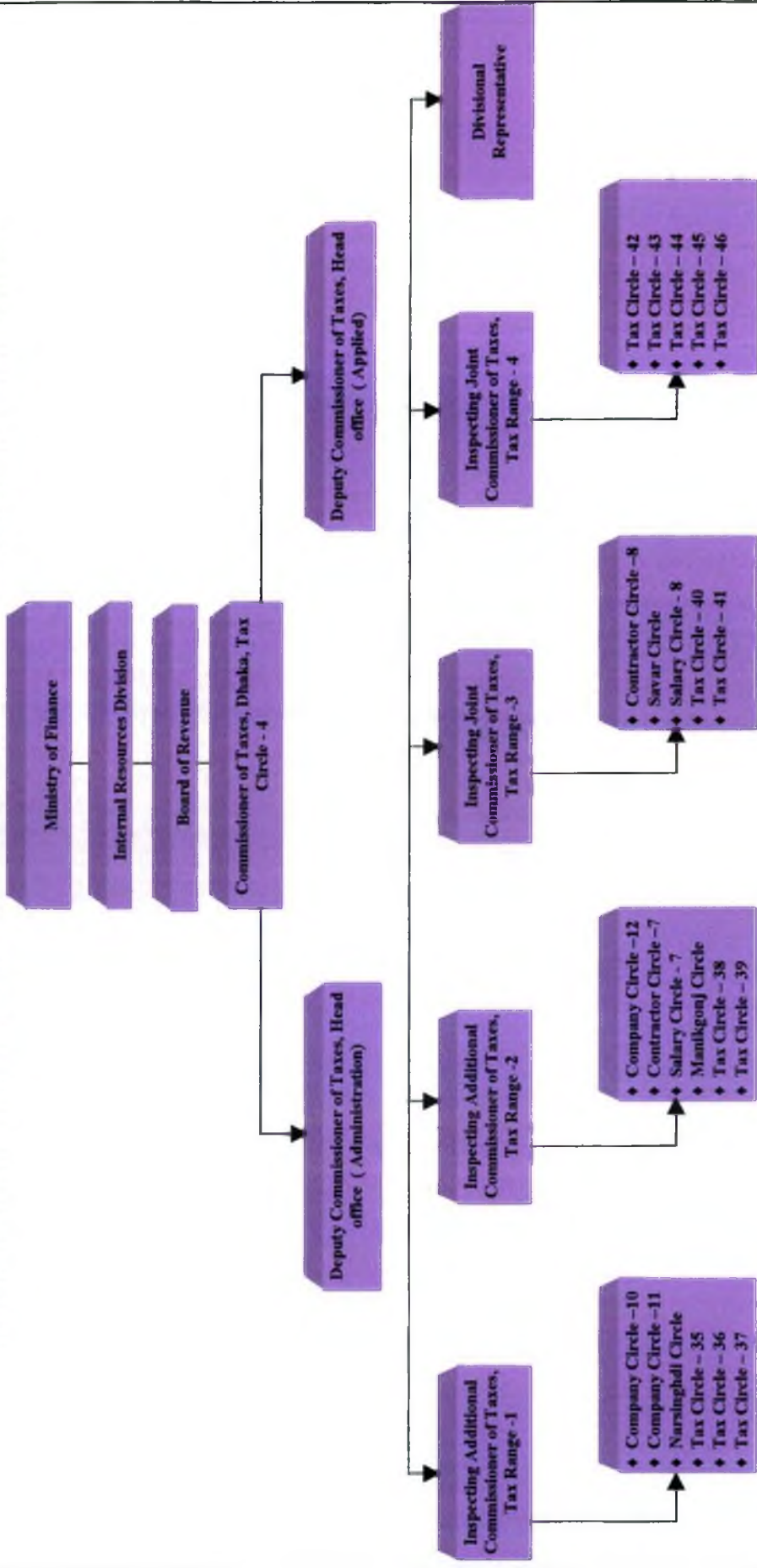
Taxes, Deputy Commissioners of Taxes ,Tax Recovery officers and Assistant Commissioners of Taxes and such other executive of ministerial officers and staff as it may find necessary to carry out the responsibility on it.<sup>65</sup>

**(a) COMMISSIONER OF TAXES**

After Board of Revenue , the office of the Commissioner of Taxes are the line agencies to run administration and implementing decisions. (Figure-21 shows the administrative structure of the office of the Commissioner of Taxes of Dhaka ) The country at the moment is divided into fourteen taxes zones , each headed by a Commissioner of Taxes . A Commissioner of Taxes receives allocation of revenue budget from the National Board of Revenue and then he distributes it to the IJCT , DCT &ACT . The EACT is posted in comparatively less important circles but they exercise the full powers of the DCT .The Director General of Inspection , Commissioners ( appeal ) and Commissioners of Taxes are subordinate to the NBR .In order to ensure independence of judicial decisions, Commissioner ( appeal ) and Appellate Joint Commissioner is placed under the NBR ,while an Inspecting Joint Commissioner is placed under the Commissioner of Taxes . It is clearly provided for in the provision to section five that no order , direction or instruction shall be given so as to interfere with the discretion of the AJCT. They are free to write any judgement but subject to show appropriate reasons .Other Income tax authorities perform such functions as may be allotted to them by the authority to whom they are subordinate. Any area or jurisdiction or function assigned to an I.T. authority , can be modified or varied or may be transferred to any other authority at any stage of the proceedings .But when more than one authorities have been assigned the same functions in respect of any area or reasons, they shall perform those duties in accordance with such allocation or distributions as the authority assigning the functions may be divided . The powers of the transferring authorities include the powers in respect of all or any proceedings relating to such case and except where the assess is genuinely aggrieved , no such assignment, transfer or performance of functions can be called in question by or before any court or other aggrieved may



**FIGURE - 21**  
**ADMINISTRATIVE STRUCTURE OF THE OFFICE OF THE COMMISSIONER OF TAXES**



within thirty days of such order, make a representation to higher authorities and any order passed thereon shall be final.<sup>66</sup>

#### **(b) DIRECTOR OF INSPECTION & TRAINING**

The Director of Inspection & Training ( Taxes ) , Commissioners and Additional Joint Commissioners of Taxes perform their duties within the jurisdiction of functions which are determined by the Regional Commissioner of Tax . In the hierarchy mentioned above , the Director of Inspection & Training (Taxes) ranks second . In the section 6(a) of ITO, it is ensured that the directors shall perform such function as may be assigned to them by the NBR . It would be ideal if the director would have been given statutory powers and then the designation of the post could be self - explanatory . The offices of the DCTor the ACTor the EACT are periodically inspected by the JCT but the offices of the DCT and have remained sacrosanct. In the interest of effective control of the NBR, which is the finally responsible to the government , the DCT office should be inspected regularly by the member of the NBR. The powers and functions of the Director of Inspection and Training (taxes ) should be also enlarged enough to include the offices of JCT and CTS and therefore , the post should be upgraded to the level of a member of the NBR . The post of the Director of Training is very important for round the year training of officers and staff which is necessary for keeping up the quality of tax administration.<sup>67</sup>

#### **(c) THE IJCT & HIS ROLE**

Right below the Commissioner , two types of Commissioners one is Appellate and another is Inspecting , work for assisting the main Commissioner in his executive and judicial functions . The Inspecting Joint Additional Commissioner directly assists , guides and instructs the DCT or other Assessing officers . The IJC remains responsible for running the ranges which comprise circles which may vary in members. The IJCT are directly involved in the assessment and collection of taxes . They not only guide the DCT but can also seize duties of DCT . Under Section -120 , the ITC have been given the power of revising the order of the DCT. The IJCT ,

being such a senior officer in the hierarchy and the government, does not have any administrative power of his own. He writes the ACR of the officers and countersigns the ACR of the staff of all tax circles of his range. But he cannot transfer even an MLSS from one circle to another. His administrative responsibility lags far behind his revenue power. He should be made an effective aide in the administration of the tax zone. He should be given some financial powers which are now entirely enjoyed by the Commissioner. If he shares administrative powers with the Commissioner, the latter would have more time to devote to the other administrative functions. It would bring also good results if some of the powers of the Commissioner are handed over to the Additional Commissioner. The IJCT or ACT are responsible for collecting the revenue target of their ranges. It is however a sum total of the revenue budget of the circles which make the range and he is responsible for fulfilling the target of his range, also those of some administrative powers in his range. The administrative power of an IJCT is practically nil. Of late there are constant erosions of discipline in the day to day business and therefore, it would be ideal if the IACT is turned into an effective administrative officer of his range. The IACT should have an earmarked role in the posting and transfer of officers of the zone concerned. The limitation of assessment power of the officer is another important matter in tax administration. There are three types of Assessing officers such as DCT, ACT and EACT. There should be a uniform policy in respect of distribution of assessment power limits to Assessing officers of different zones, centrally guided by the NBR. The IJCT, who are the immediate controlling officers of the DCT, ACT, EACT should be consulted before assessment power limits are dished out to Assessing officers. Under the law, the IJCT or IACT are there to assist, guide and instruct the officers. They know directly which officer is of what standard. While pursuing a uniform policy for distribution of assessment power limit, the question of individual merit, honesty should not be lost sight of. This will generate confidence in the minds of the right type of officers, and will have a salutary effect on the overall task of revenue collection. <sup>68</sup>



#### **(d) DEPUTY COMMISSIONER OF TAXES**

Of the authorities mentioned, the Deputy Commissioner of Taxes are the king pin of tax administration . They create the tax demand through an assessment order and they remain responsible for collecting it . Approximately sixty percent of the officers of BCS(taxation) cadre consist of the Assessing officers .The DCT is the pivotal of tax administration . All actions regarding taxes are initiated and closed by him. Authorities below or above the DCT are there to assist, guide and instruct . The DCT is to assess and compute the total income of the assessed . As per the IT provisions, the power and function of the DCT can be broadly divided into three heads(a)assessment and computation of total income(b) creation of tax demand on behalf of the republic and(c ) collection of the same into treasury . It is an onerous task because it is the duty of a good shepherd to shear his flock not flay them . The DCT faces the challenges of check and balance of both the Executive and the Judicial powers . The first power , pushed a little more than due, makes him arbitrary and the second power so done makes him too weak . He walks on a tight rope . He issues notice calling for return of income under section 77/93 of Income Tax Ordinance . In case returns are not filed , he issues notice and hears the assessed under section 83(1)/79 for examining the accounts and statements and other connected evidences . In default of notices under section 77/93 , he is to complete the assessment to the best of his judgement under section 84 . After depending on the nature and extent of default , he has to initiate penalty proceedings and forward it to his higher authority for approval .<sup>69</sup>

#### **POWER OF THE DCT**

The DCT is the authority to rectify any mistake committed by him ,or by his predecessors . The DCT assumes the powers of a Judge within the meaning of the civil procedure code ,129 , while recording the statement of the assessed or when any person is summoned under section 108 of the I.T. Ordinance. The DCT has the power to impose penalty , not exceeding the original amount of tax and penalty , which is in the eye of income tax law, is a kind of tax . Thus the DCT has the power to double

up the original amount of tax . The satisfaction of DCT vests him with large discretionary power in the course of assessment proceedings. The DCT preserves such powers by virtue of his position and rank . However ,the office of the DCT includes the ACT and the EACT as far as the powers and functions are concerned . The DCT is a senior scale class - 1 officer . The ACT is class -1 junior scale officer while an EACT is a class -2 officer . In the taxes administration this mixture of position has been the sources of untold conflicts , infighting and consequent malfunctioning of the system.

In the hierarchy of Taxes authorities, the DCT ranks five, the ACT seven and the EACT eight, the tax Recovery officer is six. This amalgam of authorities with those below corrodes the image of the above, it has an unseen chain- effect. The DCT previously designated as ITO is a British legacy and has been an institution through the passage of time . It would be in the interest of better tax administration , if it is possible to keep up the old image of this post . Equal pay for equal work is the theme of natural justice . An ACT or EACT , drawing lesser pay and being junior and different in class , is not expected to rise to the occasion wholeheartedly . At the moment there are a number of EACT in the department. They are exchanging postings with ACT and DCT barring companies circles and in some cases they are additional officer . This has been causing disaffection and bickering among the officers of the tax administration. A tax circle is a nucleus for the whole tax administration . So the Assessing officer in charge of it should be at peace with himself .The task of an Assessing officer is very difficult . His order is appeal able even to the Honourable Supreme Court . He is the kingpin in government efforts of revenue mobilisation. He should not be below the level of a class - 1 officer. During the Pakistan regime , all class-2 Assessing officers, then called AITO or EO , were upgraded in 1957 as class-1 officer on that consideration but for reasons best known to the doers, the bifurcation was revived later. At the moment the in fight between the EACT and the ACT has taken such an alarming proportion which calls for an immediate solution . In the greater interest of revenue administration it would be ideal to put only class-1 officer in charge of assessment and collection. Recruitment to class-2 post either directly or

through promotion should be called off. The direct recruitment of EACT should be arranged. Suitable rules should be framed to ensure legitimate seniority of the officers concerned.<sup>70</sup>

#### **SUBMISSION OF RETURN BY THE DCT**

The DCT generally submits the following returns to the CT to give a monthly account of his works :

Return No .1: Statement showing individual progress of assessment for the month

Return No .2 : Statement showing the progress of demand and Collection for the month .

Return No .3: Statement showing areas Demand and Collection made through the Tax Recovery Officer .

Return No . 4: Statement showing the consolidated gross and net collection of taxes on income .

Return No .5: Statement showing deposits etc. under various Heads of taxes on on income for the month .

Return No .6: Details of transfer or Property Certificate .

Return No .7 : Statement of Refund -(a) No of Cases -(b) amount refunded .

Return No . 8 : Details of taxes deducted at source .

Return No. 9 : For overall arrears outstanding taxes for the month.

Return No. 10 :Wealth Tax Return statement showing progress of disposal demand and collection under the head of Wealth Tax or Gift Tax .<sup>71</sup>

#### **OFFICE OF THE COLLECTOR OF CUSTOMS**

The Collector of Customs is the another source of revenue and helping hand of the NBR. The Collector of Customs and other officers and staffs work under the supervision and control of the NBR. Comparatively it is smaller but important organisation as far as revenue collection is concerned . The Collector of Customs is the highest authority in the field level to collect customs and excise duties and recently introduced VAT . In the field level there are many offices for customs employees.



These are the Office of the Collector of Customs , office of the Deputy Collector , Assistant Collector , Superintendent of Customs . However , very recent ,the designation of the posts has been changed by the government as Deputy Commissioner of Customs and Assistant Commissioner of Customs . The office in the Airport , the Seaport and Land port of bordering districts are the most resourceful customs offices . In order to prevent smuggling , the Department of Customs also plays significant role . How ever , the officers of the customs department have many problems . Moreover , they do not have appropriate information technology to communicate with the proper authority timely . The department itself is familiar to the people as corrupted organisation . The employees collect revenues for the government but it is open secret that they also collect revenues for their own . There is an unwritten understanding among the inspectors of the department that every inspector would get posting by rotation in the Zia International Airport office of Customs , in the Seaport office of Chittagonj and Mongla and in the Jeshore Benapol Land Customs office . The Association of Inspectors have managed the highest authority for this kind of posting . So when one Inspector get posting in such places , he never , misses the chance to make black money by destroying the interest of the nation . This illegal and immoral system should be stopped forever .<sup>72</sup>

#### **INSIDE TAX ADMINISTRATION : CRITICAL DISCUSSION**

Direct recruit Assistant Commissioner of Taxes of BCS(taxation) cadre should not be let off from the Directorate of Training until they pass the departmental examination in higher standard. The Director of Training should be given the authority to conduct the examination and train an officer down to his first posting. On passing the departmental examination, the probationary officer should be posted for practical training in assessment and collection. There may be a circle called special circle comprising all types of cases, wherein the probationer ACT would receive practical training for at least one year . The special circle should be in charge of a very senior DCT. In a joint circle , the probationary officers would draft assessment orders under the guidance of the DCT of the special circle . It is to be ensured that

probationer has passed draft assessment orders in all types of IT cases , including salary and professional ones. He must qualify in writing at least twenty assessment orders of twenty types of business , profession and vocation before he passes out of the Directorate of Training for posting in a particular zone as an Assistant Commissioner of Taxes . While posted in a circle his assessment power limit should increase gradually as per recommendation of his IJCT.<sup>73</sup>

A DCT cannot be efficient if his staff are not efficient . He is the leader of the nucleus. So all the components must be well trained and properly motivated. The non gazzetted staff must be periodically trained in the Directorate of Training . Suitable yearly calendar for staff training should be prepared for round the year training . In the past the department examination used to be arranged only for the DCT in one examination hall . Presently the DCT and the staff sit in the same bench for the same kind of question papers . A law and order situation develops in the examination hall and police help has been sought in the past . The question patterns meant for the staff should be so designed as to test their knowledge in the particular angle of the kind of works they are expected to do .The staff would not write out a judgement , they will calculate the tax payable , including advance tax and fill in T- 30 , write notes in the order sheets , prepare register for entry of the case , maintain forward diary and so on. If they are separately examined on separate question papers , the examination hall would be manageable .This would rationalise the system of examination as well.<sup>74</sup>

### **LESS CO-ORDINATION**

Since the creation of Bangladesh , inspections by the member of the NBR , Director of Inspection or Commissioner of Taxes are hardly noticed . Inspection works done by such senior officers which are virtually necessary for proper assistance , guidance and instruction of the officers working down the tier . But in the absence of periodical inspection, control of the authorities has slackened . It should be restored. Faults found during inspection must not be dropped on account of undue favour . Once the control is established quality of work would improve . Side by side honest and efficient officers should be given better posting and quicker promotion . In

formulating annual revenue budgets ,the views of the tax circles based on facts and data should be given importance and should be obtained from the DCT . The system of submission of annual administrative reports on the part of the DCT must be reintroduced .A printed form of this kind of report used to be used in the Pakistan period . This report gives the total picture of the circle in respect of arrears taxes , current possibility of demands and future potentials . It is necessary to make the revenue budget more realistic so that the DCT can fairly do it.<sup>75</sup>

### **SPECIAL PAYS**

In the days gone by special pays for the company circle DCT and IJCT of range -1 were given as the first or second secretaries of NBR use to be paid . This was in vogue in view of the specialised and strenuous nature of works . These are the days of expansion of facilities and not contradiction . It has been suicidal to withdraw the special pays allowable to the officers mentioned above .The post of departmental representative in the Taxes Appellate Tribunal should be revitalised .The appellate assessed engages a professional lawyer to conduct and argue the case in the Tribunal. The DR on the other hand represents and argues on behalf of the Department of Taxes just as a lawyer does for his client . But his working conditions are not at all like those of his colleagues, it is known to all concerned that the Additional Commissioner detests this posting . A kind of special pay may be reasonably considered for the DR.<sup>75</sup>

### **POSTINGS OF ASSESSING OFFICERS**

The DCT ,the ACT,the EACT are creating problems for the administration for posting in good places . The DCT, the ACT who are Class - 1 officers are not happy because of good postings given to the EJECT . Actually the standard yardstick for posting of officers should be experience , efficiency and good reputation . But when it does not happen in taxes offices, it poses a serious problem for the administration. The Assessing officers should be all class - 1 officer , because an assessment order may be appealed against even up to the Appellate Division of the Supreme Court .



Inspectors of Taxes would render more satisfactory service if they are made gazetted class - 11 officer . They are a statutory authority and hence should not be neglected as non gazetted officers . This class of officers must be fully utilised for the good to the department.<sup>75</sup>

### **GENERAL VIEW ON TAX ADMINISTRATION**

For tax reform it is needed first to formulate policies in order to strengthen the tax administration significantly. In the area of international trade based taxes, computerisation of custom clearance operation and the development of a modern information management system should help to improve this situation .For the domestic indirect taxes ,the emphasis should be given on inclusion of the maximum number of firms into a VAT system through a systematic drive for registration . Most importantly all new services need to be brought under the tax net .In the direct tax area , the thrust of tax administration would be to expand the system of withholding a source and to set yearly targets to identify new personal income tax payers.<sup>76</sup>

Reforms of excise duties involved (a) reducing slices and categories of dutiable items (b) switching to a self assessment system and ( c) a gradual movement from specific to different rates .These steps were started in the mid - 1970s but the pace accelerated in the early 1980s .The self assessment of excise duty on manufactured goods started in January 1984 . Prior to that manufactured , goods were cleared in the presence of excise officials at the factory premises . This required a large retinue of tax officials and the presence of tax officials was not liked by industrialists .Besides this, it was felt the on site inspections would be unmanageable as industries grew in number. Therefore the collection procedure was changed .Under the changed arrangements, the industrialists themselves render accounts and pay duty accordingly. This arrangement required recasting the excise department but it released a large number of officials who were now free to strengthen inspection and monitoring , in order to reduce evasion . The result of these measures has been salutary . There has been an increase in excise duty despite a general liberalisation of the structure of duties and taxes . It is felt that considerable increase in revenue could be effected by strengthening tax

machinery without a change in tax law or rates . While piecemeal reorganisation of tax administration has taken place from time to time significant improvement is needed in the upper level officials such as the use of computers training and logistics , the reorientation of attitudes of tax personnel to combat large scale tax evasion leakage and smuggling etc.<sup>77</sup>

## **STRUCTURE OF THE ECONOMY AND THE TAX SYSTEM**

As it has been mentioned that Bangladesh tax structure can broadly be divided into direct and indirect taxes . Direct taxes comprise taxes on income such as income tax, corporation tax and taxes on property such as wealth tax and gift tax . A review of the relationship between the structure of the domestic tax system and the origin of output by sector indicates that there is a mis -match between the sources of output or domestic demand and the sources of revenue .The share of direct taxes to total tax has increased from eighteen percent in the 1980s to twenty percent by the mid 1990s. Only a small proportion of companies account for almost the entire taxes on companies , while less than one percent of the population of Bangladesh pay individual income taxes . Thus , the major cause of the relatively low contribution of direct taxes to the tax effort is this narrow tax base . Even though the agricultural sector accounts for more than thirty five percent of GDP , contribution of the agricultural sector in terms of land and income taxes remain very insignificant .

While more than half of tax revenue originates from international trade based taxes imports account for only around ten percent of the total indirect base . Alternatively , only two percent of GDP is collected in the form of domestic indirect taxes . From indirect tax point of view , primary agricultural products which account for thirty six percent of GDP remain out of the tax base . The service sector accounting for thirty seven percent of GDP which includes trade , transport, housing , health and other professions like public administration ,education , banking and insurance can only be marginally taxed . Similarly for the construction sector accounting of rural and urban house building , only a very small part is conceivably covered under the indirect tax system. .Moreover notwithstanding this dependence on imports , there is a wide

discrepancy between import value on payments and a national accounts bases and the import data , indicating a significant revenue loss through under invoicing and other means, On the manufacturing side , only fifteen percent of the gross output appears to be taxed under the Excise or VAT system , indicating widespread exemption on various grounds, Thus it appears that the thrust of the indirect tax system is only on collecting revenue from imports and manufacturing activities.<sup>78</sup> (Figure-22 shows the selected tax revenue )

## **OVERVIEW OF TAX EFFORTS IN THE CURRENT DECADE**

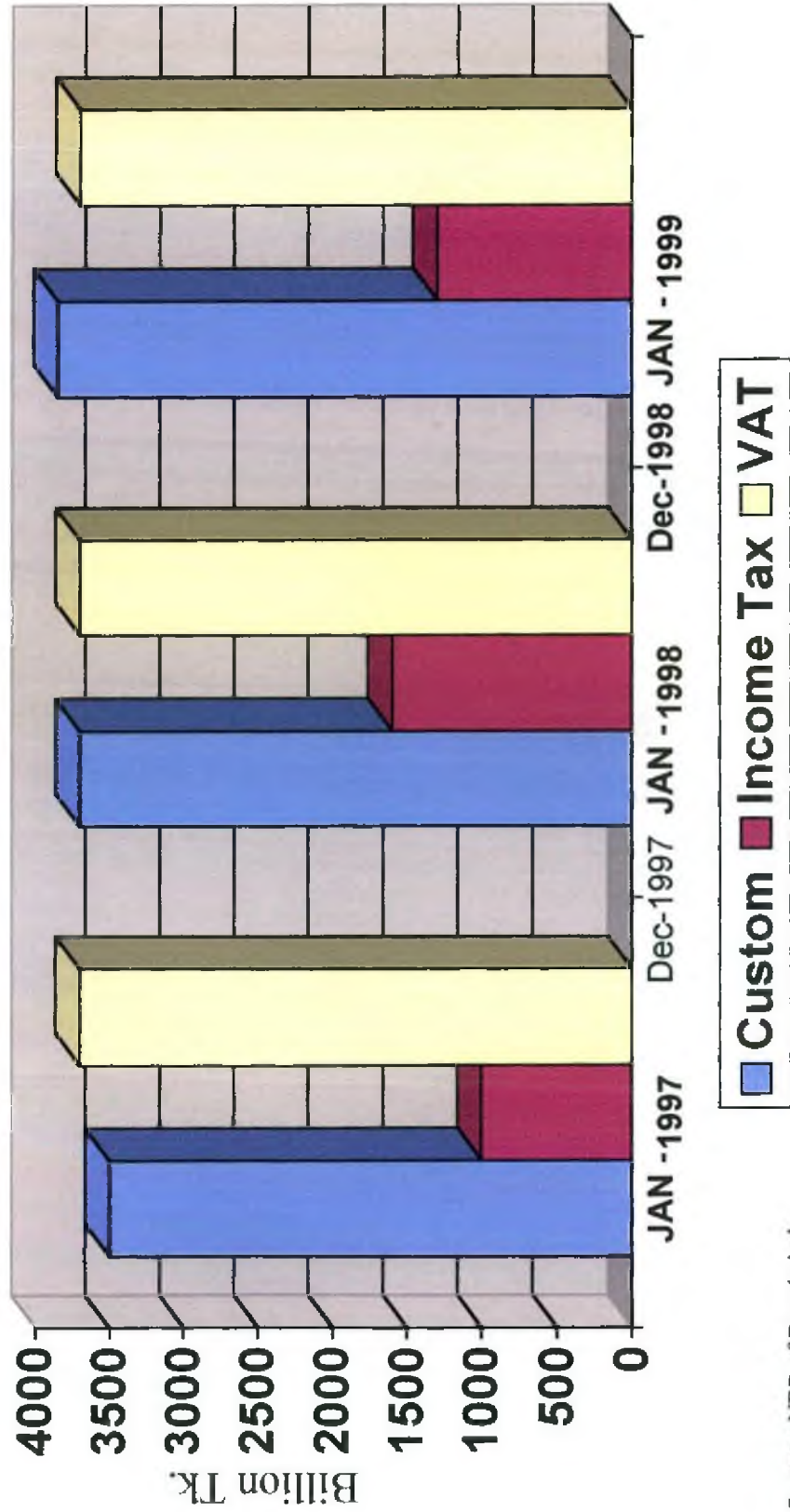
In the context of rapid population growth and economic activities, there is an immense scope for the public sector , in a developing country like Bangladesh , to play a more dominant role in providing economic and social infra structural facilities . However , in reality that has not been the case . Despite the growing need for resource mobilisation , tax efforts in Bangladesh , as measured by the tax GDP ratio , remains one of the lowest among the developing countries .Even the external economic assistance that was available , could not be properly utilised without complementary domestic resources . Additional measures adopted in the budget failed to bring any tangible effect on the overall collection in relation to financial activity . It is mainly due to the fact that these measures could not expand the narrow taxable base and remove the built in elasticity of the tax system . However , the current decade witnessed a substantial improvement in the revenue management and tax effort in the Bangladesh economy compared to the preceding decades .Some issues have emerged which may impede future improvements in this sector . However ,the highlights in tax efforts in Bangladesh are discussed below.

### **(a) IMPROVEMENTS IN REVENUE MANAGEMENT**

The highlights of the improvement in revenue management has undoubtedly been the improvement in revenue collection . The revenue / GDP ratio has risen from 8.8 percent in 1980 / 81- 1989/90 to 11.42 percent in 1990/91-1995/96 , while the tax /GDP ratio has risen from 7.48 percent to 8.93 percent in the same period . This



FIGURE - 22  
BAR CHART OF SELECTED TAX REVENUE OF GOVERNMENT OF BANGLADESH



Source : NBR of Bangladesh

upward trend in fiscal mobilisation in the 1990s by the GOB is not only noticeable but also trend breaking since through the 1980s these ratios had remained unchanged, and even declined slightly between mid and the late 1980s. The trend of rate of growth of total revenue tax revenue and non tax revenue effort were statistically insignificant for the period covering 1980-90, while the overall revenue effort and its major components grew at a significantly higher rate in the 1990s. There has been a significant departure in terms of growth in domestic revenue in real terms and with the growth of national income during the 1990s compared with earlier periods. However, despite these recent improvements in tax effort the performance continues to be relatively poor compared with other least developed countries and even its neighbouring countries like India, Pakistan and Sri Lanka.<sup>79</sup> (Table-14 shows a comparative picture of revenue collection of developing countries.)

#### **(b) INTRODUCTION OF THE VALUE ADDED TAX**

The VAT system was introduced by the GOB in 1991/92. It was imposed at the import cum manufacturing stage and replaced the prevailing excise duty on domestic production stage and sales tax on imports at the import stage. VAT is also imposed on domestic services and its coverage of domestic goods have gradually increased in the recent times. The introduction of VAT has had a positive impact on tax collection which contributed 34.6 percent of total tax collections in 1996/97. Moreover, forty percent of all VAT collections are import based where it has effectively substituted the sales tax on imports. Again, VAT replacing the excise tax accounted for more than one third of the total tax in 1996/97. It is thus apparent that VAT, with its wider coverage than the former excise tax has substituted, has improved the collections.

#### **(c) DECLINE IN INCOME TAX**

Income taxes proportion in the total accounts for only 13.2 percent in 1996/97 compared to 19.1 percent in 1992/93. Thus more positive steps on the revenue side are needed to realise improvements both in the volume and share of direct taxes.

TABLE-14  
CENTRAL GOVERNMENT CURRENT REVENUE IN SELECTED  
DEVELOPING COUNTRIES, 1998 ( % of total revenue )

| Name of the Countries | Taxes on Income and Profits | Taxes on Goods and services | Taxes from International Trade | Non-Tax |
|-----------------------|-----------------------------|-----------------------------|--------------------------------|---------|
| Singapore             | 27.0                        | 22.8                        | 2.2                            | 33.5    |
| Indonesia             | 58.0                        | 26.3                        | 5.1                            | 7.8     |
| Malaysia              | 34.2                        | 20.0                        | 14.9                           | 26.9    |
| Philippines           | 29.3                        | 26.2                        | 28.7                           | 12.6    |
| Thailand              | 27.5                        | 41.6                        | 16.7                           | 9.9     |
| Bangladesh            | 8.6                         | 25.8                        | 29.3                           | 23.0    |
| Bhutan                | 7.5                         | 16.6                        | 0.4                            | 75.0    |
| India                 | 17.0                        | 34.4                        | 25.5                           | 22.8    |
| Myanmar               | 11.4                        | 32.6                        | 16.5                           | 39.6    |
| Nepal                 | 9.9                         | 36.7                        | 30.8                           | 17.1    |
| Pakistan              | 10.0                        | 32.2                        | 30.2                           | 27.2    |
| Sri Lanka             | 11.2                        | 47.8                        | 27.6                           | 9.8     |

Source: Government Finance Statistics Yearbook ( various issues ) of Bangladesh



This requires that the domestic tax net should be widened so that the fiscal base remains more sensitive to domestic economic fundamentals .

**(d) RELIANCE ON SUPPLEMENTARY TAXES**

Supplementary taxes on a number of high tax yielding items such as , tobacco , gas, petroleum , etc. have kept the tax revenue from falling drastically . Supplementary duties on the domestically produced goods and products increased from 1.1 percent in 1992 / 93 to 1.3 percent in 1996 / 97 . On the other hand supplementary duty on imports have risen from 0.4 percent in 1992 / 93 to 3.6 percent in 1996 / 97 which is an increment by 3.2 percent points in few years . It appears that this supplementary duty has helped to maintain the share of import based taxes as before and increased revenue collection to meet the expanding public expenditure and cover the loss of revenue from other sectors . It is also apparent that this rise in supplementary duty has also been done in the face of declining share of customs duty in total tax from 34.1 percent in 1992 /93 to 32.2 percent in 1996 or 97 . Bangladesh lowered its tariff rate from an average of 60 percent in the early 1990s to 42.5 percent in 1997 in accordance with the GATT and with the formation of SAPTA .

**(e) IMPORT DEPENDENCY OF THE TAX BASE**

Available information suggests that tax base of Bangladesh is still dependent on import based taxes , which contributed about 56.6 percent of all tax collections in 1992 or 1993 , 1996 or 1997 compared to 52.1 percent in 1985 or 1986 ,19 89 or 1990 . The World Bank report presents that the taxes on international trade , composed almost entirely of taxes on imports account for the lions share of our tax yield . Its share in total taxes declined from 56 percent in the late 1970s to roughly 50 percent by the early 1990s and again rose almost to 59 percent since 1995 or 1996 . Furthermore , VAT on imports constitutes about 37 percent during the last five years . This shows that like the tax structure of Bangladesh , VAT is also highly dependent on imports.<sup>80</sup>

## **CAUSES FOR CONCERN**

From the above discussions it can be said that overall tax effort of the country has improved significantly during the nineties. This improvement by any measure, in revenue collections during the nineties is a positive achievement both in terms of budgetary management as well as in its contribution towards improving the budgetary position to underwrite enhanced public expenditures. There are however some causes for concern in the near future if the present scenario persists in the fiscal sector of the economy. The immediate cause of concern is that, VAT coverage is approaching its limit and is bound to put enormous pressure in the future on part of the tax collection in the face of meeting the ever rising public expenditure. It can be seen from the figure-22 that the share of VAT from imports remained the same while VAT from domestic activities only increased slightly. The tax structure in Bangladesh is heavily dependent on imports. This is a structural concern of the Bangladesh economy since its independence. On the other hand, since Bangladesh's imports are sensitive both to aid inflows as well as to the buoyancy of the domestic economy, the tax structure has remained vulnerable to factors outside control for a drastic reduction in aid disbursement or cancellation from imports. Similar impact is likely if the economy enjoys a bumper or disastrous crop harvest or a buoyancy or slack in the industrial or any other sectors which is dependent on imports. Moreover import taxes are inefficient means of raising revenue because it imposes a greater excess burden. Import taxes entail both a production distortion costs and a consumption distortion costs. Again with economic development and industrialisation, demand for imported intermediate goods is supposed to grow. Revenue under these circumstances can be raised only at the cost of raising effective rates of protection on finished goods which may conflict with other objective of development strategy. As a result revenue from international trade is expected to decline with economic development and as such revenue from other sources will have to be raised not only to compensate for this loss but also to raise the present low tax effort to finance the increasing public expenditure from internal sources. This over dependency of the tax structure on imports has also put the economy under pressure in easing its tariff rates in accordance with the GATT

and SAPTA . If international pressure on eliminating the tariff rates cannot be warded off , it would result decreasing in tax revenue from imports or imposing of supplementary duties to make up for the loss . In reality this has been the case in Bangladesh which has been discussed above .One visible example of it, is the introduction of Infra structural Development Surcharge at the rate of 2.5 percent on imports barring a only few areas and certain locally produced goods.<sup>81</sup>

### **TRANSPARENCY & ACCOUNTABILITY IN TAXATION**

Good governance is an essential framework for achieving political , financial and other social objectives of a nation . It provides the enabling environment for general financial prosperity and ensures in particular that the needs of ordinary citizens relating to health, education and other social services are fulfilled . Good governance is thus includes legitimacy , rule of law , accountability , transparency and competence . As a key provider of public goods and services , good governance requires continued endeavour by the government to meet citizen's legitimate needs . In this spirit , the government should ensure accountability and transparency in the taxation and revenue collection. Accountability and transparency in taxation can be safely compared with that of judiciary in the country for the simple reason that all orders are subject to appeal even to the Supreme Court . In the dispensation of taxation when an assessed files a return of income , he is called for hearing to explain his return , the Deputy Commissioner of Taxes or DCT hears the tax payer , examines his documents and evidences in support of his return . After he passes an assessment order computing the total income on which the tax is to be paid . In the order sheet of the file the DCT records his findings which are elaborately reflected in the assessment order . The total income computed by DCT is further examined by his controlling officer the Inspecting Joint Additional Commissions of Taxes , as the case may be , if the total income exceeds certain limit and only when the controlling officer accords his approval , the DCT seals , signs and executes the order . If the tax payer is aggrieved by the order , he may file appeal to the Appellate Joint or Additional Commissioner of Taxes and pending completion of appeal , he may withhold



payment of tax . Income Tax Ordinance 1984 , has given the tax payer with a lot of rights to be satisfied on the question of taxes he is to pay and in this process he may drag the case from an Appellate Joint or Additional Commissioner of Taxes to Commissioner ( appeal ) and to Taxes Appellate Tribunal to High Court and then finally to the Supreme Court on the ground of law point . Eternal vigilance is the price of accountability . The tax-payer must be vigilant to protect his rights .This will supplement the growth of transparency . The existing process of book wise copy is not transparent and accountable , because in all appellate stages , all the records are laid bare and the DCT has to explain the reasons of certain decision of him but in practice this has not always been so . If there is always a twist ,the best of laws will produce the worst of results . Even the best and the most transparent and accountable system will be blurred . It is therefore , not only the soundness of law but also the honesty of operators of the law that is necessary to develop an institution of transparency and accountability . In all stages of the department or the ministry , the spirit of service including integrity ,open mind , co-operation to the people must be developed . The delinquents must be pounded on with a heavy hand . The best of laws passed by the most fairly elected parliament will either gather dust or be badly mauled if the implementers of these laws do not rise to the occasion. It is therefore , imperative that the due training is given to the offices and staffs before they are given charges of duties and responsibilities. Their mentality must be groomed , knowledge must be imparted and updated before they are called upon to do something with transparency and accountability . On the other hand , the tax payers have to be responsible and honest in disclosing their incomes . Having patriotism in the mind , the tax payers and the tax collectors must act jointly for the betterment of the country they live in . If the rate of taxation is lowered down to 10% or 15% of the income , if useless expenditures are curtailed by the authorities, if the country runs truly welfare in character , if the criminals are punished and the innocent are protected , if the entire tax structure and tax policy is designed in such a manner as would make the rich less rich and the poor less poor , people will come up and then only a truly transparent tax system may emerge. <sup>82</sup>

## **PROBLEMS OF TAXATION IN BANGLADESH**

### **(a) STRENGTHENING THE RECOVERY ACTIONS**

Tax administration in Bangladesh is not efficient for many reasons . The taste of the pudding is in the eating and the success of a tax official is in collection of tax , raising high demand . Collecting nothing does not speak of a successful Deputy Commissioner of Taxes . The DCT is to calculate the nearest total income that an assessed might have earned during the income year . For this , he has at times to look beyond accounts and laws and develop his own acumen . A prudent Assessing officer working with eyes and ears open is likely to make it . Once the demand is created , it is the duty of the DCT to recover the demand . Chapter xviii of ITO, 1984 has seven sections of law dealing with recovery. Suitable action under each section must be taken . If the DCT handles ten cases a day, at least five cases should be for recovery action usually those cases that are put up by the bench clerk are taken action for recovery ; but this matter is too important to be left to the bench clerk . The DCT should personally check that the amounts shown as arrears outstanding in monthly returns are factually correct .The dealing clerk should not necessarily be taken for granted on an important matter like this , demands are classified as arrears, current irrecoverable and recoverable .So far as irrecoverable demand is concerned , the DCT must have the figures of big cases at his finger tips . He must immediately revise the assessment order giving effect to appeal instructions and make it into a recoverable demand , and vigorously pursue its deposit . The IJCT or IACT should have a copy of big current and arrears demand as well as recoverable and irrecoverable demand . He should watch the progress in this direction and in cases of slothfulness , the DCT should alert in writing or verbally , while passing comments , the IACT or IJCT should not lose sight of this aspect the DCT works .

**(b) COLLECTIONS FROM PUBLIC SECTOR**

Collection in respect of public sector demand deserves a separate treatment . As the persons of assessment are the government agencies ,so more penal actions may not always bear good result . The number of such cases luckily are not increasing like other private sector assessment . The DCT should have a list of such cases and due care should be taken to pass a just and correct demand on them . In case of difficulty in very big cases they should seek the guidance of their IACT or CT . The CT in turn may invoke the aid of NBR in collecting these taxes . The NBR may take these up with respective ministries for smoothening the collection .

**(c) PROBLEM OF APPEAL CASES**

To give appeal effect , which means revising the DCT's original order , is an extremely important task in the collection process of the assessing officer . It is experienced that this part of the work goes more by default than by deference . The IACT or IJCT should constantly oversee this matter of the circle of his range . While examining reaction report he may insist that the same must be sent to him after revising the original order as per direction of the AJCT or the AACT . This will provide him automatic control on this part of the work . The law as it stands now , wants that the effect be given within sixty days from the date on which the order was communicated . The month of June should be kept reserved for recovery actions alone. This will give the DCT a firm grip on the matters of his circle .

**(d) CONFLICT OF JUDGEMENT**

Commissioner ( Appeal ) , Appellate Additional Commissioner of Taxes or Appellate Joint Commissioner of Taxes are the first forum to hear appeals against the orders of DCT , AACT or AJCT . Under the law he can set a side , annul , modify or enhance the order of the DCT . It is found that in most cases C.T ( appeal), AACT or AJCT prefer to invoke the set a side power. This situation drugs back the entire assessment proceedings to the original stage . The DCT has to issue notices , rehear the case and pass a fresh assessment order . This exercise duplicates the time for finalising the tax



demand . It can be said that AJCT or AACT being basically revenue officer , should set a side only those cases that they can not help . It is ideal to give specific direction and order for revision accordingly . This would give the appellant justice in one hand, and specific quantum of revenue to the state on the other .

**(e) INTER PERSONAL RELATIONSHIP**

There are circles wherein more than one section exists . Usually , the budget target is allotted to the charge officer , for example the officer in the section- 1 . The officer in Section -2 is therefore being junior is to work for fulfilling target . One day in appropriate time , this junior officer too would be in the Section -1 . Therefore , he should not neglect his part of the work . He should work hand in hand with the officer of section 1. Distribution of cases in such situations should not be too lopsided to arouse a complexities in the mind of the junior officers . The senior partner should consider his junior as his equal and work to the best of their abilities .

**(f) LACK OF LOGISTICS FOR DCT**

The DCT is the heart of tax administration but his powers do not match the logistic support given to him . Forms and stationery are in short supply at times , his type writer is old , his clerks are not properly trained . The training directorate should arrange for the training of the clerks as much as it does for the officers . This will shorten the communication gap between the officer and his staffs. The person next to DCT in a circle is the Inspector of Taxes . His job description is rather too diffused to take the account of . He is accountable to DCT but is not , at the moment, required to submit his enquiry register or case diary . If the DCT can not institutionally check his monthly works of enquiry , it is not possible by the DCT to profitably utilise the services of his inspector . It is necessary for sound working of a tax circle that the Inspector of Taxes submits his enquiry register to the DCT for onward transmission to the IJCT or IACT . The Inspector of Taxes is a very small employee so his works can not go unnoticed .

**(g) PROBLEM OF TAX STRUCTURE**

The tax structure of Bangladesh is not effective and pro-people . In most of the times ,new taxes are imposed for the interest of the pressure group .The people are to share unexpected burden of taxes for the so called policy makers . So the existing tax structure which always carry new taxes is a problem for the country .So it is necessary to think on tax policies at the time of making tax structure .It should be realistic and modern .Side by side it should be remembered that tax evasion ,tax avoidance ,smuggling should be stopped by the government with fair and strong mentality ,because if one part of the government encourages smuggling ,tax avoidance ,tax evasion and other part make policies to increase taxes ,it would never bring good result for the nation and the financial administration can not be effective and acceptable .

**(h) PROBLEM OF COLLECTION METHOD**

The collection method of taxes in Bangladesh is also old and unscientific . The whole tax collection system should be brought under computerisation . It will increase amount of taxes as well as it will be accurate and timely.<sup>83</sup>

**ASSESSMENT**

Revenue collection and administration is the important key of financial administration of a country. From the countries studied under this research work , it is clear that many governments attach considerable importance to revenue raising . They have all made recent efforts to increase government revenues and some are engaged in ambitious programs of improvement . In terms of the structure of revenue, the two most noteworthy characteristics of the countries studied are (a) reliance on indirect rather than direct taxation , for example , indirect taxation accounts for as much as eighty per cent of internal revenue in Nepal and Bangladesh and (b) heavy dependence on external grants as a source of government revenue for example , domestic revenue resources in Bangladesh cover only about fifty five to sixty percent of annual budgetary requirements . Clearly , in several countries the recent attention to

generating revenues reflects a rapid increase of expenditures , less buoyant revenues and a growing budget deficit . In Bangladesh allocation of budget for the revenue and development purposes for the ministries and divisions are increasing every year but sufficient tax efforts are not taken to meet up additional expenditures from national resources due to weak tax administration (Table-15 shows the increasing trends of allocation for the ministries).Table shows that in the fiscal year 1996-97 both revenue and development allocation for the whole ministries were 24914,40 but in the fiscal year 19 97-98 , it increased up to 27432,42 . The trends indicate in fact misuse of public funds and unnecessary expenditures of the government of Bangladesh ,on the other hand ,the amount of revenue collection is decreasing . There are some however, similarities of approach for instance , in most of these countries the emphasis is more on making the existing system of taxation better at collecting revenue , than on raising rates . In Nepal there is concern for the plight of the rural poor even though they are among the lightest taxed in the region . In Bangladesh it is felt that considerable increase in revenue could be effected by strengthening tax machinery , without a change in tax law or rates . In Bangladesh tax administration appears weak .Administrative improvements , including training of staff would probably produce dramatic increases in revenues collection . Apart from structural limitations the main constraints to effective collection of taxes are tax evasion , tax avoidance, smuggling , inadequate administrative machinery and procedural complexities.. Bangladesh is involved in wide ranging reforms involving simplification of tax laws , rationalisation of tax structures , more effective anti evasion measures , simplification and modernisation of tax administration machinery , self assessment for excise duties for increasing internal revenues . Bangladesh has an immense potential to increase its tax earnings and it is possible to generate another fifteen percent additional tax earnings by broadening its tax net . Attainment of the potential tax base and the corresponding level of revenue would require fundamental changes in tax policy and in the administration of the tax system . On the tax policy side , the introduction of a broad based VAT system and its extension to service and construction sectors should go a long way in realising the revenue potential from the



TABLE-15

MINISTRY/DIVISION WISE REVENUE AND DEVELOPMENT ALLOCATION

| Sl No. | Ministry/Division                                    | BUDGET 1997-98 |      |          | REVENUE 1996-97 |          |          | Total    |       |          |        |
|--------|------------------------------------------------------|----------------|------|----------|-----------------|----------|----------|----------|-------|----------|--------|
|        |                                                      | Revenue        | Dev  | Total    | Revenue         | Dev      | Total    |          |       |          |        |
| 1.     | Ministry of Agriculture                              | 406.02         | 3.5  | 450.25   | 3.4             | 353.47   | 2.8      | 491.81   | 4.0   | 845.28   | 3.3    |
| 2.     | Ministry of Forest and Environment                   | 40.12          | 0.02 | 119.83   | 0.05            | 40.53    | 0.03     | 102.59   | 0.08  | 143.14   | 0.05   |
| 3.     | Ministry of Fisheries and Livestock                  | 100.09         | 0.08 | 134.29   | 0.8             | 106.31   | 0.08     | 102.25   | 0.08  | 208.56   | 0.08   |
| 4.     | Ministry of Water Resources                          | 115.38         | 0.07 | 993.12   | 7.7             | 1108.50  | 1.5      | 943.39   | 1.5   | 1140.33  | 4.6    |
| 5.     | Ministry of Education and Primary and Mass Education | 2326.16        | 16   | 1650.49  | 12.8            | 3976.65  | 18.2     | 1551.40  | 12.5  | 3830.29  | 15.4   |
| 6.     | Ministry of Religious Affairs                        | 15.67          | 0.1  | 27.01    | 0.02            | 42.68    | -26.95   | 26.95    | 42.54 | -        | -      |
| 7.     | Ministry of Cultural Affairs                         | 26.17          | 0.2  | 25.10    | 0.01            | 51.37    | 24.06    | 22.26    | 0.02  | 48.32    | -      |
| 8.     | Ministry of Woman and Children Affairs               | 12.31          | 0.1  | 54.63    | 0.04            | 66.94    | 11.58    | 39.41    | 0.03  | 51.99    | -      |
| 9.     | Ministry of Social Affairs                           | 71.44          | 0.5  | 69.88    | 0.07            | 141.32   | 76.61    | 39.41    | 0.03  | 51.99    | -      |
| 10.    | Ministry of Youth and Sports                         | 21.78          | 0.1  | 106.79   | 0.08            | 128.57   | 16.85    | 128.36   | 0.05  | 135.93   | 0.05   |
| 11.    | Ministry of Health and Population                    | 779.75         | 5.3  | 1111.62  | 8.6             | 1891.374 | 771.69   | 1062.46  | 8.5   | 1834.15  | 7.4    |
| 12.    | Ministry of Labour and Manpower                      | 24.25          | 0.02 | 10.69    | 0.01            | 34.94    | 23.69    | 9.76     | 0.01  | 33.45    | -      |
| 13.    | Local Government Division                            | 267.94         | 1.8  | 1945.03  | 15.0            | 2312.97  | 8.0      | 1825.44  | 14.7  | 2076.44  | 8.3    |
| 14.    | Rural Development and Co-operative Division          | 64.52          | 0.41 | 166.08   | 1.2             | 230.60   | 64.25    | 127.75   | 1.0   | 192.00   | 0.08   |
| 15.    | Prime Minister's Office                              | 39.05          | 0.23 | 75.64    | 0.05            | 114.69   | 38.87    | 133.34   | 1.0   | 172.21   | 0.06   |
| 16.    | Ministry of Firearmament                             | 200.37         | 1.3  | 44.34    | 0.03            | 244.71   | 1978.60  | 1.5      | 52.47 | 0.05     | 251.07 |
| 17.    | Ministry of Science and Technology                   | 49.16          | 0.03 | 44.60    | 0.03            | 93.76    | 50.57    | 37.91    | 0.03  | 88.48    | -      |
| 18.    | Roads and Highway Division                           | 288.16         | 1.9  | 1382.83  | 10.7            | 1670.99  | 265.54   | 1233.57  | 10.1  | 1519.11  | 6.9    |
| 19.    | Ministry of Shipping and IWT                         | 20.01          | 0.6  | 85.57    | 0.06            | 105.58   | 19.81    | 60.22    | 0.05  | 80.03    | -      |
| 20.    | Ministry of Post and Telecommunication               | 0.78           | 0.1  | 283.96   | 2.2             | 284.74   | 0.77     | 224.61   | 1.8   | 225.38   | 0.04   |
| 21.    | Jamuna Bridge Division                               | 0.00           | -    | 693.003  | 5.4             | 693.00   | 0.00     | 938.00   | -     | 938.00   | 3.7    |
| 22.    | Ministry of Debarge                                  | 2500.52        | 17.2 | 24.61    | 0.02            | 2523.13  | 2307.20  | 33.01    | 0.03  | 2340.31  | 9.3    |
| 23.    | Ministry of Civil Aviation and Tourism               | 0.06           | 0.1  | 67.87    | 0.05            | 68.83    | 0.92     | 57.23    | 0.05  | 58.15    | -      |
| 24.    | Ministry of Industries                               | 41.32          | 0.3  | 59.20    | 0.04            | 100.52   | 43.47    | 46.60    | 0.04  | 90.07    | -      |
| 25.    | Ministry of Textiles                                 | 0.75           | 0.01 | 16.62    | 0.01            | 17.37    | 0.73     | 18.21    | 0.02  | 18.94    | -      |
| 26.    | Ministry of Jute                                     | 3.21           | 0.02 | 11.83    | 0.01            | 14.04    | 2.03     | 20.05    | 0.02  | 22.14    | -      |
| 27.    | Ministry of Commerce                                 | 63.32          | 0.04 | 5.88     | -               | 69.20    | 46.59    | 5.02     | 0.03  | 51.61    | -      |
| 28.    | Ministry of Energy and Mineral Resources             | 13.95          | 0.2  | 1949.30  | 15.1            | 1963.25  | 13.87    | 1824.14  | 14.7  | 1838.01  | 7.3    |
| 29.    | Ministry of Housing and Public Works                 | 332.13         | 1.5  | 58.32    | 0.04            | 290.45   | 229.22   | 81.42    | 1.8   | 310.64   | 1.2    |
| 30.    | Ministry of Information                              | 111.34         | 0.07 | 55.83    | 0.04            | 167.17   | 120.58   | 46.64    | 0.09  | 167.22   | 0.06   |
| 31.    | Ministry of Home                                     | 1094.26        | 7.5  | 62.05    | 4.2             | 1074.55  | 55.95    | 55.95    | -     | 1130.50  | 4.5    |
| 32.    | Ministry of Food                                     | 327.43         | 2.2  | 27.12    | 0.02            | 354.65   | 295.47   | 25.25    | 2.3   | 320.72   | 1.2    |
| 33.    | Ministry of Planning                                 | 35.45          | 0.02 | 144.08   | 0.06            | 179.53   | 345.96   | 53.92    | 0.03  | 88.38    | 0.03   |
| 34.    | Ministry of Irrigation and Disaster Management       | 538.06         | 3.7  | 836.10   | 6.4             | 1374.56  | 826.56   | 826.56   | 6.7   | 1355.89  | 0.05   |
| 35.    | Ministry of Finance                                  | 4221.96        | 29.0 | 26.33    | 15.5            | 2658.51  | 21.2     | 26.69    | -     | 2085.20  | 10.8   |
| 36.    | Ministry of Land                                     | 114.98         | 0.08 | 37.44    | 0.03            | 152.42   | 113.89   | 35.28    | -     | 149.17   | 0.05   |
| 37.    | Other Ministries/Division                            | 283.53         | 1.9  | 32.32    | 0.02            | 318.77   | 255.29   | 30.25    | 2.0   | 285.54   | 0.01   |
|        |                                                      | 11541.12       |      | 12890.88 |                 | 27433.41 | 13534.91 | 13378.49 |       | 34914.49 |        |

(In Crore Taka)

indirect tax system . Tax revenue from personal income tax may be significantly enhanced if certain changes are made in the tax system by (a) including employment related allowance in the tax base and replacing current filing that holds by a conventional exemption limit and (b) eliminating special exemptions for investment . It is important that the reform of tax policy and the modernisation of the tax administration should be treated as complementary to each other for an effective implementation of these recommendations to attain a tax effort of 11-13 percent of GDP . In the context of rapid population growth and economic activities there is an immense scope for the public sector , in a developing country like Bangladesh , to play a more dominant role in providing economic and social infra structural facilities . However , in reality that has not been the case . Despite the growing need for resource mobilisation , tax effort in Bangladesh , as measured by the tax GDP ratio , remains one of the lowest among the developing countries . Even the external economic assistance that was available , could not be properly utilised without complementary domestic resources . Additional measures adopted in the budget failed to bring any tangible effect on the overall collection in relation to economic activity . It is mainly due to the fact that these measures could not expand the narrow taxable base and remove the in elasticity of the tax system . Less attention has been paid to non tax revenues because they account for only about fifteen to eighteen percent of total revenue . The contribution of individual items is often very small . Also they are often socially sensitive and may not therefore justify reform efforts however since Independence the rates and fees on professions and callings, import and export licences , registration fees and stamp duties , television radio and arms licence etc , have all been revised from time to time ,although no integrated measures to update fees and charges have been undertaken .Last but not least are the questions of orientation motivation and corruption among the people in charge of collection of taxes . As there is no effective system of incentives or punishment , there is little motivation for effective recovery . The monitoring of collection also needs to be strengthened . At present there is a Directorate of Research and Statistics in the National Board of Revenue which compiles monthly statistics and brings out

consolidated statements on performances but no analysis of trends , elasticity, buoyancy etc is done . There is a need for systematic monitoring and follow up of the targets set for taxes . For quick compilation and more timely reporting its information system needs to be computerised .<sup>84</sup>



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## CHAPTER-NINE

# FINANCIAL ADMINISTRATION AND REFORM IN BANGLADESH

### INTRODUCTION

Reform in socio-economic and political life of developing countries is a necessity as well as it is a demand of time. It is also a continuous process of administrative activities of the government. No government can ensure its activities as development and progressive without reform program. Financial sector reform is a long time demand and slogan of the political governments of developing countries because many of the developing countries has had lot of unscientific or unrealistic system in their whole social- economic system. Appropriate reform planning is a pre-condition for development as a whole for these countries. The basic problem of financial administration of developing countries is the choice of reform or selection of actual sector for reform. However, financial sector reform has been getting priority among other reform programs for practical reasons. The International Institutions like the World Bank, the International Monetary Fund, the Asian Development Bank and other donor agencies have also been trying to help those countries to bring substantive changes in their financial administration system through reform projects.<sup>1</sup> Bangladesh inherited an old age budgeting, accounting and expenditure control system from the British colonial rulers through Pakistan regime. The rules and regulations and the system introduced by the British ruler have not been changed to the extent necessary to meet the requirements of today. The neighbouring countries like India, Pakistan and Nepal have been trying to bring



changes in their financial administration and in the accounting systems . India is advanced in this race and it has already brought major changes in the financial administration at the union government level and also computerised the accounting system to a great extent . Pakistan has also computerised its budgeting and accounting systems but kept its financial administration as before . Nepal was out of British colonial domain and so it has an administrative and financial system quite different from that of India and Pakistan . Nepal is also in the process of introducing computer technology in its budgeting and accounting practices.<sup>2</sup> Bangladesh has also started moving forward to change and get reform its age old rules and regulations and computerise its budgeting and accounting system .Although massive reforms are required in other fields of financial administration . Attempts have been made in this chapter to discuss the current state of the public financial administration reform process of Bangladesh ,but in order to get a comparative picture of reform , a brief picture of reform activities of other developing countries like India ,Nepal , Pakistan has been discussed.<sup>3</sup>

## **FINANCIAL SECTOR REFORM IN DEVELOPING COUNTRIES**

### **(a) FINANCIAL SECTOR REFORM IN NEPAL**

Nepal is different from the other countries in the Sub continent . It was not under the British rule like India and Pakistan and so the system introduced by the British rulers in administration , budgeting and accounting process in British India and followed for quite a long time by India and Pakistan even after independence , are totally different from the system prevailing in Nepal.<sup>4</sup> Nepal used to have two separate budget presentations and for these two separate type of budgets , there were two different documents , but from 1995-96 financial year presentation of 'Integrated Regular Budget and Development Budget' was introduced . Nepal has now one budget but figures of regular and development budgets are shown side by side .The regular and development codes for budget allocation have been integrated and the various levels of development expenditure have been retained .The regular codes identify the structure of an organisation . The Nepalese financial year follows the Nepalese

calendar year which begins on 15 July and ends on 14 July of the next year . New computerised budget classification has been introduced in Nepal from the 1996-97 financial year . The classification consists of nine digit code which cover all the expenditure heads . These codes were made permanent to facilitate year to year comparisons of expenditure but were structured to accommodate the creation of new organisations , divisions and projects . The 1996-97 budget introduced the main expenditure codes which were remained unchanged , but the principle of classification into the categories of personnel capital and other charges was adopted . Funds are spent by ministries and organisations and the new accounting codes are following the structure of the government to facilitate management by the spending units . The nine digit accounting code system in Nepalese accounting system has brought a change in the whole system. The revenue receipt codes are presently defined by economic sector. The newly introduced budget classification did not incorporate new codification for revenue receipt but the proposal for codification was exactly the same as the expenditure budget . The nine digit code allocates first two digits for ministry or organisation , third digit for level of receipt subsequent three digits ( 4-6) for department and division and the last three digits ( 7-9) for detail level receipt.<sup>5</sup>

The budget presentation before the Parliament was introduced in Nepal only thirty years ago . Nepal had no budget manual . There was no 'Financial Management Information System' or no proper accounting or financial rules . There was no systematic plan for allocation of budget for development expenditure and for this reason the utilisation process of budget was not appropriate and its proper monitoring was absent in the process . The total budgetary process was not based on any permanent system and there was no systematic budget classification or accounting code .The Ministry of Finance of Nepal with the technical help of the British ODA made a feasibility study on the whole budgeting and accounting process of the government and took up a project named 'Financial Management Project' to bring about needed reforms in 1991. The project is being financed jointly by the Royal Nepalese Government and the British ODA .The terms of reference of the 'Financial Management Project' was to prepare a new coding system , to introduce

new budget classification, to prepare a budget manual , to bring changes in the existing rules and regulations process , to create a 'Financial Management Information System Act' . In order to work on the terms of references four project teams were established namely (a) Rules , Regulations and Format Team (b) Budget Manual Team (c) Financial Management Information System Team and (d) Project Accounting Team . The overall activities of the project are looked after by a steering committee headed by the Finance Secretary.<sup>6</sup> The 'Financial Management Project' has a small computer installation . Under the 'Financial Management Project' new formats for accounting and separate accounting for construction , inventory and revenue were proposed . These need the approval of the Auditor General.<sup>7</sup> The proposals are now under the active consideration of the Auditor General . The budget wing of the Ministry of Finance has been computerised to produce only computer printed budget . The FCGO has a small computer set up to do accounting work and also to train staff of FCG's department . Out of seventy five DTCOs only five DTCOs have computer facilities .Nepal has no very big national budget . Its national revenue income figure is not very high or satisfactory. Nevertheless, Nepal has been trying to bring the whole financial administration and management system under the computer system.<sup>8</sup>

#### **(b) FINANCIAL SECTOR REFORM IN PAKISTAN**

Reform projects for financial administration of Pakistan has been given more importance in the recent days. The Government of Pakistan has taken an ambitious thirty six million US dollar project in the Office of the Auditor General with the funding from the World Bank to improve the efficiency and quality of work of the audit and accounts Department . The Project for 'Improvement of Financial Reporting and Auditing' or PIFRA started functioning in 1994 . The terms of reference of the project are to improve public sector accounting , enhance public sector accountability , support 'Improved Government Financial Management System' ,strengthen 'Information and Institutional Base for Macro Economic Management and Policy Making' , develop a 'Core Accounting System With Automation', develop a new



structure of MIS , introduce comprehensive and professional approach in the field of audit , shift from the existing traditional audit approach towards performance audit enforce international organisation of supreme audit from accounting database introduce new budget classification ,create a team of trained officers by providing higher overseas training etc.<sup>9</sup> The project has achieved some remarkable progress and new budget classification has been introduced . Some progress has also been achieved on the process of higher training for the officers of audit and accounts department and accounting database preparation . As the first step to separate audit from accounts ,one Deputy Auditor General has been designated as Controller General and vested with the responsibility of compiling preparing and keeping of government accounts.<sup>10</sup> Though the project has been initiated for the improvement of both the accounting and auditing functions under the Auditor General , main emphasis is being given on the improvement of the auditing system .In fact the government has been giving attention to develop a modern and effective financial administration and management for the country. For this reason more reform programs should be taken in future.<sup>11</sup>

#### **© FINANCIAL SECTOR REFORM IN INDIA**

India is a federally administered country like Pakistan . It has twenty five states and nine union territories . At the centre there is the union government directly administering the union territories and at the states there are twenty five state governments administering the states . It also inherited like Pakistan all its administrative , budgeting, accounting and other systems for running a government from the British rulers.<sup>12</sup> Since its Independence ,India has been taking reform projects in various level and aspects but quite slowly. In most of the cases the reform program for financial sector is considered on the basis of national interest and priority . However , the entire budgeting system of the Ministry of Finance was computerised many years ago . The national information centre in the Ministry of Finance is the highest authority to make policy decision on all computer related matters . This centre examines the need for computer , software requirement its

development either in house or through any outside body and their installation in any organisation under the Ministry of Finance . This centre also helps the CGA to prepare the monthly accounts and to conduct Information Technology or IT training courses . This centre has a good number of IT experts to carry out huge tasks of the ministry and the CGA . The centre uses main frame computer for all its budgetary activities . The entire accounting system of the CGA , all PAO and all Pay and Accounts offices have been computerised . For this purpose various software packages are developed in house . The software package now being used in CGA's office is known as GAIS- or Government Accounting Information System .This package is for consolidation of accounts in the CGA s office .At the Principal Accounts Office software package CONTACT or Controllers Accounting is used . At the Pay and Accounts Offices software package IMPROVE or Integrated Multi Module Processor for Voucher Entry - is used.<sup>13</sup>

One significant step in the computerisation project is the 'Voucher Level Computerisation' which enables capture of data at source , such as from voucher . The software IMPROVE is also used for capturing data at source . All the Pay and Accounts offices rendering monthly accounts have been covered under the 'Voucher Level Computerisation' project . The objective is that after direct data entry from the source document each pay and Accounts office would generate IMPROVE out put which in turn would generate CONTACT , such as the monthly accounts for the ministry or department . The program CONTACT enables generation of the monthly accounts of the ministry or department on computer and its transmission to the CGA on floppies . The final processing of the accounts consolidation is done at the CGA on floppies .The final processing of the accounts consolidation is done also at the CGA office by using software GAIS .<sup>14</sup> India has taken a very significant reform project for training of the officers of financial institutions .The Institute of Government Accounts and Finance was set up by the CGA in February ,1992 with a view to imparting training on accounting ,budgeting , financial management ,expenditure control , internal audit , administrative and establishment matters to officials working in various ministries or departments of the union government.<sup>15</sup>

The Institute works under the direct control of the CGA and the Ministry of Finance . Under the Ministry of Finance there is another training institute named as 'National Institute for Financial Management' or NIFM , having almost similar training facilities .The Institute is located at New Delhi and it has three regional training centres . It is a full fledged residential training institute with good accommodation facilities for outstation participants . The Institute has its own internal faculty and sometimes invites eminent specialists as guest faculty for imparting training in their field of specialisation . The guest faculties are drawn from Institutes like Indian Institute of Public Administration, University of Delhi , high officials of the Government of India and also retired and serving officers of the civil accounts organisation . In the internal faculty officers of proven merit are selected who are responsible for teaching preparing study materials organisation and conducting training programs . Training is conducted by lectures, instructions , group discussions , case studies and audio visual methods .The Institute conducts induction level training for the probationers of the Indian Civil Accounts Service. Duration of this training course is one year and training on all aspects of government accounting , budgeting , financial management and control in government, computerisation of accounts etc are provided to the probationers. On completion of training , the probationers are awarded Diploma in Financial Management . The Institute also provides in- service and orientation training for employees and promoted departmental junior officers . However, it can be said that institutional attempts to develop skill of the officers in financial sector may help the Indian financial administration system to achieve its goal partly , because , reform in other major areas of the financial sector is still an important demand of time in India .<sup>16</sup>

#### **(d) FINANCIAL SECTOR REFORM IN BANGLADESH**

##### **ORIGIN OF REFORM**

Bangladesh has launched the public financial administration reform initiative only recently. The necessity of reform in various sector of public administration can not be underestimated in developing countries . Bangladesh as a newly liberated country



requires massive reform projects in various fields including financial administration sector. However, the Government of Bangladesh formed a committee named as 'Reforms in Budgeting and Expenditure Control' or RIBEC in 1989 to study budgeting and accounting system in order to find out problems and recommendations of the financial sector.

The financial sector at that time had developed through many years of economic and political turmoil from the time of liberation in 1971. During the period from liberation until the early 1980s, the financial system can be best described as controlled and directed by the government with the objectives of allocation of funds to the direction and for the purpose that the government established. The role of the private sector was secondary and there was no private banking system virtually to contribute to the national economy. Only a few foreign banks continued to operate with limited customers. At that time lending was directed by the government with the nationalised commercial banks functioning as conduits. Loan recovery was not given much attention since all loans were in principle collateral and hence could ultimately be collected. The emphasising on the banking system was lending to state enterprises, agriculture and increasingly private manufacturing through the Development Financial Institution or DFI. The banking system was also concentrated on deposit collection which provide the cash flow and enabled the system to operate with low loan recovery rates. By the early 1980s the Government of Bangladesh under took initiatives for financial sector reform programs that raised the interest rates on deposit, to provide positive returns, allowed the establishment of private banks and denationalised two of the government owned banks. A third nationalised bank was converted into a limited company and partially privatised. In addition major programs were initiated to reconsider the agricultural and industrial financial programs. In order to develop consensus on the next set of reforms a Commission on Money Banking and Credit was established. The Commission was assigned to review all aspects of the financial administration system and to present to the government a list of recommendations that would enhance the operation of existing financial administration system.

## **CREATION OF BANKING SECTOR REFORM COMMITTEE**

The Government formed a 'Banking Sector Reform Committee' to study the problems of industrial and commercial banks in 1984. As a consequence of the reforms programs started by the government in 1989, a large number of changes have been initiated in the financial system. In 1990, the Government of Bangladesh started with a five years financial sector reform targeting banking sector with the following ten agenda

- (a) Introduce a more liberal interest rate policy
- (b) Introduce and implement an improved loan classification system
- (c) Introduce capital adequacy requirements and enforce these on the banking system
- (d) Develop improved supervision system for the banks and use such systems to manage short falls in capital adequacy and to identify problem areas within the banking system
- (e) Develop money market instruments and initiate the accounting of a short term money market instrument
- (f) Improve the operation of the capital markets and the regulatory steps needed to improve such markets.
- (g) Clean up the jute debt in the commercial banking system and eliminate any risk to the commercial bank portfolio.
- (h) Reform the NCB in a three step processes (1) one to re-capitalise the NCB (2) to improve their operating system and (3) to develop strategic approaches to their future development
- (I) Improve loan recovery through introduction of better legislation and courts to collect delinquent loans, improve the bankruptcy law to ease the problems of liquidating companies, improve the flow of credit information for new loans and require the NCB to improve their debt collection.
- (j) Initiate an immediate program of improvement in manpower through upgraded training for bankers.

Policy changes under this program have introduced flexibility in interest rates on deposits and loans and improved prudential regulations and supervision of banks.

The impact on the quality of intermediary is , however , not known yet and a private industrialist still can not obtain financing for a large project without having to approach a government owned commercial or development bank.<sup>17</sup>

### **THE CORIBEC**

The CORIBEC in 1989 examined in detail the budgeting and accounting system and other related issues of government financial administration and management and produced its report in 1991 .The report identified the following major weaknesses :

(a)The ministries or divisions of the government failed to use budget as a major resource allocation tool.

(b)The govt faces difficulty in identifying expenditure between revenue and development in a meaningful manner .

©The committee found cumbersome and complex presentation of budget information.

(d)The committee found difficulty in identifying and analysing data by either program or responsibility.

(e)Financial rules and regulations not updated for long.

(f)Short supply of trained personnel .

(g)Failure to provide effective financial information.

In 1993 , Reforms in Budgeting and Expenditure Control or RIBEC project phase - I was taken up by the Government of Bangladesh with the assistance of the British Overseas Development Administration or ODA to work on the problems identified by CORIBEC , make diagnostic study and design and implement a reform program. Phase- I was a short term project and after its completion and on the basis of its recommendations, RIBEC Project Phase- 2 or the implementation phase came into being in January 1995 . During the last two and a half years RIBEC project worked in all areas of financial management system and made remarkable achievements in some fields . The project has already updated all the financial rules introduced computerised consolidation of core accounts developed a full fledged computer laboratory imparted computer training to the officers and employees of the Ministry of Finance and Audit



Department , computerised the budgeting system in the Ministry of Finance, produced 1996-97 budget in computer based spreadsheet , development five year historical database and produced a new budget and accounts classification structure for implementation during the next two years.<sup>18</sup>

## **OVERVIEW OF THE REFORM PROCESS IN BANGLADESH**

### **GENERAL COMMENTS**

It is necessary to review the main issues of the financial sector reform programs as have been undertaken . Some of the issues are discussed in greater details below. The objective of reform program is best understood by referring to the simple growth identity that the growth rate equals the saving rate divided by the capital output ratio . This is always true of any economy , because one can raise the growth rate by increasing saving , including foreign saving transferred or by reducing the capital output ratio . Usually development economists have taken the capital output ratio as more or less constant and concentrated on programs to raise the saving rate . These programs comprise such issues as increasing taxes and using the surplus to fund investments , borrowing money abroad either through commercial banks or through international development organisations , deficit finance of the government and trying to encourage saving programs by private persons . The latter received a lot of lip service but generally financial analyst and economists felt that rapid increases in investment could only come through foreign borrowing and application of government resources.<sup>19</sup>

The outcome of this approach to development was generally to raise the saving rate. However , the behaviour of the capital output ratio was surprising . In some countries the ratio stayed more or less constant so that the growth rate increased with the increase of savings . In other countries such as Bangladesh the capital output ratio increased along with greater saving , hence the growth rate did not increase as expected. Indeed in the case of Bangladesh the amount of investment relative to GDP declined in recent years but the growth rate did not since the capital output ratio fell . The movement towards financial sector reform programs around the world arose

from the recognition that the behaviour of the capital output ratio was not stable and that economic systems were able to make very bad investments. Essentially the attempt to introduce planning based decisions on investments turned out to be a failure . Shifting responsibility for selection of investments to a banking system which tried to maximise bank profits was perceived as an alternative and possibly more successful way to reduce the capital output ratio . At the same time some argued that a better financial system would raise the rate that could be paid to depositors and the amount of savings in the economy would increase. This can enable less reliance on foreign borrowing and reduced reliance on government mobilisation of funds . One should see the financial reform program as an attempt to increase the growth rate primarily by increasing the productivity of capital such as the inverse of the capital output ratio and possibly by raising the savings rate.<sup>20</sup>

Increasing the productivity of capital means that the investments made result in greater increases in output . The essence of this objective is that the borrower repays his loan , otherwise there is no proof that the project produced an adequate rate of return . Of course some argue that the projects are perfectly good but the borrowers simply refuse to repay . Without going into the merits of this dispute , it is better to say that most of the bad debt held by the bank is not matched with private assets which the banking system has any chance of recovering . Much of the bad debts have gone into consumption and hence is not recoverable . The essential point of increase, using the financial system to the productivity of capital is to avoid investments in bad projects that do not pay for themselves . In Bangladesh , it is easy to find bad projects which do not generate a surplus . These projects get presented to the banking system and are often approved due to the collateral based lending . However , the collateral can rarely be collected so that the funds available to the borrower do not produce a surplus . This means that the productivity of capital can be reduced by a steady flow of bad investments .Once these bad investments get started the banking system has tended to keep such projects functioning by increasing the level of indebtedness , particularly for public sector investments . Thus , funds are used to maintain bad projects which prevent good ones from getting started resulting in the steady

deterioration of the returns on capital for the whole economy . It is this systematic deterioration of the quality of new investment which has kept the growth rate low despite increases in the volume of savings in Bangladesh . The deep macro economic reasoning behind the financial sector reform program should always be kept in mind the failure of the previous financial regime to maintain an adequate return on investments has wasted the resources available to the society . Higher growth rates can be achieved by the improvement in the quality of investment . Hence, in the early years of the financial sector reform , the increase in saving was less important than the improvement in project quality . Stripped of all the details , this is what the financial sector reform has been trying to do. To achieve this end, it is necessary to work on a number of fronts . First of all the commercial banking system must be improved so that the quality of the loans can be improved and second the market mechanism must work so that the signals of returns to depositors and investors can be clear and uncluttered.<sup>21</sup>

### **INTEREST RATE**

Interest rates are the vital aspect in the field of financial sector reform .The reform program sets out to create an environment where interest rates are determined by supply and demand, not by government fiat and banks will adjust their lending interest rates according to the cost of getting people to save . Within the context of the interest rate policy there are a host of issues dealing with the degree of risk . One important objective is to develop a money market instrument that will reveal the risk free interest rates . This rate becomes the basis for establishing the structure of interest rates . A second important issue is to make the interest rates equal everywhere except for the risk differences . If one invests in a project which has a lower return than another project this reduces the average productivity of capital and slows down the growth rate .For this reason ,the interest rate in developing countries especially in Bangladesh has been making unhealthy situation in financial sector to some extent.<sup>22</sup>



## **PROVISIONS AND BAD DEBT COSTS**

The reform program requires that the banks recognise the bad debt costs which means that some of the loans would not be repaid and those that are repaid must include an extra amount to cover these bad debts . The approach here is to take a macro economic view of the problem rather than the viewpoint of the financial institution . Prior to 1989 the coverage of the bad debt costs were very inadequate in the commercial banking sector . The standards of assessing loan quality were very weak so that the banks greatly overstated their profits . The consequence of this was that the banks thought that the loans being made were satisfactory even though the loan recovery record was very unsatisfactory . This led to a certain complex situation . Of course many persons realised the true situation but this was not reflected in the annual audited accounts nor in the profits being earned and distributed by the banks and taxes paid to the government . Within the commercial banks there was no particular reason to change procedures . The inclusion of more appropriate bad debt costs would result in the banks , facing up to the problems that they encountered in making good loans . While there are many reasons put forth for taking account of the bad debt cost , the important reason is the need to make everyone aware of such costs and take them into account . Of course if one wanted to bear such costs and consequently continue making bad loans resulting in a low growth rate that would be acceptable , but nationally there cannot be any support for a policy to keep the growth rate low . If one felt that the bad debts of the past could be forgotten then one could argue that the stricter rules should apply only to the new loans . However , the problem with this approach is that the banks could not function with the historical bad debt in isolation except in an inflationary environment.<sup>23</sup>

## **CAPITAL ADEQUACY**

The reform program expanded the coverage of capital adequacy to the NCB and tried to make the treatment uniform . The capital adequacy requirements are essentially prudential in protecting the depositors and the tax payer from having to pay for the

mistakes of the commercial bank management . The macro economic implications of this requirement is that it causes all banks to be price loans on an equal basis and also limits the possibility of disruption of financial markets . Capital adequacy has another aspect , it raises the returns that must be earned by the bank to obtain a given dividend return to the owner of a bank . In a well developed stock market this is not a problem since the capital gains that might be forthcoming , could be captured by the person wishing to do so . However , the capital market is not sufficiently deep in Bangladesh to enable this to happen so that the higher capital adequate requirements result in higher interest rates to earn an adequate dividend for the investors . In a sense this reduces the equality of return between banks and other investments . The reform program planned to deal with the NCB capital adequacy be re-capitalisation. For the private banks including those that were denationalised , it would be left to the judgement of the owners to meet capital adequacy . This leads to a fundamental difficulty that such private owners wish neither to dilute control nor increase their capital . To reduce requirements for increased capital, some banks may choose to discourage mobilisation of deposits . In fact the denationalised bank have increased deposits over the past three years much more slowly than the other private banks.<sup>24</sup>

#### **SUPERVISION**

The reform programs set out to establish an improved capacity in Bangladesh Bank to supervise the commercial banks by the central bank . The importance of supervision develops from the need to protect the depositors and the tax payers by the banks that would increase the risk of failure or bailout costs . The main points of supervision are to insure that the loan portfolio is satisfactory , that the risks incurred by the commercial bank are reflected in the level of provisions taken and reserves maintained and that appropriate action is taken to correct this whenever deficiencies are discovered . If there is insufficient supervision , there is danger for the banks to invest in risky portfolios . This is particularly dangerous when the banks believe that the government would cover their losses . In effect when the central bank is guiding all of the investments made by the commercial banks the need for supervision

is limited , after all the portfolio is largely determined by the governments own instructions . However , once the government allows the banks to make their own decisions about lending then the need for supervision is greatly increased . The private market does not solve these problems if left unattended . The central bank actually takes on much greater responsibility when one moves towards market determined interest rates and undirected lending.<sup>25</sup>

### **IMPROVEMENT OF THE NCB**

By the end of 1989 with the application of more appropriate rules for provisions the four NCB s had no capital left . This was the result of the years of bad loans and policies followed by the banks in ignorance of the true situation . For example, the large transfers of taxes and after tax profits to the government were largely an illusion caused by the inadequate accounting . The program to improve the NCB had two components ; first , the banks were to be re-capitalised for example , the owners of the banks or the government were to provide fresh funds ; second the procedures of the banks were to be strengthened to enable them for more effective operation . With the re-capitalisation to clean up the balance sheet at the end of 1989 and thereafter coupled with improved procedures , it was believed that the NCB would be profitable institution and able to earn enough to maintain capital adequacy ,better lending would raise the productivity of capital and re-capitalisation would shift the burden of the past bad debts of the depositors or future borrowers and on the tax payer . From the macro economic viewpoint letting the depositors and carry the burden of the losses would disrupt the financial system and slow down growth . To ask future borrowers to pay the cost would reduce the volume of future investment and again slow down the growth rate . The shifting of the burden to the tax payer would have , it was hoped , a more neutral impact on investment and saving . This is very complex due to the structure of the tax system . The capitalisation of the NCB can be effective with a partial reimbursement of past profits and taxes paid to the government .However, surpluses sometimes arose from improper accounting practices .This point justifies shifting the burden to the tax payer.<sup>26</sup>



### **MONETARY POLICY**

Changes in monetary policy were essential to raise the effectiveness of such policies by reducing the extent of direct control and intervention. Indirect instruments were to be emphasised such as use of the cash reserve ratio, use of the bank rate and rediscount window and the start up of open market operations. These were to replace the direct credit control that had been previously in place and which Bangladesh Bank had been gradually removing over the previous years. There was no dramatic changes in the management of monetary policy rather emphasis on more traditional instruments of the central bank. Again from the macro economic point of view the point was here that by increasing the effectiveness of monetary policy, it would be possible to improve the overall economic performance.<sup>27</sup>

### **LOAN RECOVERY**

Recovery of past loans was important for three reasons (a) it would reduce the burden on the tax payers covering past bad loans made through the government banks, (b) it would send a signal to borrowers that loans would need to be repaid and the borrowers in the future would be more disciplined and (c) the pressure to recover loans would limit additional loans made to these groups and free up funds for other loans. Improved loan recovery is not really a macro economic issue. It is a basic condition of the financial system that loans must be repaid otherwise the only feasible way to organise this is to transfer government receipts collected through the taxing power to those favourites of the regime that obtain loans that do not need to be repaid. It is obvious that to have a proper financial system the loans must be repaid. The financial sector reform program tackled this through a series of efforts to improve the legal system and to apply moral inspiration to the defaulters.<sup>28</sup>

### **CAPITAL MARKETS**

The development of the capital market to increase equity investment is another aspect of financial sector reform that is essential to develop proper financing of the industrial sector. The DSE should be revitalised and the confidence of the public in the system

should be increased . From the macro economic viewpoint there is not a great deal of difference between debt and equity financing . However, the level of productivity of capital would be kept higher than the greater level of equity financing since this would not disrupt production when the firm experiences difficulties . On the other hand equity funding of large projects is very difficult and substantial debt is usually necessary . In the first stage of the financial sector reform limited attention was directed to capital market development , with the main emphasis on improving the legal framework.<sup>29</sup>

### **LEGAL FRAMEWORK**

Financial sector reform usually requires various legal changes to accommodate the new environment . A substantial body of creating new law was expected under the reform program and a great deal has been achieved . First the Banking Companies Act was rewritten permitting a number of adjustments , most important of which are the introduction of the capital adequacy requirements , the limitation on the size of individual loans and stronger limitations on loans to bank directors and second loan recovery courts were established to permit more rapid disposition of the loan defaulter cases . In July , 1997 government has passed the Bankruptcy Act .This is entirely a new law in this country. Never before in the sub-continent, there have had a law of this nature. There was an Insolvency Act which was not very modern law .The Bankruptcy Act has its origin in U.S.A .In Singapore this also exists with minor change. The government has already established Bankruptcy Courts and Financial Loan Court. The Bankruptcy Courts are being set up as per law passed by the parliament last year ,July ,1997. An Act to establish the Securities and Exchange Commission to oversee the capital markets was passed and subsequently the SEC formed . An Act to govern non banking financial institutions is also required .The latter law is of considerable importance as it would lay the basis for new institutions which would support the deepening of the financial system .This considerable body of legislation would make a continuing impact on the evolution of the financial sector over the next decade.<sup>30</sup>

## **PRIVATISATION OF THE BANKING SYSTEM**

One of the most important issues which is related to the reform program is the development of the private banking sector. The major efforts of the reform program to date have concentrated on the public sector banks where the re-capitalisation and systematic improvements have been concentrated. In the initial formulation little action has been directed at privatisation.

## **REVIEW ON INTEREST RATE POLICY**

The reform program introduced major changes in interest rate policy with the issuance of a circular at the end of 1989 which started the process of decontrol of interest rates. Prior to this time interest rates for both deposits and loans had been set by the central bank. The rates were with one exception single rates. Only for commercial lending did the central bank allow flexibility through the setting of a ceiling on the rate. In addition to fixing the nominal rates of interest the central bank had an elaborate set of preferential rates of refinance which were meant to direct credit by lowering the cost of funds to the commercial banks so that the lending rate to the final borrowers could be lower. Apparently there was wide spread belief that interest rates would influence investment so that the refinance policy would be effective. Interest rate policy was adjusted from time to time over the past years. At first the bands were widened and finally dropped completely in agriculture and exports. For all other sectors, there was in principle complete freedom to set interest rates. Progress at liberalisation of lending rates has thus been very rapid. This has resulted in variations in interest rates and has also led to considerable differences in rates among the banks. The most dramatic changes have occurred in the area of interest rate policy of all areas of the reform program. There is currently a degree of flexibility far greater than was planned at the start of the program and obviously this has not caused any great distress. Despite the success at shifting the policy structure, there was a sense that this has not worked out as well as hoped. In particular the overriding objective of keeping real rates stable has not been achieved. Real interest



rates for both deposits and loans have increased very sharply . This is sharply a contradiction in the monetary stance and has almost certainly led to a continuing flow of deposits into the banking system and banking system development instruments and away from equity markets and direct investment . Also the high lending rates certainly discourage the business community .While there was considerable debate about the interest rate elasticity of private sector borrowing , the changes in rates were so great that low elasticity imply major changes in investment . The current level of depressed private sector investment implies that high interest rates may have something to do with the situation . This was the one factor that has changed the most over the past years.<sup>32</sup>

To achieve the objectives of allocating resources between investment and consumption and among investment sectors through the interest rates determined in competitive markets requires two conditions : (a) minimum of market restrictions and (b) profit maximising financial institutions . At present the restrictions on the market are limited and the remaining ones have either valid purpose such as the floors on deposits or are of limited importance . However , the NCBs are not yet profit maximising institutions and are not setting their interest rates with this goal in mind . There remain attitudes among the NCBs which emphasise social responsibility and other goals that reduce profits . With such a large part of the banking system in the hands of the NCBs reduces the effectiveness of interest rate control at changing resource allocation . This would take some years to change and it should not be expected that the reduction of the regulations and controls in this area would rapidly change the direction of resource allocation.<sup>33</sup>

### **POSITION AT THE END OF 1989**

Outside the central bank there was widespread belief that the commercial banks were sound and earning a healthy profit but evidence was accumulating in the central bank that the recovery of loans was unsatisfactory and there was a growing level of loan default . Loan recovery was very weak and the costs implied by the poor loan recovery were not recognised in the accounts of the banks. The profits of the banks were

greatly overstated and the banks were under no pressure to improve performance since in fact performance was very good . The position of the banks led to a need for continuing cash inflow which was achieved by a rapid increase of deposits . This large inflow of resource enabled the banks to meet their day to day requirements while not making any allowances for the bad debts . This could only be achieved with a continuing growth of the money supply such as deposits which would fund this phenomena . Any attempt to reduce the growth of the money supply would pitch the financial institutions into a liquidity crisis which would be averted by increasing the money supply . Until the accounting for bad debt was introduced , it would be impossible to change this.<sup>34</sup>

#### **FINANCIAL SECTOR REFORMS IN 1989**

In 1989 as an important part of the reform program the central bank introduced regulations which required the banks to classify their loans and advances according to principles that were set out in detailed instructions issued to the banks . The essential points are as follows ; all loans are to be reviewed by the bank and put into four categories : unclassified , sub- standard , doubtful and bad or loss . The rules established for these classifications can be summarised as follows; the history of repayment is used to determine the minimum classification required ; however , the banks are encouraged to introduce their own rules based on cash flow and other commercial factors that could also be the basis for classification. The central bank wished to establish a minimum standard and the individual banks were then to introduce their own standards so long as these were more rigorous than the minimum provisions were required of 1% for unclassified , 10% for sub standard , 50% for doubtful and 100% for bad or loss . The provisions would be calculated as of December of every year . The increase of provisions made and the write off taken during the year would be taken as a cost by the bank . All loans that are classified cannot take accrued interest into income . Only interest actually paid in such cases can be taken into income . While each bank is responsible for the classification , the central bank would inspect the results and can impose its own decisions over the commercial

loans pass through the system requiring more and more provisions . After five years , this would be over and the sub standard and doubtful loans would be larger from loans disbursed during the period of the financial sector reforms . Unless , however , the standards are tightened up , these would continue to be overdue and the provisions would continue to increase. Thus the weak classification rules result in a substantial part of the bad debt prior to the 1989 reforms , not being recognised until much latter . This meant that the reforms could not achieve a clean start for the NCB as had been expected and that there is a continuing adverse impact on the profitability of the NCBs from this pre 1989 bad debt.<sup>36</sup>

The system introduced in 1989 has a strong impact on the interest rates that must be changed . In brief the bad loans must be covered by the good loans . This can best be understood with a simple example : If the cost of funds is 5% and we ignore operating costs and return on bank equity and if there were no risk , the bank could lend at 5% . If , there is bad debt , then the lending rate must be increased , for example if only 85% of the loan portfolio is recoverable then the interest rate is 24% , the bad debt costs cover the lost 15% and the interest on the entire amount borrowed . If the loss is 5% of the loans then the required interest rate is 10% . With the quality of the loan portfolios found in 1989 , the system requires very high interest rate unless loan recovery can be greatly improved . The provisioning and interest suspense accounting introduced would make the problem clearer but would not solve the loan recovery problem. To the extent that exposing the situation brings greater efforts by the banks to make good loans and to recover bad ones then the reform regulations would directly assist loan recovery . To the extent that loan recovery is dependent on factors outside the ability of the banks to act , then the new regulations would tell the story but it cannot be changed through what the individual bank can do.<sup>37</sup>

The closely related concept introduced formally in 1989 is the legal requirement for capital adequacy .Prior to 1989 the rules on capital adequacy were partly in the legislation covering foreign banks and partly in licensing agreements with private banks . There were no significant requirements for the NCB . Since the purpose of capital adequacy is to protect the depositors from adverse developments in the banks



financial situation, the greater the amount of capital the less the risk to the depositor. On the other hand it is clear that for the NCB, the government stands behind the deposits and so there is no need for maintaining any particular level of capital. The prudential reasons for holding capital are less compelling for the nationalised banks. However, there were two other reasons for wanting to have capital adequacy conditions uniform among the banks. First the capital adequacy requirements have a direct impact on interest rate and one would like to have the underlying cost factors the same among banks. Second, if there is to be privatisation of the NCB then there is need to prepare for this by having an adequate amount of capital. Since the start of the reform program the banks have been required to estimate their bad debt costs, incorporate the increases in these costs into their balance sheet which directly reduces the capital and then insure that they have adequate capital by either limiting dividend distribution or raising new capital from the market including current owners. The private banks are all close to capital adequacy with few exceptions. Generally, there is continuing dispute over the correct level of provisions to be taken but one can say that the attempt to force the private banks to reach capital adequacy has been successful. Strict enforcement of the rules for capital adequacy and for provisions has however greatly reduced the possibility of issuing dividends. As is usually the case at this stage of a financial reform program, banks are not very good investments. However for those banks that are able to control their bad debt costs, the returns can be very high indeed with the current interest rate structure. Capital adequacy of the NCB has been achieved by massive infusions of capital by the government. More than Taka 1,700 crore was infused in the first re-capitalisation and further re-capitalisation are being made. None of this touches the jute sector where there is an exposure of Taka 3,500 crore and as substantial share of this may prove non recoverable. There are no reliable estimates of the total amount of bad debt in the system; It may be in the order of Taka 6,000-8,000 crore. Current re-capitalisation programs of actual and planned will take care of most of this. Thus the full clean up of the NCB loan portfolios has taken several years and the initial re-capitalisation to reach capital adequacy proved to be only part of the requirement. Essentially the

NCBs are still working to meet capital adequacy but with the currently planned new capital, the required levels for coming fiscal years should be met. If deposits keep increasing, then the requirements for capital would continue to grow and the NCB must earn profits to meet these increases. Maintenance of capital adequacy is currently based on the volume of demand and time liabilities such as essentially deposits. There is some discussion of the desirability of shifting to an asset based requirement. The main point however is not the method of determining capital requirements but insuring that the standard is met. The differences in the various ways to determine capital are in fact quite small.<sup>38</sup>

### **REFORM INITIATIVES IN 1991**

Bangladesh has launched the public financial management reform initiative only recently. The Government of Bangladesh formed a Committee on Reforms in Budgeting and Expenditure Control or CORBEC in 1989 to study the budgeting and accounting systems identify problems and recommend probable ways of solution. The Committee examined in detail the whole budgeting and accounting system and other necessary things and produced its report in 1991. The report identified the following major weaknesses in different areas which are discussed below:

#### **(a) BUDGETING.**

For the budgeting, the report mentions that the government has failed to identify a resource envelop within which expenditure decisions are taken in advance of the start of the budget process. It also identified the failure to use budget as a major resource allocation tool by ministries or divisions. The Committee faced difficulty in identifying expenditure between revenue and development in a meaningful manner. The report criticised about cumbersome and complex presentation of budget information.<sup>39</sup>

#### **(b) CLASSIFICATION SYSTEM**

Regarding classification system, the Committee faced difficulty in identifying and analysing data by either program or responsible person, difficulty in identifying and

analysing gross and net flow of funds to autonomous bodies and public enterprises and found the system not designed for computerisation.<sup>40</sup>

#### © FINANCIAL ADMINISTRATION

Regarding financial administration the report indicates that decentralisation and segregation of auditing and accounting responsibilities of the government is being done in the halfway. Financial rules and regulations not having been updated for short supply of adequately trained personnel.<sup>41</sup>

#### (d) ACCOUNTING

In the matter of accounting process and auditing initiatives, the Committee observed that the authority concerned have failed to produce up to date government accounts as well as to provide effective financial information. The report also mentions about inadequate cash management resulting in sub-optimal resource allocation decision making, growth of other systems outside accounting for financial monitoring and inability to reconcile the government accounts with balances on government bank accounts and general accounts. The eagerness of the government to remove these weaknesses led to the birth of the project 'Reforms in Budgeting and Expenditure Control' or the RIBEC. The British Overseas Development Agency or the ODA offered to finance it. The following outputs in respective fields were accepted as means to achieve the objectives.

#### (a) BUDGET SYSTEM

For efficient execution of national revenues, the following steps have been considered:

- (1) Budget committees established in all Ministries
- (2) Resources available at the beginning of budget process
- (3) Revenue and development budgets and plans considered jointly
- (4) Budget identifies gross and net flow of funds as per sector by 1997/98
- (5) A measure of transparency in the flow of funds

#### (b) ACCOUNTING SYSTEM

For appropriate accounting of government funds, the following things have been considered



- (1) Computer based system designed and implemented for financial year 1997/98.
- (2) Manual system changes introduced by FY 1997/98
- (3) Food accounts system designed and implemented by Ends of Project or EOP
- (4) System for donor funds accounting designed and implemented by EOP
- (5) Bank reconciliation brought up to date by EOP.

**© PROGRAM OF TRAINING AND HUMAN RESOURCE DEVELOPMENT**

For this purpose the following issues have been considered

- (1). Members of Audit and Accounts cadre trained in new procedures by EOP
- (2) Officers of Ministry of Finance and other ministers involved in new budget process trained by EOP
- (3) Strategy developed , communicated and supported for ensuring utilisation of new procedures and information.
- (4) Segregation of accounts and audit achieved by EOP
- (5) Recommendations for bank reconciliation procedures submitted to GOB from 1/1/1996.
- (6) MIS Directorate established and functioning by EOP
- (7) Establishment of updated rules and regulation for unit .

**(d) PROJECT MANAGEMENT UNIT**

For PMU the following steps have been considered

- (1) Project manual setting out procedures
- (2) Project working standards
- (3) Appropriate reporting procedures
- (4) The project pursued its objective by dividing itself into four components namely, Budgeting, Accounting , Computing and Training each under a manager.<sup>41</sup>

**ACHIEVEMENTS OF RIBEC**

In 1993 ,Reforms in Budgeting and Expenditure Control or the RIBEC Project phase-I was taken up by the Government of Bangladesh with the assistance of British Overseas Development Administration<sup>42</sup> or ODA to work on the problems identified by CORIBEC make diagnostic study<sup>6</sup> and design and implement a reform program.

**TABLE-16**  
**NEW BUDGET CLASSIFICATION(CODE NAME)**

| Level 1:<br>Legal Code           | Level-2: Function Code<br>Range Code                                          |                                  | Level-3:<br>Operational   | Level-4: Economic code                                       |                     |
|----------------------------------|-------------------------------------------------------------------------------|----------------------------------|---------------------------|--------------------------------------------------------------|---------------------|
|                                  | Main Range                                                                    | Sub-Range                        | Unit                      | Group                                                        | Detail              |
| 1                                | 25                                                                            | 55                               | 0005                      | 18                                                           | 51                  |
| Non-Dev.<br>Revenue<br>Receipt   | Ministry of<br>Education,<br>Education<br>Division,<br>Technical<br>Education | Other<br>Technical<br>Institutes | Graphic Art<br>Institutes | Revenue<br>Receipts<br>Administrative<br>Fees and<br>Charges | Educational<br>Fees |
| 3                                | 45                                                                            | 01                               | 0001                      | 49                                                           | 01                  |
| Non-Dev.<br>Other<br>Expenditure | Ministry of<br>Environment &<br>Forest Direction<br>&<br>Administration       | Secretariat                      | Secretariat               | Revenue<br>Expenditure,<br>Repairs &<br>Maintenance          | Motor<br>Vehicles.  |

Source : Ministry of Finance of Bangladesh.

The Phase- I was a short term project and after its completion and on the basis of its recommendations the RIBEC Project Phase- 2 or the implementation phase came into being in January 1995 . The CORIBEC was followed by RIBEC Phase- 1 in 1993 . It was a short term project . A diagnostic study to design implementation program was made . On the basis of the recommendations made on that phase , phase- 2 of the project started functioning from November 1994 , actual operation started from January 1995 . It was a large and ambitious project of three years duration . The general objective of the project at this phase was to upgrade budgeting accounting and expenditure control so as to optimise resource allocation ,improve management of financial resources and improve accountability and greater transparency . During the last two and a half years , the RIBEC project worked in all areas of financial management system and made remarkable achievements in some fields .The project has already updated all the financial rules , introduced computerised consolidation of core accounts developed a full fledged computer laboratory imparted computer training to the officers and employees of the Ministry of Finance and Audit Department , computerised the budgeting system in the Ministry of Finance, produced 1996-97, 97-98 , 98-99 budget in computer based spreadsheet developed five year historical database and produced a new budget and accounts classification structure for implementation during the next two years.<sup>43</sup>

By December 1997 the project made the following progress:

(a) A new classification structure for budget prepared and agreed in principle and testing against current years budget having done .Among the achievements of the reform projects ,introduction of new classification is a forward step .The new classification structure was designed after studying all the financial data and extensive consultation with the main users of these data including the IMF to reflect the organisational structure of the government and their requirements for financial reporting and economic analysis .The classification code consists of 13 digits which represent four levels . The first level of 1 digit represents the legal code(Table-16 shows the legal codes) which indicates the legal authority for collecting revenues or



for making payments . The legal code identifies different types of transactions in accordance with constitutional and statutory requirements . It differentiates :

(a) Charged Expenditures from Non Charged Expenditures :

(b) Development transactions from Non Development transactions and

©Public Account transactions from Consolidated Fund transactions .

There are seven legal code numbers which are allocated for seven types of transactions. They are :

Number 1 for Consolidated Fund Non Development Receipt

Number 2 for Consolidated Fund Charged Payment .

Number 3 for Consolidated Fund Non Development , Non Charged Payment .

Number 4 for Consolidated Fund Development Receipt .

Number 5 for Consolidated Fund Development Payment .

Number 6 for Public Accounts Receipt .

Number 7 for Public Accounts Payment .

The second and third levels have four digits each and represent the functional codes . They represent the spending or collecting unit within the government structure and identify the purpose for which expenditures have been incurred . They are arranged according to the organisational hierarchy of government organisational hierarchy of government . The main range number of level- 2 identifies the highest level in the government organisational hierarchy , such as, Ministry or Department or Division who are directly accountable to parliament for funds voted for it .Main ranges are represented by the first two digits of the code followed by 00 . All sub divisions, departments and operational groups of the ministry or division will commenced with those same first two digits . Subsequent two digits of level -2 indicate the sub range which represent the next tier in the administrative hierarchy showing major subdivision of ministry or department or division or group of activities .These depict a grouping of one or more level - 2 functional codes . All level -2 functional codes must fall within the framework of a level -2 functional codes . All level -2 functional codes must fall within the framework of a level 2 main range . The level-2 operational group can be broken down into one or more level - 3 operational units . An example

of level -2 classification is given below . The level 3 of four digits indicates operational unit or development project . It is to be used in conjunction with the level -2 code . It is the lowest functional level at which budgets are approved . The level-3 classification can identify : an operational subdivision of the level-2 function and external organisation a regional office or a development project . The standard level -3 codes have been prepared for all the operational units falling under this classification . The level -4 of four digits represents the Economic Codes ( Table-17 shows the economic codes) These describe the nature of expenditure or receipt . The first two digits identify broad category and the remaining two digits identify a specific detailed item within that broad category . The standard economic codes will be used throughout the government and are identical for both development and non development expenditures. All transactions must contain a full four digit economic code , two examples of full 13 digit code are given below . The full code for the collection of educational fees from the graphic . The Art Institute shown in the first example which is 1 / 2555/0005/1851 . It is also a transaction involving the consolidated fund and non development revenue receipt under the Ministry of Education . The full code for the repair and maintenance of motor vehicle of the Ministry of Environment and Forest shown in the second example which is 3/4501/0001/4901 . It is also a transaction involving the consolidated fund and a non development revenue expenditure under the Ministry of Environment and Forest.<sup>44</sup>

(b) Pilot Budget system established in the Ministry of Finance. A project for pilot budget system has been established in the Ministry of Finance in this regard.

(c) Accounting information flows and computerisation structure agreed with Controller General of Accounts or CGA. The CGA office has been agreed for accounting information flow and computer system has been introduced partly in this regard.

(d) Bank reconciliation strategies identified .In order to make the correct picture of deposit ,loans and advances ,the bank strategy has been identified.

(e) Consolidation of financial rules and regulations are in progress to better application of financial laws.

TABLE-17

NEW BUDGET CLASSIFICATION(CODE RANGE)

|                                                 | Level-2<br>Code Range | Code                      | Description                            |
|-------------------------------------------------|-----------------------|---------------------------|----------------------------------------|
| <b>Ministry/<br/>Division<br/>main range</b>    | 4500                  |                           | Ministry of Environment and Forest     |
|                                                 | 4501-4520             |                           | Direction and Administration           |
| <b>Ministry/<br/>Division<br/>Sub-range</b>     |                       | 4501                      | Secretariat                            |
|                                                 |                       | 4505                      | Autonomous bodies & other institutions |
|                                                 |                       | 4506                      | International organizations transfer   |
|                                                 | 4531-4540             |                           | Forestry                               |
|                                                 |                       | 4531                      | Department                             |
|                                                 |                       | 4533                      | Regional Offices                       |
|                                                 |                       | 4535                      | Forest research facilities             |
|                                                 | 4541                  |                           | Environment                            |
|                                                 | 4541                  | Department of Environment |                                        |
| <b>Full Level – 2 code<br/>Operation group.</b> |                       |                           |                                        |

Source : Ministry of Finance of Bangladesh



(f) Training provided to 341 officers and seminars and presentations on relevant subjects were held . High level seminar were held , attended by Finance Minister , British High Commissioner and Senior GOB officers .The revised log frame and work plan has been established for implementation .

(g) Logistic support and Furniture and computers plus other equipment along with management structure and procedures are in place .The GOB support for personnel and logistics have been provided.<sup>45</sup>

### **REVIEW OF RIBEC**

In spite of this , it was considered that success of the project during this time did not match the high expectations and ambitions outlined at the beginning of it . Some of the achievements did not seem to have been directly linked with the immediate purpose. For lack of proper integration among four components of the projects and delay in achieving some key outputs and non - involvement of the GOB personnel ,the program has been facing difficulties. The ODA carried out a review in January 1996. The Review Mission identified a number of problems and concluded that the project in its existing form could not be relied upon to deliver the required outputs within the project time -table . Firstly a full joint review by the GOB and the ODA could be conducted in mid of 1996 to determine the future direction of the reform process and secondly in order to keep the reform process moving forward , there should be the continuation of a downsized project.<sup>46</sup> This would focus on certain key outputs . It was also decided that the duration of the downsized project would be 10 months and it would end by December 1996 . The phases were renamed as RIBEC- 2A. Agreed outputs for restructure Phase- 2A and other important deliverables are mentioned below :

#### **(a) BUDGET PUBLICATION & STRUCTURE**

- (1) To Publish 1996/97 budget under existing classification and to continue to publish
- (2)To develop a five year Budget Database .
- (3)New budget structure and detailed classification agreed with stoked holders .
- (4)Translate 1996/97 budget into new format

- (5) Consolidation of Accounting Data in CGA and selected Chief Accounts Offices
- (6) Mini feasibility study to be carried out
- (7) Rationalise and streamline CGA accounts consolidation.
- (8) Rationalise and streamline accounts consolidation in selected CAOs.
- (9) Publishing Rules and Regulations such as Account Code , Treasury Rules, and
- (10) General Financial Rules
- (11) Collate and update existing rules in English
- (12) Consolidate rules
- (13) Contract for translation of rules into Bangla
- (14) Establish rules and regulations unit

**(b) ESTABLISHING TRAINING FACILITIES IN AATA**

In this area the followings were the aims

- (1) Transfer computer laboratory to AATA
- (2) Provision of computer awareness training by AATA
- (3) Courses provided by AATA on computer skills including new consolidation system to CGA and CAO officials .
- (4) Establishing training facilities in Public Sector Financial Management
- (5) Trained AATA trainers to provide training .

**(c) OTHER DELIVERABLES INCLUDE :**

In addition ,the following objectives are required to be achieved

- (1) Support for the MIS Directorate to sustain the systems introduced.
- (2) Support to improved budgetary process in two ministers under COB supervision
- (3) Preparation for transfer to phase -3 of the project.<sup>47</sup>

**GOB INVOLVEMENT AND TASK FORCES**

The Project Management Unit tried to ensure GOB involvement or more specifically GOB leadership in reform activities , from the very beginning. It was decided that several Task Forces each headed by the senior government official would be responsible for the following integrated activities of the project . These were :

(a) Finance Division Task Force covering budget and classification, headed by Additional Finance Secretary ,( Budget) (b) Accounts Consolidation Task Force , headed by Controller General of Accounts (c ) Rules and Regulations Task Force, headed by Joint Secretary (Regulation),Finance Division. All the task forces have representations from Ministry of Finance , Comptroller and Auditor General , Project Implementation Unit (PIU) consultants and other concerned agencies . The relevant lead consultant works as Secretary to the task force . The progress of the new phase has been quite satisfactory . All the task forces with full GOB representation and assisted by PIU and project consultants have been meeting on regular basis to guide the implementation of the project and set up priorities . The task forces and the project management are now involved in the project implementation process . Moreover , a number of initiatives were taken to effectively tackle management of the change . By now a number of informal meetings and workshops have been held in which detailed discussions took place about the implementation process as well as about the sustainability of reforms and the need for future reforms.<sup>48</sup> How ever ,the third phase of the project called RIBEC /2000 has been functioning since December ,98 .

### **PRESENT STATUS OF REFORM**

In the light of above mentioned discussion , it would be better to assess the present status of the reform project .

#### **(a) BUDGET**

The budget of 1996-97 has been produced in a computer based spreadsheet in Ministry of Finance . The entry of data and production of budget in this way was a significant achievement by the budget wing of the Ministry of Finance .A historical database with five years budget data with capabilities to produce needed management reports and future projections has been developed successfully and already demonstrated to key decision makers . The future budget estimates are expected to be produced from this data base .Simultaneously a draft new budget classification has already been developed and it is now ready for utilisation with concerned GOB authorities and offices.<sup>49</sup>



**(b) ACCOUNTS CONSOLIDATION :**

The specification for consolidation of core accounting in CGA office was completed by the project team on schedule . Software for core accounts consolidation in CGA office has already been developed and is now being tested . The system will be operational soon . The users are being actively involved through formal as well as informal participation and interactions to ensure smooth implementation and future sustainability of the new system. During this phase accounts consolidation will be done in ten CAOs . Work on the remaining ten CAOs would be taken up subsequently. Draft specification of the CAO consolidation system is now being reviewed with the users and once it is finalised , software development would be completed for work .<sup>50</sup>

**(c) RULES AND REGULATION :**

By now four volumes of Accounts Code have already been updated and final approval from the Comptroller and Auditor General has been received . Arrangements are being made to print them in both Bengali and in English soon . The updated draft of General Financial Rules and Treasury Rules are now being reviewed . The GOB has agreed to set up two Rules and Regulations Units , one in Finance Division and the other in the office of Comptroller and Auditor General to take care of future changes in rules and regulations.<sup>51</sup>

**(d) TRAINING**

With all modern requirements for training purpose , have been shifted from project office to Audit and Accounts Training Academy . To ensure sustainability and to develop needed training capability , the RIBEC -2A training courses are in the process of integration with AATA . Meanwhile training is now being imparted to the future trainers as well as to those who are involved in implementing the computerisation program and other areas of reforms.<sup>52</sup>

It is now evident that the work of RIBEC-2A is being well received within the government . The ownership and management of the project has been taken over by the government through the task forces . All stake holders and users have been fully involved in planning and implementing the reforms . Such a well organised reform

program with participation and commitment from stake holders can never fail to achieve its objective . The government is now determined to push forward the program further in the next phase to bring the reform initiatives to its logical end . It cannot stop halfway. Recently the Task Forces have organised workshops involving all stake holders to do real brainstorming to review the problems of implementation as well as to have ideas about the future course of action to sustain the reforms . The findings of the workshops were very encouraging in the sense that the participants generally expressed satisfaction about the way the reform was progressing and underlined few priority areas of future reforms in order to sustain the results so far achieved through the RIBEC- 2A.<sup>53</sup>

### **BANKING SECTOR REFORM : ACHIEVEMENTS & EXPECTATIONS**

The government established a Money and Banking Commission for recommendations. Following the recommendation of the commission ,the Financial Sector Reforms program or the FSRP was introduced with the help of the World Bank. The FSRP continued for five years from 1991 . Under the program , each of the NCBs opened a 'Reform Unit' and undertook intensive work under the guidance of foreign consultants. In addition , a core unit was attached with the central bank .The FSRP had four broad objectives . These were :

- (1) Implementation of market- oriented policies.
- (2) Improvement of central banks supervision.
- (3) Expansion of private banks share of commercial banking .
- (4)Development of commercially viable NCB which may be suitable for privatisation.

Major activities undertaken under FSRP were :

- (1) Introducing objective standard for loan classification and provisioning.
- (2) Re-capitalising the banks for strengthening their capital structure.
- (3) Improving appraisal of Loan proposals by using 'Lending Risk Analysis' or LRA method.
- (4) Reforming central bank supervision by designing and introducing new methods and tools .

(5) Designing Management Information System and expanding computerisation .

The introduction of new classification standard progressively helped the banks to diagnose the malaise in their loan portfolio. The banks have been using new classification norms for the last six years and would satisfy rigid international standard by the year 1998 . The banks were undercapitalised so the process of building up adequate capital started under the reform program. The government injected sizeable amount of money to the NCB to maintain capital requirement of 8% of risk weighted assets and loan recovery process was intensified. Simultaneously , the LRA was introduced so that new loans do not go bad. Extensive training program was undertaken to transfer risk analysis skills to 346 loan appraisers of Somali Bank , Janata Bank , Agrani Bank and Rupali Bank . Under technical assistance of FSRP, 197 computers have been distributed among government owned banks to introduce MIS and improve services . In addition , banks themselves installed 399 computers at branches and controlling offices . The Bangladesh Bank introduced bank supervision system and now is using CAMEL as a technique for rating of banks and early warning signal . Reform is a continuous process. The five years program of the FSRP initiated a change. To strengthen the process, the second phase of reform is about to start. This Phase would be known as Commercial Banking Restructuring Technical Assistance Project , funded by the World Bank. The restructuring project would concentrate on the following :

- (1) Framing and implementing appropriate law for expediting recovery of bad debts.
- (2) Strengthening central bank through autonomy and skill development.
- (3) Creating responsive environment by restraining improper trade union activities and other interference.
- (4) Strengthening management of banks by redefining responsibilities and establishing accountability .

Under the restructuring project , four accountant firms of international stature have been engaged to undertake portfolio audit of the NCB . The job will be done in a period of six months .A few Financial Loan Courts have been established , Judges are



undergoing special training in law and practice of banking at the Judicial Administration Training Institute, Dhaka and exposure to foreign banking situation is also contemplated. High level Task Forces have been set up at each of the banks with the Managing Directors as Chairmen to develop and implement loan recovery program. The result is encouraging. During the period January to September, 1998 over 500 million Taka overdue loans have been recovered.<sup>53</sup> The government has set up a Banking Reforms Committee or the BRC to make an in-depth study of the banking sector and place recommendations. Dr. Wahiduddin Mahmood, a famous economist and a former Adviser to the interim care taker government of Bangladesh, has been appointed as chairman of the committee. An interim report has been submitted, while the committee is continuing its activity. Laws relating to banking and finance have been updated and new laws have been enacted, These are (a) Financial Loan Court Act, 1990 (b) Bank Companies Act, 1991 (c) Financial Institutions Act 1993 (d) Securities & Exchange Commission Act, 1993 and (e) Bankruptcy Act, 1997. To monitor the legal environment under the restructuring project, a 'Legal Working Group' has been constituted with the Secretary of Ministry of Finance as the Chairman. Bangladesh Bank is operating Credit Information Bureau or the CIB for providing information regarding defaulting borrowers. The scope of CIB would be gradually widened for better credit management.<sup>54</sup>

However, the Government of Bangladesh has been thinking seriously for a complete reform in the banking sector. In this respect, the future reform agenda may be mentioned here for consideration. The future reform agenda include (a) Formation of Debt Collecting and Loan Discounting Agencies (b) Non judicial foreclosure of bank securities, (c) Creation of Special Investigation and Litigation Unit (d) Judicial Capacity Building (e) Ensuring international audit standard, (f) Strengthening Problem Bank Unit at the central bank and (g) Developing Effective Deposit Insurance System. Finally, reforms program aims at good governance of the banks. Appropriate system, proper human skills and ethical standard should synchronise to achieve this objective.<sup>55</sup>

## OVERALL IMPACT OF THE REFORM PROGRAM

The major conclusion that can be drawn from the above discussion is that the reform program is in very early stage and there is no clear impact on either the financial system itself or the macro economic performance . However , the reform steps already taken show potential benefits and advantages that are likely to come through completion of the program. The reform program to date has excluded DFIs, Islami Banks , investment companies and the foreign exchange market . Steps are taken to increase the extent of convertibility of the Taka . In addition a managed float is likely to be introduced .The macro economic performance is influenced by the greater caution of the banking sector in keeping very high real interest rates . Whether current lending is more prudent or not remains to be seen at present high lending rates, the quality of new loans is some how in suspect . Moreover , it is very likely that the high real rates are a restrictive influence on investment and economic growth . The reform programs objective of improving the quality of new investments has not yet been achieved . It will be significantly the quality of new investment to the point where the growth rate increases.<sup>56</sup>

With in the financial system itself the behaviour of the private banks has become perhaps more aggressive while the NCBs have become more cautious . In a sense this is desirable, the banking system will function well only with profit maximising banks. There is , however, room for specialised financial institutions such as Grameen Bank and DFIs which aim at poverty alleviation and industrial development respectively . On the other hand , this points to the importance of expanded prudential regulation by the central bank . After passing some years, the reform program has just got underway . One should not expect rapid transformation since the system is still , as are all banking systems , closely regulated and change will come only gradually .The starting objective of the reform program have been achieved . The interest rate flexibility is in place , the banks are successfully accounting for bad debt and making appropriate allowances for this in their loan pricing and financial statements , the

NCBs are approaching clean portfolios to allow them to take full responsibility for their own condition, the monetary policy instruments are in place to the extent that this is feasible. The government and the central bank have significantly reduced their intervention and direction of the system. The central bank has strengthened its bank supervision efforts. One should see all of this as starting conditions that provide the stage for the day to day operation of the financial system to carry out its work. There are some critical points that would determine the success of this program: The financial system must encourage profit maximisation by the banks and those banks that are successful should be able to grow while those that are not should shrink. Rewarding success is the first rule the system must achieve. The interest rate policies and the bad debt provisions are the primary instruments for achieving this.<sup>57</sup>

The individual must be rewarded within the banks for behaviour that contributes to profits and punished for failure to add to the profits of his institution. Unless there is widespread acceptance of individual responsibility then the institutions cannot perform well. All of the regulations cannot change performance if the underlying rules of behaviour do not encourage the right actions. Growth and supervision of non banking institutions, particularly merchant banks and finance companies should be controlled in a proper manner. These are important to enrich the financial system with new approaches and dimensions as well as to increase competitive pressures on the commercial banks. The DFIs and the banks focused on poverty alleviation must be encouraged while simultaneously carefully supervision is executed by the central bank. The reform program must reach out beyond concern for the commercial banks. Intensive efforts are also required to develop the capital markets both in institutions and diversification of financial instruments.<sup>58</sup>

### **CRITICAL ANALYSIS OF REFORM : MACRO ECONOMIC VIEW**

There has been a noticeable paradigm shift in the objective of development strategies in the past two decades. For the developing countries, the collective wisdom of the 1950s and 1960s emphasising state directed investment planning and import substituting industrial growth. It has slowly given way to the notion of synergy and



partnership between the state and markets a partnership in which markets have a primacy in the production and allocation of goods and services . In parallel , the obsession with growth of GDP per capita as a development objective has been replaced with more broad based concepts of development with Joseph Stiglitz describes as raising living standards and Amartya Sen in a social choice perspective observes as a strategy for enhancing human capabilities .In either case, there is a recognition of the state role in the provision of health care education , social security environmental protection and social development .There is an appreciation of the states catalytic role in making markets function efficiently . The essence is a minimal but in effective level .Today's financial or economic reforms reflect this shift in the development paradigm . Bangladesh has embraced , in principle the core instruments of economic reforms but the reform process which gained momentum and intensity during the 1990s has faced resistance from various quarter . Questions have been raised about the adequacy and applicability of the reform agenda in all circumstances and under the given state of institutional development . In particular, strong reservations have been expressed about the universality of reform instruments and what is perceived as one size fits all nature of the reform agenda often espoused by international agencies.<sup>59</sup>

The following aspects could be considered to assess the reform activities of Bangladesh more specifically .

#### **(1) THREE BASIC ISSUES**

There are three points could be discussed here for better understanding . These are (a)to emphasis that reforms are a necessary condition for higher growth performance and improvement of our standard of living .(b) to highlight the core and non core elements of the reform agenda often described as the Washington Consensus and © to explore the conditions under which such reforms can be successfully implemented in Bangladesh and to point out the associated governance problems and institutional constraints that impair full implementation of reforms thereby depriving the economy of the benefits thereof.<sup>60</sup> It is fair to say that the Bangladesh economy continues to

perform below its potential that is the economy and society functions well inside its production possibilities frontier at any given time . Averaging 4.5 per cent annual GDP growth in the 1990s is a modest improvement over past performance but this can hardly be characterised as the high performance necessary to create a significant reduce on poverty and raise living standards of the people perceptibly . At this rate of growth in twenty five years time the country will not have moved out of the low income group of under developed economies of the world.<sup>61</sup>

## **(2) GROWTH RATE**

High growth of the 7-8 per cent variety , does not come easy in any country . Given large scale unemployment and the impossibility of full employment , neo-classical growth theories prove inadequate in explaining how the desired rates of high growth could be achieved . To achieve high performance on a long term sustainable basis , the prospect lies in capital accumulation via domestic savings and foreign capital inflows as well as gains in productive efficiency from technological innovation and absorption and what is now becoming increasingly clear from improvements in the economic organisation of production through changes in the policy environment and streamlining of the process of economic governance.<sup>62</sup> The pursuit of high growth and the need for poverty alleviation should be enough to seal the case for economic reforms . The existing order is failing to deliver and the current outcome in terms of economic performance and living standards are quite unacceptable . The following telling statistics can be considered . Over half the population of Bangladesh is illiterate another half still lives in poverty after twenty five years of independence . Economic reforms which gathered momentum early in the 1990s remain half done . It is often said that reforms half done are worse than no reforms.<sup>63</sup>

## **(3) ABOUT TRANSPARENCY**

For the purpose of reform ,transparency is highly required. In the economic scene the financial sector appears to be in chaos with most banks burdened with non performing loans and loss making state owned enter prises draining the national exchequer annually to the tune of \$ 200 -\$ 300 million . A general lack of institutional capacity

for economic policy making remains while the economy continues to maintain a tenuous macroeconomics balance with a critical level of foreign exchange reserves and modest economic growth. To top this all there is an growing public perception that nothing moves. However, little progress has been made in reducing the level of loan default. Few SOE s have made in reducing the level of loan default. Few SOE s have actually been transferred to private owners. Toll taking is reportedly rampant. The recommendations of the Nurunnabi committee and the report of the four secretaries on the reform of government remains unattended. The public still await the appointment of an Ombudsman. All of these and other necessary reforms require hard choices to be made and ultimately create the justifications for deep rooted and wide ranging reforms in overall financial governance.<sup>64</sup>

#### **(4) WASHINGTON CONSENSUS**

A broad consensus has evolved over time on what the core principles and key components of an agenda for economic reforms might be. The 'World Development Report' of 1991 published by the World Bank shows the challenge of development by presenting an authoritative summary of the main elements of market friendly approach. Earlier John Williamson in 1990 made an attempt to synthesise the content of policy reforms being urged by the most influential Washington institutions namely the World Bank, the IMF, the US Treasury in Latin American countries in the late 1980s. The result of his exercise was dubbed perhaps unwisely, the Washington Consensus and comprised ten core policies which could be summarised under the headings of 'Stabilisation, Liberalisation and Opening Up'.<sup>65</sup>

#### **(5) REGARDING BUDGET DEFICIT**

Budget deficits broadly defined to include the balance sheets of state enterprises should be small enough to be financed without recourse to the inflation tax. For Bangladesh it would mean a budget deficit including losses of state owned enterprises, of 4--5 per cent of GDP that has been considered to be sustainable for the long run with a strategy for keeping domestic bank financing of deficits within non inflationary limits.<sup>66</sup> Proper financial policy can lead the country to the actual



solution in the reform area . Since its independence ,Bangladesh has been suffering from lack of appropriate policy formulation. After the independence ,the policy makers of the country made policies for closed economic system . All industries ,financial institutions were taken under the control and responsibility of the government . Privatisation and free economy was totally closed . For which necessary reforms were not taken in the financial sectors . The country still is sufferer for that wrong decision.<sup>67</sup>

#### **(6) TAX REFORM**

Tax reform involves broadening the tax base and cutting marginal tax rates . The aim is to sharpen incentives and improve horizontal equity without lowering realised progressively . Improving tax administration , broadening the tax base and preventing leakage in revenues are the principal areas of tax reform in Bangladesh.<sup>68</sup> The country needs to take serious initiatives to increase national revenue in order to reduce dependency for making its national budget . Also the Government of Bangladesh should take necessary steps to reduce expenditures in unproductive sectors .

#### **(7) FINANCIAL LIBERALISATION**

Now about financial liberalisation it should be noted that its ultimate objective is the elimination of financial repression and the achievement of market determined interest rates , but experience has shown that under conditions of chronic lack of confidence market determined rates can be so high as to threaten the financial solvency of productive enterprises and the government . Under the circumstances, a sensible interim objective is the abolition of preferential interest rate for privileged borrowers and achievement of a moderately positive real interest rate . Financial liberalisation in the above sense has been largely achieved in Bangladesh with some exceptions with regard to preferential rates on loans for agriculture , cottage industries and exports , but much more deep rooted and fundamental reforms are necessary in the financial sector to turn things around.<sup>69</sup>

#### **(8) EXCHANGE RATE**

About exchange rates it is to be pointed out that countries need a unified exchange rate set at a level, sufficiently competitive to introduce a rapid growth in non traditional exports and managed so as to assure exporters that this competitiveness will be maintained. Bangladesh resorted to the unified exchange rate system back in 1991 and has since maintained a managed but moderately flexible exchange rate system with an eye towards maintaining a competitive exchange rate with respect to competitor countries.<sup>70</sup>

#### **ASSESSMENT**

Bangladesh is lagging behind India and Pakistan in modernising its financial management system. The present reform program in Bangladesh has been designed more or less in the line with other countries in this region but it is likely to take years of Bangladesh to catch up with the trend in some of our neighbouring countries. The scope of the computerisation program should be extended, payroll computerisation should be initiated, the budgeting and accounting systems and procedures are to be streamlined to facilitate proper macro as well as micro level financial management training should be institutionalised. Above all, financial sector reform should be pushed seriously to its desired goal. Although under the RIBEC project of the Ministry of Finance, reforms in areas like computerisation of budgeting and accounting as well as training have been initiated but the scope of this project is still very limited. There is great scope for mutual sharing of experience of the SAARC countries in this particular area. Most of these countries have inherited the same systems or tradition. The problems of carrying out reforms are also more or less common to these countries. Therefore, there is a great scope to exchange experiences among themselves.<sup>71</sup> Ultimately the financial sector reform program represents an attempt to accelerate economic growth by insuring that the savings are made available to those persons and companies that can make the best use of them. The system in place before 1990 essentially enabled a select group of persons and state owned enterprises to obtain resources from financial sector that all too often were not

repaid. Consequently these savings were used for investments which have been largely unsuccessful, the real assets corresponding to the deposits are greatly impaired in value and the taxpayers have enormous future burdens. Correcting this is a political action and represents a decision by the national leadership to have a different kind of system where the savings of the people are not misused. The complicated details of the financial sector reform are essentially an attempt to put into place this political decision. A financial system that increases saving, funds small enterprises, does not ignore the priority sector of the society, that insists that loans be repaid, that protects depositors and punishes bankers who do their work badly, seems appropriate to meet the aspirations of the people. Reforms in budgeting and expenditure control system, reform in banking sector, reform in overall financial administration for achieving economic goals in Bangladesh has become long overdue. In many cases the projects have been able to mobilise the much needed support, commitment and involvement of all stake holders to implement the future reform program in financial administration and management. The donor countries and agencies are agreed to assist the government with necessary funds and expertise. The Government of Bangladesh should not miss this opportunity. The reform process should therefore continue in stages until final goals are achieved.<sup>72</sup>



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## **CHAPTER- TEN**

### **CONCLUDING OBSERVATIONS AND RECOMMENDATIONS**

#### **INTRODUCTION**

In the light of the discussion of previous chapters, a concluding discussion of the problems of the study could be arranged in this chapter. In this chapter problems would be discussed analytically and necessary recommendations would be provided. It is a fact that among the problems of developing countries, the most serious one is problem of management and reform. The management problem can be found both in the private and public sector. The government of developing countries have the responsibilities to fulfil the basic needs of the people. In order to do that government faces management problems which are mostly found in the public sector. From that point of view, the problems of financial management are on the top of the list. The problems of financial administration of Bangladesh in this regard demand the priority to be discussed. These problems has already been discussed in the previous chapters but in the concluding chapter, the problems will be discussed more elaborately and analytically in order to find out appropriate recommendations. Before going to analyse, it would be worth to have a little look on the overall financial capability and situation of the common people of Bangladesh because the financial conditions of the people depend upon the financial policies as well as successful implementation technique. If the financial administration is efficient and effective, the policies and projects which have been taken for implementation, could bring better result for the economy of the country.



## **GENERAL OBSERVATIONS**

Bangladesh is one of the least developed countries in the world . It has relatively small territories and a fantastically growing population to the tune of one hundred and fifteen million. The infra-structure facilities are also inadequate . The availability of power for both domestic and industrial consumption is below the demand. The majority of the people remain under fed with consequent ill health that is pronounced in urban and rural areas alike. Facilities for health care in public and private sectors are enjoyed by the well to do among the people, while the bulk of the people cannot afford to buy medicine required for recovery from diseases, Both endemic and epidemic diseases debilitate people in general and children in particular. Even in the area of employment , millions of people go without any wage employment. Unfortunately , the financial policy is not very sound in this field .

The farm sector that keeps majority of the people engaged in jobs without assured payment of wages has been the most prominent sector of the economy . Even in this sector the ownership of land remains with a small percentage of the rural people and the majority of the land less people are found working either as day- labourers or as share - croppers . They can hardly earn enough to pay for their food and other items of consumption, housing, health care and education. For them , the national average per capita income figure remains a dream. The financial administration of the country has no effective role regarding this aspect .

The increase or decrease in the value of the gross domestic products results in an increase or decrease in the income of the rich and the entrepreneurial class . Over the years , the number of the rich and the entrepreneurial class has been increasing, though the same cannot be justified by the known sources of value addition. One finds that while the rich live a life of luxury, the poor, mainly job- seekers, keep migrating from rural areas to urban slums with no assured employment . This sort of migration in fact increasing pressure to the many places of urban areas resulting undisciplined and unplanned economic life . Actually , the aims of financial

administration are not very clear to the policy makers , to the government leadership of the country for which no proper or appropriate measures are taken .

It may be pointed out that even the middle income group is decreasing and successive generations have entered the rank of the educated unemployed with a direct impact on the standard of living . These unemployed people have become a national liability without any immediate retrieval . Those in different professions, hereditary or acquired, have to wait for their turn to obtain wage employment to add to the disparity in income . The prevailing employment practices and laws do not allow even healthy individuals to remain employed beyond the retirement age and majority of them become a liability to their children . Having no national old age pension scheme, millions of the people - men and women live without any income . Recently the government has undertaken a program for all the old persons above sixty five years to provide for each of them one hundred Taka per month as a pension allowances. The aim is good but the amount is not justified compared to the economic condition of the people . As against that, the rich have turned richer over the years. The political effort towards elimination of disparity in income remains a far cry . The growth of the GDP has not changed the status of the low income group and that mainly due to the fallacies in the proposition that every Taka spent on development project, yields some benefit to the poorer section through trickle down effects .

In the given context, one would like to see disparity in income removed or contained within a planned period. There should be a consensus on this issue and government in office has to do almost everything possible for the purpose. One only notes that successive governments have pledged to do a lot for the poor and different projects have since been implemented for reducing the prevailing gap . Even the program for alleviation of poverty has been highlighted in projects implemented by official agencies and non- government organisation plus philanthropic and religious groups . The effects thereof have not been all that positive and the poor had run the risk of turning poorer for their failure to optimise the use of the small amount of money or other imputes received under the poverty alleviation projects . One also notes with concern that persons handling poverty alleviation programs have benefited more from

higher remuneration, they receive from project accounts . It may not be out of place to compare the executives who have augmented their earning and consequent higher status. The realities , being all that pronounced , have to be tackled carefully by policy makers and social groups. The discrepancies between the income of the millions and that of the selected few have to be projected in the press and other dispassionate media. The subject of disparity in income has to be reviewed within the parameters of social, religions and legal framework of society . The clarion call from religious teachers to feed the unfed before opting for a rich dish has to be adhered to for obviating the negative impacts of disparity in income . The sick among the slum dwellers have to be provided with medical care before a healthy millionaire goes for a routine medical check-up . The slum-dwellers have to be provided with durable and safe shelters with an assured supply of items needed for making those swellings habitable . Other facts of development are multifarious .The same could be initiated if commitment to a better life and living for the poor millions is made mandatory for policy makers, program managers and other relevant quarters . Having upheld the norm of equity for decades, the need for equitable distribution of income and opportunity with all cure should be most important . In order to do that ,the problems of national financial administration and policies ,the role of financial administration ,the way of implementation of such policies must be very practical .The different sectors in the fields of financial administration such as fiscal aspects ,banking policies ,taxation policies ,accounting policies need to be very specific and clear . Remaining unsound policies, ignoring the interest of the common people ,the financial administration of the country can not successful and proper . As far as financial policies or economic policies in general are concerned , an equal justice in income have to be ensured and this should be the prime objective of the government of Bangladesh .

### **ANALYSIS OF PROBLEMS**

In the light of the above discussion as well as discussions of the previous chapters ,the problems of the financial administration of Bangladesh could be seen and



analysed . In the previous chapters ,the problems of the research area has been discussed in brief. In the concluding chapter , the problems would be discussed and analysed more elaborately and specifically and on the basis of the analysis necessary recommendations would be provided .As a matter of fact , the financial administration of Bangladesh has been facing structural , functional and conceptual problems which has been reflected in this research work. The administration of financial sector has been conducting by the traditional way and meaning . For which the sector becomes inefficient , ineffective and unscientific . However , in the following paragraphs the problems of financial administration would be discussed chapter wise of the thesis .

#### **(a) PROBLEMS OF MINISTRY OF FINANCE**

It has mentioned that conceptually and structurally the Ministry of Finance of Bangladesh is the financial administration of the country .The Ministry of Finance basically conducts the whole financial administration and controls the financial activities of the country .In that consideration ,the Ministry of Finance is responsible for good or bad financial condition of the country .The Ministry of Finance as a financial administration of the country can demand credit if the financial atmosphere is better but at the same time the Finance Ministry can not avoid its liability if the situation is bad . For this reason , developing country like Bangladesh ,an efficient ,dynamic financial administration is highly required with in the frame work of existing civil administration . It has no alternative . The financial administration and system of the developed countries are so efficient that they can easily find out a solution in most of the cases at the time of any financial crisis or disorder . In Japan ,the government falls at least twice a year but in the internal and international financial area , Japan faces no problem because of their efficient financial administration and management . Even in India , the Financial Bureaucracy is so alert , dynamic and efficient regarding their national interest that they can take necessary measures as far as possible and as early as possible . It is very unfortunate that in Bangladesh is far behind from that type of efficiency and the

Ministry of Finance as a financial administration could not show good performance in the past .

The Ministry of Finance of Bangladesh is over burden by the clerks . The clerks are the members of the trade union of the ministry . The ministry is also known as clerk dominated ministry in the secretariat .They disturb the day to day business of the ministry . The inside administration of the Ministry of Finance is very ineffective and un co-ordinated .There are serious lack of initiatives among the officers and the staffs . The staffs are not satisfied about their salaries . They have , of course logical complain to some extent when prices go up as they are ill -paid but there are also questions regarding their efficiencies . Side by side the very bureaucratic mentality of the ministry officials for the execution of the development program is also harmful . The file procedures are complicated and slow. The decisions come from the top officials without justifying the practical situation. Some decisions are taken by the pressure of the so-called political pressure groups of the countries which decisions are in many cases anti people or anti development. In fact this things have been happening in the ministry for long time . It is very unfortunate that no government in the past have taken any steps to solve the internal administrative problems of the ministry .

#### **(b) PROBLEMS OF FINANCIAL CONTROL**

The Ministry of Finance has failed regarding external financial control which is one of the leading characteristics of financial system . The financial control is achieved via a variety of instruments, legislation, regulations, instructions manuals , budgeting, system of authorisation and internal check schemes , delegation of powers and so on. Despite such a panoply of controls , effective control is not guaranteed . In some countries it is inadequate in certain respects but in Bangladesh it is very weak and there are some of the areas, where controls do not operate as intended . For example ,in 1996 , during the crisis of share market ,the ministry of finance could not control the market and also could not take any appropriate measures to solve the problems of the share market . For what the economy of the country suffered a lot and many

innocent people lost their invested money for the suspicious role of the ministry . Even the Minister of Finance of the country said that he did not know about share market and he had no idea about the share market but it would never happen in other developing countries and the Ministers of such countries would never pass that type of comments . Even in Pakistan and India if the situation would be like Bangladesh regarding the share market , the Minister would resign immediately .

The countries under the present study also find difficulties in operating the controls that the Ministry of Finance applies to public enterprises . Such enterprises are often in receipt of government grants or loans. The difficulties encountered include attempts by public enterprises to evade servicing and repaying loans, poorly substantiated claims by public enterprises for rolling over loans or receiving grants and failure by public enterprises to settle liabilities to government creditors other than the Ministry of Finance. Often the Ministry of Finance lacks the staff, expertise and capacity to operate an effective system of control . This is another area where controls operate with difficulty . The projects financed partly by external funds are often formulated and proposed through the Planning Ministry or Planning Commission but controlled by the Ministry of Finance. Well known difficulties exist in this old fashioned control while externally funded expenditures are outside the control of the Ministry of Finance. The monetary limits set for procurement of goods and services are frequently too low , resulting in cumbersome and time wasting procedures . On the other hand , sometimes externally procured goods enter the country , without proper control and accounting,. This type of example can be put about Bangladesh , Pakistan and India for unsecured boarder .

The financial law provides for the preparation of a special budget covering the receipt and expenditure of development funds and for the submission of audited accounts to the national assembly . These provisions are not adhered to .The administration of development funds has been largely outside the control of the Ministry of Finance and a variety of practices has resulted . The existing budget includes only part of the expenditures on development projects , the bulk of which are financed from abroad under a wide range of separate financing arrangements. No reliable accounting or



statistical information is available on total development outlays in the country and their financing . In the countries under study control is unsatisfactory . In Bangladesh there is tension between central control and the need for decentralisation of decision making. The picture is further complicated by proliferation of unnecessary and overlapping controls .The existence of controls which are of appropriate to current needs , has been suffering from lack of trained staff and the problems described above under financial regulations.

### **(c) PROBLEMS OF FISCAL ASPECTS**

One of the most important responsibility of the Ministry of Finance is making of budget and present it to the Parliament . For this purpose ,the Finance Ministry requires to do two things . Firstly , the Ministry of Finance needs a group of efficient officers and secondly the Ministry of Finance needs an efficient management . Unfortunately ,the Ministry of Finance have no efficient officers or management . Despite of this , the Ministry of Finance has been making budget for long time . Whatever ,it may be ,the budget making process can not be addressed as efficient one . In Bangladesh ,the possible causes of inaccurate budgeting , especially for the development budget are alarming .There is a lack of absorptive and administrative capacity to implement projects and a tendency to be over-optimistic in this regard when compiling the budget . For project aids a tendency for excessive optimism concerning donor pledges is a bad mentality .There are also difficulties in implementing projects backed by donor aids such as , delays of aids , claiming reimbursement from donor and also lack of information from donor . For the whole budget ,there are lack of reliable ,up-to-date accounting figures for the year in which the budget is compiled . Bangladesh in short of resources and there is a little alternative to a deficit budget .The need for domestic resource mobilisation is therefore , inescapable . In order to reduce dependency on foreign aids ,increasing of local revenue is a must . A good budgeting system must retain some flexibility to take care of emergencies and unforeseen developments . High dependence on foreign aids , frequent occurrence of national calamities ,rapid

fluctuation of exchange rate ,frequent political unrest etc. make it difficult for Bangladesh to budget accurately . It has been mentioned that the budget making process suffers from lack of information . The BMRC collects information in the traditional way in many cases which are not true . For what major statistical mistakes are found in preparing the budget . The secrecy of the proposal of the budget are also disclosed in every year for the dishonest employees of the Ministry . In Bangladesh new taxes are imposed and some taxes are withdrawn from many items every year in order to favour the so-called pressure groups . A group of corrupt officers are involved in such process to be benefited from the business class . Most of the works of budget preparation are done by the in efficient clerical staff of the ministry . The Ministry has been suffering from short supply of adequately trained personnel which is no doubt a fundamental requirements for efficient budget management . Actually for lack of trained and skilled officers ,the budget making process depends on the inefficient permanent clerks of the ministry . Normally the clerks have no interest about national economy or financial aspects .They only know how to change the figures of the previous year and how to make it up-to -date . They make the proposals taking notes from the files of the previous years . The inefficient officers of the ministry in many cases just put signatures on the pages of the file without reading or observing anything . It is also very interesting that budgetary outcomes are merely analysed by the Ministry of Finance and the spending agencies in terms of the efficiency , effectiveness and impact of programs and projects. This shortcomings are evident in most developing countries too. Bangladesh lacks of both political will to undertake such analysis and skills in the techniques of program and project evaluation and management analysis . The developing countries are burdened scarce resources even though they try to use of existing funds but the government of Bangladesh ,in fact has failed to identify a resource envelop within which expenditure decisions are taken in advance of the start of the budget process . Side by side ,the ministries of the government has failed to use budget as a major tool of resource allocation .The government of Bangladesh works under many pressure groups at the time of budget making ,

which in fact create difficulties in identifying expenditures between revenue and development in a managerial manner .

In Bangladesh ,there is a serious lack of reconciling between the government accounts balance and bank statements . Unfortunately , this problem is a long pending problem . Inadequate cash management of the government brings problems for fiscal or budget management . Cash and Debt management are interrelated via the concept of 'Time Value of Money' . Cash management involves keeping the minimum liquid balance required to carry out transactions . Debt management involves reducing indebtedness to the minimum amount and costs but in Bangladesh the government faces problem in both cash and debt management for lack of inefficient budget monitoring system . A good cash and debt management requires cash flow forecasting .Cash flow forecasting enables the Ministry of Finance to anticipate changes and therefore to take more time cash and debt management decisions . Unfortunately , the existing budget monitoring system is not a good basis for cash flow forecasting in Bangladesh . There is , therefore a considerable scope for improvement in cash and debt management in Bangladesh . In Bangladesh , the government now prepares two sets of budget -namely the revenue budget and the development budget . The revenue budget includes recurrent expenditures of the government while the development budget includes at by definition , expenditures which contribute to development or economic growth . The distinction is quite often blurred .For example , salary may be included in both revenue and development budgets and the revenue budget may also includes capital expenditure . Unification of the two budgets is expected to provide an integrated view of the total flow of government resources to particular sectors or functions which the present system of two sets of budget does not allow . It is now required to examine the possibility and methodology for integrating revenue and development budget into a single budget . Another problem for budget or fiscal management is lack of computer uses . For lack of complete and wide computerisation of the budget system , the budget making process can not work properly .



#### **(d) PROBLEMS OF PARLIAMENTARY CONTROL**

The Parliament is the centre of all governmental activities in Bangladesh. The financial activities of the Government of Bangladesh are also the subject of the parliamentary control. In Bangladesh, the role of the Parliament regarding financial aspects are very relaxed. It has been observed that many of the members of Bangladesh Parliament are worried to play any role regarding financial aspects for lack of sufficient knowledge. It is also a fact that many members of the Parliament do not have even little idea regarding financial conditions of the country, rules and procedures of financial activities of the government and financial planning of the future. The Members of the Parliament even do not try to develop their knowledge in the field. Only a few are found some times to speak on the issue but that does not carry any fruitful guidelines which may be able to show the mistakes of the governmental policies. Some of the Members deliver speech only during the budget session to show the people and voters of their own constituencies. Some of the Members of the Parliament go the teachers and professors of the Department of Economics or Finance of the universities to get help for delivering lecture in the coming budget session. This is very unfortunate for a poor and developing country like Bangladesh that the quality of the members of national assembly is below the standard. If the law makers and the policy makers have no knowledge, ideas, information, clear conception regarding state machinery, day to day business, how a nation can be developed. Of course, there can not be any debate about the choice of the people regarding selection of representative but if the selection of the people do not reconcile with the demand of the changing time, the country may be defeated in the present competitive world. The standard of the parliamentary leadership is alarming for the future of the nation. There are three Committees in the Parliament for control of the government money. In Bangladesh that the Members of the Public Accounts Committee, the Estimates Committee, the Public Undertakings Committee are ignorant about their role in the Committee

The percent of presence of the members in the meetings of such committees are not satisfactory . In Bangladesh Parliament , the Minister of Finance is the member

of the Public Accounts Committee but he does not attend any of the meetings of the Public Accounts Committee in the last three years life of the current Parliament, termed it as useless Committee . It is expected that the people's representatives would not avoid accountability to the Parliament . They must be respectful to the Articles of the Constitution of the country . The role of the Parliament especially in the area of financial control is very important for overall accountability and transparency of government .In Bangladesh the role is not being performed honestly .

#### **(e) PROBLEMS OF FINANCIAL RULES**

The government has financial regulations . These provide for the backbone of a system of control but it does not work in Bangladesh properly . Some of the developing countries like Nepal and Bhutan , have recently changed their old financial regulations corresponding to their current needs .Other countries have financial regulations which are outmoded indeed some are best described as antique. Such financial regulations are badly in need of revision. They often express rules that are no longer operative or desirable and represent a barrier to the training of staff because only a few well informed officers know exactly which regulations and instructions are effective . Moreover there are usually additional problems regarding their availability , distribution and readability . The rules and regulations governing the procedure of drawing and disbursing funds and in exercising power to make concessions rebates with respect to taxes and fees have not been changed in the line with inflation and changing conditions . Many of the rules and regulations governing payments and incurring of obligations have remained unchanged since the fifties including the money values . However, the financial rules ,treasury rules ,account codes and audit manuals ,all need major revision to conform to the need of a developing economy of a developing country like Bangladesh . In the absence of up-to-date rule ,it is sometimes more convenient to control by occasional

intervention in day to day operations . Bangladesh is a highly stratified society where cars ,air conditioners , and expensive furniture are considered to be symbols of prestige rather than functional necessities .In order to maintain the so-called social status, the government officials have been involved in corruption , bribery and malpractice and this have increased seriously in recent days . There are laws regarding control of such bad things but application of such laws are very limited . On the other hand , despite considerable liberalisation and decentralisation of financial powers , delegation has been slow and centralised control still remains quite high .

#### **(f) PROBLEMS OF ACCOUNTING**

The government accounting systems of the developing countries studied under the present research work , such as Bangladesh ,Bhutan , Nepal ,Pakistan and India have many common features . First , each of these countries employs a consolidated fund into which most government revenues are paid and out of which only authorised expenditures can be made. This provides an essential element of financial control. Second , a distinction is drawn between budgetary entities funded by appropriation from the consolidated fund and other entities with independent sources of revenue for example public enterprises. The first group of entities is covered by proper government accounting and for these entities the cash basis of accounting is used in all four countries, modified by the recording of commitments to permit budget monitoring. For government entities not funded by budgetary appropriation , the accrual basis of accounting is commonly used . Third , within the sphere of proper government accounting these countries have classification and coding schemes for recording accounting transactions . Such schemes may be uniform over large areas of government . However , certain ministries transactions for example public works and certain types of transaction such as development expenditure are often covered by subsidiary or separate classification schemes. Fourth , in all countries there is a distinction between central accounting to be carried out by the department of Accountant General or the Treasury to spending units , the overall control of the financial system includes the monitoring of accounting and the aggregation of



accounting data for formulation and distribution of nation wide accounting reports . The fundamental accounting tasks of an operational accounting unit are the observance of financial regulations, the keeping of adequate accounting records, avoidance of over expenditure of budget allocations, the regular and timely submission of accounting reports to the next level in the administrative hierarchy . In all countries there is a pyramid like structure with small operations accounting units at the bottom. Accounting information is passed upwards through the structure and consolidated at successively higher levels until it is finally consolidated and reported in nation wide accounting reports in accordance with financial legislation . Finally, all countries distinguish between above the line accounts such as budgetary accounts and below the line accounts such as non budgetary accounts used for financing transactions , loans, transfers etc. It is conventional to judge accounting systems according to a number of criteria. Turning first to the issue of timeliness, all the countries studied have financial legislation establishing prescribed periods after the end of the financial year for the submission of financial statements and their audit. Most of the countries have not been able to keep to the established timetables . Nepal is currently attempting to resolve a back log of several years . Bangladesh has also experienced a similar back log . Prompt publication of the annual financial statement of the government is the ultimate test of timeliness of a government accounting system. However as an indicator , it lacks sensitivity and tells little about individual cognisance of delay contributing to overall lack of timeliness . These differ from country to country . For instance , Nepal which produces timely government accounts attributes delay to factors such as the capacity and willingness of line ministries to complete and submit the necessary accounts, delayed transmission of impute documents for computer processing and resource constraints at the computer centre. In Bangladesh on the other hand, the major causes of delay are a reorganisation of accounts offices which multiplied their number from 21 district treasuries to 466 treasuries or sub treasuries and lack of well trained staff. Some of the common causes of untimely experienced by several countries are mullet level accounting ,requires to be submitted and aggregated at several levels such as local office , district

office, department, ministry before being aggregated in the government's overall financial statements . The remote offices with poorly trained accounting staff which submit late or inaccurate returns , poor communication between districts and the capital city make difficulties in the reconciliation of accounts, particularly of bank accounts . The computer breakdowns where these have been installed and lack of capacity and resources in the central accounting system to resolve such difficulties are the existing serious problems of accounting .Normally , there is no single indicator of the accuracy of an accounting system . Generally , responsibility for accuracy is shared. The Accountant General or equivalent official has the responsibility for the government's overall financial statements and for supervision of the accounting system . Individual accounting officers in ministries and departments have responsibility for accuracy in accounting records and for submitting financial reports. But because of the lack of a single indicator of accuracy the total picture is difficult to summarise. All the countries under the present study confront problems of inaccurate accounting to a greater or lesser degree .The typical inaccuracies are

- (a) Delay or failure to reconcile cash books with bank accounts.
- (b) Differences between the individual accounts kept by accounting units and the summary accounts held in the central accounting system.
- (c ) Improperly kept accounts of budgetary expenditures ( vote books).
- (d) Carelessly or unskilfully prepared accounting reports from field offices
- (e) Misclassify and wrongly coded transactions.

The typical causes of inaccuracy are :

- (a) Lack of necessary staff with appropriate accounting skills.
- (b) Delays by banks in furnishing bank statements ( bank reconciliation statements become more complex , the more they are in arrears).
- (c) Absence of self balancing accounts capable of mathematical proof. Several governments have single entry systems , some do not use sufficient control of accounts to prove the accuracy of accounts.
- (d) Inadequate valuation procedures in the preparation of financial reports and in the original classification and coding of accounting.

(e) Systems that were designed without considering the need for checking and reconciling figures .

Separation of audit from accounts is a complicated issue of financial administration. In Bangladesh audit and accounts are unified in a single service under the Comptroller and Auditor General of Bangladesh . Pakistan has got the same system. India follows a mixed system of separated audit and accounts service in the Union Government. The CAG of India is the head of the audit organisation and the CGA is the head of the civil accounts organisation and unified audit and accounts service at the state government level of India . Nepal is totally different from the other three countries. The office of the Auditor General of Nepal is a constitutional body to do the statutory audit. Accounts is fully departmentalised in Nepal and so, initial accounts are kept by the departments. But accounts of the government is prepared , kept and maintained by the Financial Comptroller General under the Ministry of Finance which he gets from the departments through the DTCO as monthly expenditure statements . Financial Comptroller General has no administrative or functional relation with the Auditor General . Separation of audit from accounts is a much talked about issue in Bangladesh . In this regard , Nepal may be a good example to follow . In 1983 the government took initiative for separation of audit from accounts . But it was not fully implemented . Accounts keeping functions of the government are not departmentalised in Bangladesh , India and Pakistan. In Bangladesh , some government departments spend money by issuing cheques and keep initial accounts of those expenditure but most departments have to incur expenditure by producing bills to respective CAO or DAO or AO and by receiving cheques or order of payment from these accounts offices . All the accounts of these expenditures are prepared , kept and maintained by the Controller General of Accounts through the CAO or DAO or TAO and his own office. India and Pakistan follow more or less similar system , only difference is in the payment system . In India payment is made at the states through the treasuries and at the union government through departmentalised pay and accounts offices of the ministries. In Pakistan , payment is made either through the treasuries under the Ministry of Finance or thorough the DAO under the provincial



AG at the province and through the AGPR at the capital and through provincial AGS at provincial capitals. Exception is seen in Nepal in this regard.. For incurring any expenditure, no department have to come to the accounts offices . All the departments including the ministries spend money by issuing cheques against bank accounts allotted to them and they keep initial accounts of all the expenditure. These offices have to prepare monthly expenditure statements to be submitted to the DTCO under the FCGO and to their parent ministry . The DTCO scrutinises these expenditure statements and release fund for the amount expended . The DTCO performs internal audit of these offices also. In Bangladesh, the government accounting system is half way towards departmentalisation. If departmentalisation of accounts is considered in real sense, Nepalese accounting system is the perfect system to follow .

The government fund releasing system is not very simple in Bangladesh rather the system is complicated . In Bangladesh , India and Pakistan , the Parliament approves the budget. The Ministry of Finance distributes it to all other ministries and all ministries again distribute their portion to the lower tiers and all the spending units, excepting a few, have to spend money by placing bills to the accounts office or the treasury concerned . The accounts offices or treasuries pass bills and issue cheque and make cash payment if they require from the budget allocated for them. The accounts offices have no control over budget. In Nepal , the process of budget approval and distribution of it to the spending units is similar to the system practised in the other regional countries mentioned earlier but process of spending money by the departments is totally different in Nepal . Before the budget is approved , departments can spend money up to 1 /6<sup>th</sup> of the actual expenditure of the previous year. This money is known as the impressed money of each department. This money is to be replenished by submitting monthly expenditure statement to the office of the DTCO and after scrutinising expenditure statement the DTCO releases fund for the month within the budget limit of the department. This impressed system relieves the departments of the hindrances of pre audit system . On the other hand , authority to release fund after getting and scrutinising the expenditure statement gives the DTCO

to control over the departmental budget. This system is functioning very effectively . For Bangladesh the system may be examined .

Payroll comprises about 50% -70% of the revenue budget of Bangladesh , India , Pakistan and Nepal . Computerisation of payroll means computerisation of about 50% -70% of revenue budget of these countries . Pakistan has computerised the payroll of the federal government employees . These employees get computer printed salary advice to their bank account every month without producing salary bills . Moreover , salary related contributions, such as Provident Fund, Group Insurance, Benevolent Fund , all loans etc. are also maintained by computer under the payroll computerisation program which means a large portion of the public account came under computerisation automatically. Computerisation of payroll of the employees of Government of Bangladesh may be considered .

The accounting and auditing practices in Bangladesh are not regular . However , international accounting and auditing standards have been adopted by the Institute of Chartered Accountants of Bangladesh but enforcement remains poor. The government needs to review fees for auditing nationalised commercial banks and state enterprises, which are currently set below comparable fees for auditing private companies . Audit t is also required to trace suspected insider loans. There is lack of initiative to study of financial statements to bring terms in line with international standards of accounting and financial disclosure . Bangladesh can work with the accounting profession to require all large companies to adopt international accounting and audit standards . For efficient practices of auditing ,the internationally recognised system could be considered to establish in Bangladesh . In the countries studied under this research work, it is found that the computers have a much lower profile in the field of government accounting. For the countries concerned in our study , it has been found that only two of the countries such as Bangladesh and Pakistan introduced computer system for accounting . But this two countries could not do it totally. In Bangladesh their use is minimal . They are used in the Accountant General's department. Nepal has been trying to introduce computer. Nepal and Bhutan use computer at their Accountant General's office , stand virtually idle. India has taken

initiative recently for introducing computer in this field . All the countries of our study have taken projects financed by foreign donors . The projects aim to modernise the government accounting system with the help of computers with a view to strengthen national financial administration .

**(g) PROBLEMS OF BANKING**

The banking sector of Bangladesh recently is widely discussed issue for the nation. The development of banking sector depends on the efficiency of the management which includes selection of proper personnel ,effective regulations and policies , selection of appropriate projects . The banks, in general , perform three basic functions valued by the overall economy . One of these functions is the centralisation of the credit evaluation and monitoring which produces information that cannot be easily made public by the borrower . This centralisation exploits cost economies and together with a diversified loan portfolio , lowers the price of credit . Secondly the banks offer transformation services that convert to hold . These claims may be transformed with respect to their maturity , liquidity and credit risk . This special role of bank derives from the social welfare enhancements that can not be realised when banks co-ordinate the funding of these illiquid assets with liquid liabilities. Thirdly , the banks provide access to payments system and to a clearing house for transactions. The health and efficiency of the banking sector are crucial to economic growth . It is the system by which a country's most profitable and efficient projects are systematically and continuously funded and thus it is the mechanism which ensures that resources are directed to the most productive sources of future growth . The banking system not only transfers funds from savers to investors . It must be able to select projects which will yield the highest returns , accumulate sufficient quantities of capital to fund the range of investment projects across economic activities , account for price risks across assets , monitor performance and enforce contracts. The financial sector of Bangladesh requires a highly skilled manpower and quality information to undertake this vast range of tasks . The most common role of government in successful financial systems has been to ensure that financial



institutions serve these vital functions as efficiently as possible . It has become increasingly difficult for the banking system to play its essential role of supporting the country's economic development and adjustment goals . The prevalence of these problems reduce the level of investment , the productivity of capital and the volume of savings . This results in a diminished economic growth and employment opportunities. Bangladesh's continuous stagnation in investment and economic growth is related to the situation in its banking sector . The banking sector has the potential to contribute to economic and industrial growth by enhancing resource mobilisation and improving resource allocation . Concentration of economic power can be checked by increasing competition and better supervision. The improvement in bank supervision and bank management information systems will enable to carry out its supervisory functions in a more satisfactory manner . Improved reporting and supervision of commercial banks will essentially be substituted for releasing commercial banks from direct controls .The Finance Ministry of Bangladesh should have an information centre for its functioning and development like other South Asian countries . Bangladesh Bank has been reluctant in the past to take action , for political reasons, against bank loan defaulters even in bad financial condition except in the most serious instances of fraud . The BB should now intervene more aggressively in troubled banks to develop a sound private system and legal and political barriers to action should be dealt with expeditiously and firmly . Delays will prove costly for the government and ultimately for the economy . The framework of business laws and legal procedures should facilitate transactions and to enforce contracts in a timely and cost effective manner. The banks and other financial institutions have to be able to foreclose and liquidate collateral in the event of borrower default . Recently several pieces of legislation were passed in the Parliament of Bangladesh to improve its legal framework for the financial system . Among these are the Banking Companies Act , Financial Loan Court Act and Bankruptcy Act. The jurisdiction of the Financial Loan Court now needs to be logically extended by amending the law to include the implementation of its decrees . At the moment , the implementation of Loan Court decrees is done under the civil

procedure code which takes years and can afford the NCB's little hope of collecting on their collateral within any reasonable time frame. However, the Bankruptcy court has been functioning since June, 1998. It may give a good result in this sector. The special foreclosure powers given to development banks have not been used. Thus, much needs to be done to improve contract enforcement, especially to encourage private sector financial institutions lending for industrial projects but a national consensus should be made in order to stop trade unionism in the financial sector without any hesitation.

The Ministry of Finance and Bangladesh Bank have recently begun work on banking reform and formed several task forces. The aim and objectives of the reform projects initiated by the Bangladesh Government was to rethink about the legal aspects to restore discipline in banking sector. In the coming year or over the next two to three years the government should privatise at least two more of the remaining nationalised banks to get banking into the hands of a competitive and well regulated private sector. In order to make a reform program, for the success in the banking sector of Bangladesh, lot of things are needed to establish. It should be mentioned here that in the Paris Aid Consortium meeting in 1996, some decisions were taken in order to reform Bangladesh banking sector. One of the decision was to strengthen Bangladesh Bank's monitoring and supervision functions particularly for effective enforcement and strict implementation of the revised loan classification and provisioning guidelines. On the basis of IMF expert opinion, working on bank supervision and restructure, Bangladesh Bank has been improving its bank regulations so far

The strategy for deepening the financial system must give special attention to the DFI. Regarding this aspect to privatise Bangladesh Shilpa Rin Sangstha, one of the two industrial development bank and down size or close Bangladesh Shilpa Bank, the other industrial bank should get top priority.

The government should examine ways of strengthening non-depository contractual savings institutions. It can be done by strengthening the office of the Controller of Insurance for reviewing and strengthening the regulatory framework for insurance companies and work out a strategy for privatisation of the two state owned companies.

It is also needed now to strengthen the management of collection and funding performance of the state owned pension funds in order to provide best practice examples for setting up private pension funds.

The presence of Bangladeshi Bank in abroad is very insignificant. The services of all the foreign branches of our nationalised banks are of very low standard compared to other international banks. They even cannot satisfy the needs of demand of citizens of Bangladesh living abroad who are eager to remit foreign currencies to their own country . Bangladesh should have more branches from private sector banks in important foreign centres for the following reasons (a) to capture business abroad (b) to extend support to growing trade in Bangladesh (c ) to serve expatriate Bangladeshi clientele abroad and to stop Hundi note business (d) to help exporter and to assist Bangladesh entrepreneurs in setting up joint ventures abroad (e) to help exporter and to assist Bangladeshi entrepreneurs in setting up joint ventures abroad . In order to finance its development programs , Bangladesh depends too much on the International Institutional sources like the World Bank , the ADB and foreign aids from some friendly countries . Of late these sources appeared to be dwindling. The country therefore shall have to look in an increasing measure towards the Euro currency market and other commercial sources of external finances , Banks of Bangladesh is thus be required to provide suitable international conduits through which foreign capital may be channelled into this country.

There is an unlimited scope for extension of merchant banking function particularly in the third world countries . The banks of Bangladesh abroad can turn to avenues where they possess comparatively better skills and enjoy cost advantages . Development banking is one of such areas . The factors like the low capitalisation of Bangladeshi banks in abroad , outdated information processing and office technology, create problems for operating in such specialised market segments as ‘Merchant Banking Credit Syndication’ , ‘Leasing Money Market Operation’ etc . These factors have compelled Bangladeshi banks abroad to cling to some outmoded banking process and to remain out side the mainstream of international banking . The government , there



fore should do something to allow more private banks to operate abroad to present better banking competing effectively in the areas of international banking .

The growth to banking industry and its ability to handle the emerging challenges depend on its financial strength and profit ability . At a time when the capital deposit ratios in our banking industry are not only very low but are also depressing , there is an urgent need to remain profitable and to build up their own funds . A widely held view is that a number of banks are actually running at a loss and the position reflected in their balance sheet is nothing but window dressing .

This is well known that the quantum of bank finances locked up in sick industrial units has been going up year after year . In fact, commercial banks should not finance projects for long term . It is because commercial banks can not afford to block its deposits for longer period. If the government wishes commercial banks to extend credit to such sick units, where the banks in their commercial judgement are averse to doing so , the former should take full responsibility through the creation of 'Industrial Rehabilitation Fund' out of allocation from the budget .Continuance of finance to sick units will lead to emergence of sick banks. Because of its pervasive influence on the economy as a whole, the continued state of good health of the banking industry is extremely important and can not afford the risk of putting this health in jeopardy . Any meaningful credit planning will have to pay attention to the problem.

The trade unionism in the banking sector is a serious problem to run effective administration and management . The leaders and members of the trade union are deeply related to political parties of the country . The leaders of the union do not work . They exercise power over the administration and interfere to loan sanctioning process to get benefit personally . Even they challenge the day to day administration of the offices .This should not be allowed in the country when the country has been suffering from poverty .

The government has been working through two projects with the help of the World Bank for restructuring the nationalised commercial banking. The name of the two projects are(1) " Commercial Banking Restructuring Project" and (2) "Non-Bank

Financial Institutions Project". The implementation process of the projects should be more dynamic and faster in order to get a proper reform in the sector .

#### **(h) PROBLEMS OF TAXATION**

Problems of taxation in Bangladesh is the sign of inefficient financial administration .It is also a common phenomena in the developing countries , as we have seen in the previous chapter . However , many of the constraints preventing more efficient tax administration appear common in the developing countries . First are the universal problems, such as taxpayers unwillingness to pay taxation and the problem such as taxpayers , unwillingness to pay taxation and the problem of informing them of their responsibilities when tax laws are complex, and people lack education . Second are the systematic problems which be set with the tax administration itself .These are lack of information on tax payers , inadequate use of what is available and the difficulty of manipulating and reporting data of relevance to the improvement of revenue raising , weak accounting systems, absence of efficient technique of tax audits , absence of system of control ensuring that the various tax administration tasks are properly co-ordinated and carried out , lack of good monitoring systems and follow-up with regard to revenue raising performance , lack of anti-evasion policies and obsolete tax laws in the sense of preserving administrative difficulties . Third are the people who administer taxes and revenues . In several countries this element requires significant strengthening via proper selection of senior staff, training staff at all levels and improved systems of controlling and evaluating the performance of staff. Finally , among the constraints , the lack of attention and resources given to this task with revenue raising departments , is unable to provide the necessary equipment and remuneration for their employees . So reform efforts are bound to lack strength and sustainability .

A large number of officers of BCS of Taxation cadre of Bangladesh believe that the NBR should be bifurcated as in India , into two Boards (a) Board of Direct Taxes and(b) Board of Indirect Taxes . It may however be named differently . The Board may be comprised of a Chairman and five numbers . The Chairman ought to be in the

status of a Secretary and the members of the Board should be in the rank of Additional Secretary to the government and all of them should be selected from amongst the fit officers of the BCS (Taxation) Cadre, BCS(Audit and Accounts) and BCS (Customs). It is expected if the proposed scheme of creating a separate Board for Direct Taxes is implemented, regular thinking, rethinking, planning and necessary actions relating to direct taxes, would take place and the department will keep itself at best with the latest development.

All laws are subtle and complicated and have certain implication but a provision of a tax law have more implications which includes calculation of tax, its impact on economy, its rationality and natural justice and how far it safe guards the rights of the citizens. In fact taxation law is clearly distinguishable from other laws and probably for this reason taxation department is called a technical one. It takes long experience, proper education, hard work and sustained efforts to become a meaningful tax collector or a tax planner. It should therefore be left to those who are trained, educated and experienced in it.

The need for expansion of tax base can hardly be over emphasised. There is no substitute for generating and collecting internal resources. Hence is the need for strengthening the tax administration and giving its officials their dues. Tax base cannot be expanded if new assesses are not continually found out. Only regular effective survey can do this. New strategy of survey, both outdoor and in door, should be formulated. The present intelligence & investigation zone has not lived up to its nomenclature. No detection of concealment, worth mentioning has been done. Officers of the Taxation cadre should be foreign trained batch by batch embracing all groups of officers and the staffs must be periodically trained in the Training Academy so that they can work hand in hand with the officers. A good income tax case can originate only from a correct information. So it is necessary to go to the roots. The Airport, the Sea Port, the Border Check post etc can be selected as places for good information.

The taxation system in Bangladesh is basically an inheritance of the British and Pakistani legacy. So it is necessary to do it carefully in the process. The role of



direct taxes in a developing country such as ours, must be given top priority .The struggle for economic emancipation begins immediately after political freedom is achieved . Economic self sufficiency is the precondition to the maintenance of political freedom . Avenues of income generation of the citizens , more payment of taxes by them , would be the actual test of development . It is necessary to make proper appraisal of the services rendered by the taxes department towards the consolidation and welfare of the state . The role of the officers and staffs of this department are being played have more been misunderstood than understood . Since the department is a British legacy, the people tend to view it with contempt and oppression . An Income Tax officer in the British days , used to collect tax to bolster up the Raja but now a Deputy Commissioner of Taxes collects money from the citizen for the public treasury . This change of context must not be lost sight of . A popular DCT and an efficient DCT do not go together . If he is popular he is compromising , if he is not he is effective as an officer . It is the time that have to be realised this and stood behind a Tax official for letting him work the ways the laws require . By this , it is not meant that a DCT or any of his superiors is out of accountability . The DCT must remain accountable as much as a public servant should be . Only his dignity is to be maintained or else he will be handicapped to perform the onerous but unpleasant job of tax collection.

If in the evaluation of the officers duties are done in proper perspective, their emoluments deserve reconsideration . In Bangladesh they are not given adequate allowances and housing facilities so that they can live within their means. The tax officials are like the bees who collect honey for the government . It is certainly a very difficult job in a country where evasion of tax is a sports . The government would do well to ponder over this and take steps that would make the tax officials more self respecting more sincere in the discharge of their duties.Their transports accommodation etc. should be provided in priority basis .

In the days gone , by foreigner's earnings were taxable income in this territory. They could not leave the country without a clearance certificate from the taxes authority , This used to be known as 44G clearance . In the Section- 107 of the Ordinance of

1984, this need also has been incorporated, but with a difference. The law states that the customs official may ask for income tax clearance certificate. Taxes job is not done by the customs officials. Naturally this law is more observed by breaches than by observances. Production of tax clearance certificate by the foreigners, after having spent a reasonable period of time in Bangladesh, should be made mandatory as it was mentioned in the section 44G of the Income Tax Act, 1922. An office of the Deputy Commissioner of Taxes, airport circle should look into this wholly. In Bangladesh the Tax officers are over burdened and in some cases, under burdened. The Tax circles should be remodelled to give them balanced loads of duties. One assessing officer should not be called upon to handle more than one thousand commercial or professional files. The DCT of the companies circle should not be given more than five hundred files. An assessing officer of salaries circle should not be given the responsibility of more than two thousand file. Distributed this way, the government may have new tax circles. In the country the tax collection efforts will be revolutionised if the circles are rearranged and the actual span of control is established. If the assesses are given permanent TIN. number and if they are required to use it whenever a business deal is made, new assesses will be easily detected and old assesses will not be able to suppress their facts and figures.

At the moment government employees are exempt from payment of tax. But they are required to submit the annual Income Tax return. This exemption is however in the sense that tax in the case of every individual is deemed to have been paid by the government. Excepting a few high ups in the bureaucracy, who take personal interest to know and do the general rung of the government employees lie under the impression that since government employees are exempt from payment of tax, returns are not necessary to be filed. This has been leaving a vast area not necessary to be filed. This has been leaving a vast area of tax payers out of the canvas of taxation.

Income from salary is a vast source of revenue. In Bangladesh one kind of salary is taxable another kind of salary is not, it creates dichotomy and confusion. Law should be equal for all. All salaried persons, whether in government service or in

private should pay income tax . There is no alternative to direct tax , or internal resources . If the government wants to give its employees the benefit of tax payment ,the government can do it , the way it is done in corporation or other statutory bodies . In the corporations the yearly tax of the employee is calculated and it is deducted on monthly basis from the pay of the officer . The deducted amount is paid by the corporation . The officer enjoys the benefit and the treasury gets the tax . What is done in the corporations should also be done in the government . This will keep the government account in order .

#### **(i) PROBLEMS OF UNPRODUCTIVE EXPENDITURES**

In Bangladesh , increasing revenue expenditure needs more analysis and remedial measures. During the fiscal year 1997-98 , the total revenue expenditure increased by 15.68% and reached 9.4% of GDP compared to 8.94% of GDP in 1996-97 . For the fiscal year 1998-99 , revenue expenditure growth is estimated at 9.91% which is 9.29% of GDP. Even though revenue expenditure are increasing significantly, the efficiency of the government, as measured by its total revenue -GDP ratio, has declined, But more serious is that revenue surplus , which is a better indicator of government efficiency , in the revised budget of 1997-98 , declined to 2.78% of GDP from 3.29% in 1996-97 and 3.3% of the original estimation. The same trend is seen in financing development expenditures The contribution of the government in financing the Annual Development Program (ADP) as measured by the revenue surplus - ADP ratio, significantly declined by 6.69 percentage point to 35.06% in the revised budget of 1997-98 compared to 41.75% in 1996-97 . The trend in budgetary shortfall reflects two aspects : revenue management is not satisfactory and the same has limited the ability of budgets to support development with a view to catalysing growth and expediting social development. The quality of the revenue development expenditure allocations is also far from satisfactory .It may be mentioned that in most countries, the approach to budgetary policy has undergone far reaching change in recent years, It is widely held that increased expenditures on government administration does not improve productivity and efficiency of public resources, Accordingly, it is maintained



that administrative expenditures should be reduced to the minimum. Reflecting this approach, the role of the government should also be redefined, limiting it to administrative matters and social sectors. The increasing trends in revenue expenditures mainly to meet salaries and other emoluments of government employees, is far from desirable. In this connection, the policy makers of the country should think to reduce burden of the government by abolishing many unnecessary departments. There are so many organisations which are not able to fulfil the expectations of the taxpayers or in the sense the taxpayers of the country do not get any benefit from such organisations. Many of the donor agencies and World Bank has questioned about the outcome of some of the government departments. The World Bank raised the questions of principle of 'Value for Money' of such government organisations. For example, the Department of Co-operatives has been performing the functions for registration of co-operative societies and it also encourages to co-operative movement. In the department, total employees are five thousand and government expenditure for the department every year is near about twenty seven crore. Total number of the co-operative societies are thirty three thousand. The department may claim success by creating such large number of societies. But in practice most of the societies are inactive. As a controlling authority, it is no doubt a great failure of the department. What the so large number of employees of the department are doing. At present the NGOs are more successful in social and co-operative movement than the government institutions. So it is the time to rethink about government involvement in co-operative movement. The government may abolish the department and merge in the Administration cadre of the country. Like this, the Central Transport Pool, Central Stationery Department may also be abolished.

It is seen all over the World that conducive development atmosphere does not occur by accident. It is the product of supportive administration, intelligent laws and public policies. If the government administration does not play proactive partnership role in building a market economy even the best intentioned development programs will ultimately go wrong and the economy will stagnate. A few years ago a Nobel Laureate

in Economics established that the cost of transacting business has a lot to do with the overall performance of an economy. The lower the transaction costs, the more likely that the country will experience economic growth. The ability or inability of a society to achieve low transaction costs depends on the size, quality of the government administration and the checks and balances in the administrative framework to make administration transparent, development supportive and accountable. It is time to review whether in our case increasing expenses on government administration have been helping the achievement of these objectives .

#### **(j) PROBLEMS OF GOVERNMENT REVENUE COLLECTION**

It is very essential to increase collection of revenue instead of imposing higher taxes over public .In this regard government made some plans and trying to find out the way of collecting more taxes and also discuss with intellectuals and related government officers . In Bangladesh the main reasons of lower revenue collection are the rigid government rules , procedure , method of collection and the malpractice , corruption , negligence of government employees in relation of revenues .

The debilities of collection of revenues in Bangladesh is one of the reasons of budget deficit . Collection of direct tax which is income tax is very low than the indirect taxes such as tolls , VAT etc. So, income tax net should be widen all over the country but it has to be acceptable and logical . At present government is more dependent on indirect taxes than direct taxes . The amount of revenue which is being collected from income tax, is very poor in compare to the expecting revenue from direct taxes . The main causes to have less revenue are corruption, malpractice, deception of tax payer. The Tax payer does not pay proper taxes. They bribe government revenue officers to evade proper tax and because of corruption , many tax payer and institutions stay away from paying taxes and most of them pay 1/2 or 1/3 or less than the actual tax should have been paid . Therefore , it is very important to spread and modify the old income tax net to reduce the fallacy of tax payer . It is necessary to modernise or develop income tax net to get tax from at least 5% ( about 50 lakh) of population . For this purpose, it is necessary to do field research and

investigation that the tax should not be imposed improperly or illegally over any tax payer . In the same time income tax rate and bracket should be fixed properly . To stop cheating taxes and to get more revenue , the tax payer may be categories on the basis of income as follows :Extreme lower group Taka 60,0000.00 to Taka 100, 000, 00 , Lower group Taka 100, 000,00 to 150,000.00 , Middle group , Taka 150,000,00 to 250,000.00 , Upper Middle 250,000.00 to 600,000.00 , Rich group 600,00.00 to up etc. For easy way to collect tax it may fix lump sum tax for first category Taka 1,000.00 2<sup>nd</sup> category 3000.00 and third category 6000.00 and they may pay their tax in several instalment with discount charges through any schedule bank . Upper middle and rich group must have to submit .Tax return and tax collector will verify the return and fix the tax rate . But in this case there should have the observation of higher authority and must have hearing rights for tax payer .

In this way small , medium or large stores , companies and institutions may be categorised in different groups which would be more easy and effective to collect taxes for the government and tax payer also be inspired to pay proper tax . To reduce the red tape , harassment of government officers , it will be better to impose flat rate of tax for lower and middle class. There should have penalty who do not pay the tax in due date and penalty can be in double and put interest on unpaid taxes . Income tax may be imposed on rental income from house, apartment or office in high rate but fare should be logical to be fixed by the government .The big consultant, attorney , physician , engineer and bureaucrats ignored the lower revenue officers to deceive tax . Income tax may impose over those group of professionals .

Currently a huge tolls and VAT are being deceived . Especially the appraiser preventive officers harass the business man in many ways .If they do not get any bribe they do not release goods . So the people bribe the officers and release their goods with paying less tax and in some case no taxes . Many times merchants have to make pre contract and bribe the officers known as 'speed money' to get their goods be released fast and cheated tax. To stop this kind of corruption and malpractice the higher authorities need to do field work , including secret investigation , close observation to find out secret information . Tax intelligence, honest, dedicated and



hard worker employees should be rewarded on the other hand dishonest corrupted officers should be transferred and penalised or fired and in this case it is need to ensure that no political influences help those corrupted officers .The Police, the BDR who can catch the black market goods may be rewarded 25% of that goods , as a result they will be motivated to stop black marketers and will be discouraged for black marketing. The system of CIP has been introduced in our country . Persons willing to contest elections to elective bodies or office of profit may be required to obtain tax clearance certificate .The financial institutions or banks may ask for tax clearance certificates at the time of payment of loans .The Bangladeshis going abroad on private visits may be required to clear their due taxes payable before they are allowed to fly . To collect proper income tax , tolls, VAT, it is very important to hire honest, skilled, expert, judicious officers and provide training and also need good management. Computer uses is must to prevent corruption .To set up justifiable tolls and tax government should take serious consideration the advice of the Tariff Commission to keep local industrial interest which may increases new industries . Besides tolls and tax there are many other revenue been received for example registration fee , stamp fee , court fee, forest division and motor vehicle income . From these sources the government revenue can be increased . If court fee increases the many false cases will be reduced . Taxi cab taxes may be increased to reduce the pollution city . It may possible to get more tolls from the road users than the tax from road tax . Toll may collect from highway through leasing company which can be used to repair and maintenance of roads and highways .Government expenses can be reduced through privatisation of all corporations . If the PDB, the WASA , the T&T department , the City Corporations and the Municipalities of the country are transferred to the private sector , it would be more benefited for the country as well as for better management . To reduce expenses in the government expenditures , it is necessary to make smaller the size of the government . In 1972 , there were only 21 ministries .In 1998 the number of ministries increased up to 35 and number of divisions in the ministries increased up to 49. In 1982 ,the number of the autonomous bodies were 109 while the number of departments and directorates

were 181 . But in 1998 ,the number of autonomous bodies were 139 and number of departments and directorates were 221 . For increasing and creation of new government offices ,the number of employees were also increased . In 1972 the total number of employees were 454450 and in 1998 it was increased to 946749 . The increasing tendency of government offices as well as employees in fact increasing government expenses which are in many cases unnecessary expenses . A lot of offices in the country performing more or less same functions . For example there are five education boards in the country which is unnecessary . It should be one . There are many offices under the Ministry of Jute having more or less same in functional aspects . Under the Ministry of Shipping ,there are some offices having same purpose and nature of job .For example , the BIWTA and the BIWTC have the similar functions . Both could be brought under single administration .There are some unnecessary and additional training institutes in the country . In this country it is not very necessary to set up more then one training institute for the civil officers .where ,the BPATC could offer and conduct all sorts of training courses for civil officers . The BPATC could increase the number of trainers and other logistic supports if necessary . Unnecessarily establishing new training institutes and increasing government expenses is a bad trend of our country . The courses of the BCS Academy , the BIAM , the Planning Academy ,the Judicial Officers Training Institute ,the Foreign officers Training Academy , the Financial Management Academy ,the Taxation Training Institute are possible to offer in the BPATC with a few exception . For special subjects ,special trainers may be called to teach the trainees . To reduce such expenses the government should abolish these white elephant institutions . It is also necessary to think about the smaller size of the government in general to save public funds from unnecessary spending. The government should modify the rules to get more revenue from selling all different mineral wealth , airport tax, penalty, fine, trade license fee, profit share of government bank and insurance and lease of Ghatt or river port . Its need to reduce the expenses of corporation Bank and Bima and Railways and make them be self - financed . Attempts should be taken immediately to place the Railway department and the T&T under private control .

There are so many corruption involved in large contract to purchase the goods for defence, police, health department and petroleum goods. So in the purchase committee its better to keep the officer from anti corruption department and government representative from investigation department .

Usually there is an unbelievably tremendous fraud be seen in the government development projects . To get timely and proper performance for those projects it is essential to keep 5% bonus reserve fund in the budget which can be used to give reward to the concerned dedicated, honest hard working officers for motivation. In the same time it may keep the limited number of projects instead of many projects and the related ministry may have the authority to clear up to three instalments payment .

In Bangladesh , most of the projects become unprofitable and uneconomic . It is essential to hire skilled and expert officers for better and timely performance of those projects and reduce to appoint so many unnecessary foreign consultants. The Planning Commission increase the date several time to execute those projects for the interest of some people such as to keep officer in job for longer and for money exchange. It would be useful if the employee is punished for delaying the projects or if the project is not completed in fixed date and time .

The sum and substance, to collect the revenue timely and fruitfully and to reduce the expenses it is necessary to change, modify and simplify the rules and procedures . The effective way to increase revenue is to offer reward for motivation to those dedicated, honest, hard labourer and judicious officers and penalise the inexpert and corrupted officers. Its necessary to stop unnecessary influence of political leaders have big mouth to deliver lecture and advice.

Peoples expect to get honest principle, upright judgement, honesty , stop economic crisis, rapid development work from their elected democratic government. A political leader should be dedicated, hard worker to create an example, not to give big lectured advice . Similarly many contrivances may be thought of . There should be constant thinking and study as to how new revenues can be added to the treasury .



**(k) PROBLEMS OF FINANCIAL SECTOR REFORM**

Financial Administration requires drastic reform in Bangladesh . For successful financial reforms , barriers impeding the entry of foreign firms should be abolished and foreign and domestic firms should be allowed to compete on equal terms and conditions . Bangladesh has made the greatest progress in this area of reform by opening up its entire economy to foreign investors with only a few activities reserved for national security reasons . There is at present neither any limit on the size of foreign investment nor any restriction on the repatriation of income and profits. Indeed the capital account works as if it is fully convertible for foreign investors . As for overall incentives , foreign investors might even have a slight competitive edge over domestic producers .Privatisation of financial institutes is another important issue for reforms . The state enterprises should be privatised . The lacklustre progress in this area of reform in Bangladesh is too well known to merit further comment . The government should abolish regulations that impede the entry of new firms or restrict competition and ensure that all regulations are justified by such criteria as safety to environmental protection or prudential supervision of financial institutions . In principle deregulation has taken place in the industrial and service sectors of Bangladesh where substantial regulations existed in the past resulting in a license and permit regime. In fact , bureaucratic control still remain partly from the lack of understanding of or commitment for a market friendly approach to government on the part of public functionaries .The following list merely gives a flavour of the many points of departures in the discourse . The desirability of maintaining capital controls , the need to target the current account , how rapidly and how far inflation should be reduced ,the propriety of attempting to correct market failures through such techniques as compensatory taxation or subsidies , the proportion of GDP to be taken in taxation and spent by the public sector whether and be deliberately redistributed in the interests of equity where there is a role for industrial policy the model of the market economy to be sought and the priority to be given to environmental preservation .In all such areas there appears to be a wide divergence of views and large scope for disagreements. Yet it leaves a substantial stock of economic wisdom to work with

consisting of empirically reliable generalisation about the nature of economic policies that can be expected to yield good results in due course . The divergence of views notwithstanding , the Washington Consensus still represents a policy package that most mainstream economists regard as constituting good economic policies under the altered paradigm of development strategies .

Because in reality, there is often a divergence between desired and actual outcomes and there are short term human and material costs. It is known and observed that political commitment to reforms does not come readily . The Latin American experience showed that when economists themselves assumed the role of political leadership and had an active part in economic policy making , reforms were largely successful . Such is unlikely to be the case in Bangladesh where economists are not known to seek political offices . Thus to succeed financial reforms , the economists would have to take the share of the government as given and have to work within that framework or the government have to make a central issue for the purpose of reforms with the help of economists .

Reforms do not get implemented without leadership and political commitment. Reforms involve making hard choices both political and economic . In a democratic process, an elected government with a strong political mandate is likely to be more effective in implementing the reform agenda than , for instance a government run on a weak coalition . Again it is worthwhile to mention Williamson's schematic treatment of the conditions for the success of reforms giving rise a number of hypotheses about when reforms work best . The crisis hypothesis suggests that public perception of a crisis is needed to create the conditions under which it is politically possible to undertake extensive policy reform .

In the Bangladesh context , what this means is that unless a fiscal or foreign exchange crisis , such as growing uncontrollable budget deficits and fast depleting foreign exchange reserves is at hand , a debt default is imminent , inflation is beyond control or the economy suffers an external shock , such as rapid decline in exports or remittances , the crisis conditions are non existent to create the compelling circumstances for wide ranging reforms . The mandate hypothesis argues that a

government may be able to introduce reforms if it campaigns on a program of reforms in the preceding election . The financial sector reforms in Bangladesh have not been part of the election manifesto of any political party as yet . Hence such reforms would lack the mandate of a campaign promise . To the extent that political parties endorse economic reforms in whole or in part in their political campaigns .This hypothesis could be put to the test in the not too distant future .

The honeymoon hypothesis emphasises that extensive reforms have to be implemented immediately after a government takes office . In a five years political cycle , this hypothesis would suggest that the most difficult reforms which might have high short term costs , have a better chance of success if implemented in the first two to three years .In a political democracy , difficult decisions are unlikely to be forthcoming in the last years of the office .

The above might be considered the political conditions for the success of reforms . Some of the non political but governance related conditions which include the existence of a comprehensive program , could be developed around the Washington Consensus for transformation of the economy and a rapid timetable for implementation . The will and ability to appeal directly to the public, by pass vested interests and the existence in government a team of economists with a common coherent view of what is needed to be done and commanding the instruments of concentrated executive authority can bring positive results in the reform process.

A comprehensive agenda for urgently needed reforms was already available in the 'World Bank Agenda For Action' a program of action that was framed around the core ideas of the Washington Consensus . Although the proposals contained therein have not been disputed , the preference for a home-grown version of the agenda would be understandable . However the absence of an in-house team of financial analyst or economists within the government , make it difficult for them to come up with a comprehensive agenda on their own unless it is chosen to assign the task to a group of professional economists outside the government . Finally concerns have been expressed about the human and other costs of the IMF, the World Bank structural adjustment policies .An exercise is under way through the SARRI initiative



to carry out a systematic study of the impacts of these policies in Bangladesh . One would expect the results of the exercise to provide some answers to the questions usually posed by various groups in civil society . The pitiful state of public service delivery system in Bangladesh is widely regarded as the symptom of a deeper malaise, a failure of the government .

Although the primary objective of financial reform is to rapidly improve living standards by raising productive efficiency and eliminating the costs of resource misallocation . These reforms also form an integral part of good governance . The Washington Consensus merely offers a common platform for formulating policy interventions of which there is broad agreement amongst mainstream economists and development practitioners . It does not necessarily rule out the scope for developing customised version of action programs that fit the country characteristics better .

The fundamental laws of market economics remain unchanged across national boundaries , which leads to the presumption of uniformity in the responses of national economic agents to economic incentives . This is what gives an universal character to the core principles of financial reforms . But there is nothing static about a set of reform principles . As the country moves into the next millennium, good governance as focal point of reforms has become the practical needs . This is because the success of reform rests as much on a nation's institutional capacity to govern markets and manage change as it does on the quality of the reform agenda .

## **RECOMMENDATIONS OF THE STUDY**

On the basis of the problems discussed in the previous chapters and in the light of the above discussion the following recommendations are provided for the research study .

### **(1) RECOMMENDATIONS FOR MINISTRY OF FINANCE**

(a) It is recommended that the Secretary of the Ministry of Finance should have academic background in economics , finance, accounting or related subjects in his university life. When selecting the personnel of Finance Ministry , the government

should give attention to the academic background of the selected officers. It is recommended that the officers posted in the Ministry of Finance should have academic background in Economics, Finance, Accounting, Public Administration or Business Administration.

(b) The Ministry of Finance should fully be controlled by the cadre officers only. There should not be any clerical staff or file dealing assistant in the organisation structure of the Ministry of Finance.

(c) It is recommended that BCS (Finance) cadre may be formed. In this regard the existing BCS (Taxation), BCS (Customs & Excise), BCS (Audit & Accounts), BCS (Economic) may be reorganised in a single cadre named BCS (Finance) cadre. The posts of the following five ministries and divisions such as the Ministry of Finance, the External Resource Division, the Internal Resource Division, the Ministry of Industry, the Ministry of Commerce and the Ministry of Planning may be filled up by the officers of the proposed BCS (Finance) cadre.

(d) It is recommended to create the post of District Financial Administrator in every district belongs to the proposed BCS (Finance) cadre.

(e) It is recommended that the selection for the post of the Finance Minister should not be political in Bangladesh. At least one consensus may be made among the nation regarding this post.

(f) It is recommended that in order to save public money, the following government offices may be closed. These are the Department of Co-operative, the Central Transport Pool office, the Central Stationery office, the Market Survey and Valuation department and some training institutions.

## **(2) RECOMMENDATIONS FOR FINANCIAL RULES**

(a) It is recommended that the financial rules, the treasury rules, the account code, the audit manual should be modernised. A Parliamentary Committee may be constituted to review the existing financial rules and to put necessary suggestions.

(b) The laws relating to banking and finance have been updated to some extent and new laws have been enacted. To monitor the legal environment under restructuring projects “ Legal Working Group” has been constituted with the Secretary of Finance Ministry as the chairman. In this regard, it is recommended that the Member from the Parliament, Expert of financial sector, Economist, Senior lawyer from Supreme Court or retired Justice may be included as member in the LWG committee.

### **(3) RECOMMENDATIONS FOR PARLIAMENT CONTROL**

(a) It is recommended that the Members of the Parliament should undergo for training course for at least three months on financial management and economic aspects of the government.

(b) It is recommended that before budget session, an orientation course should be arranged for the Parliament Members.

(c) It is recommended that the PAC should be given more functional powers and to some extent judicial power in order to maintain discipline in the government accounts.

(d) It is recommended that the budget speech of the Finance Minister should not be so longer. The speech should contain only the main issues of the budget and more specifically the nature of taxation. The other parts of the budget may be considered as read in the House like other bills or notices placed before the Parliament.

### **(4) RECOMMENDATIONS FOR BUDGET**

(a) In order to make dynamic the budget or fiscal system it is recommended that a separate Bureau of Budget may be set up under the administrative control of the Ministry of Finance.



(b) It is recommended for full computerisation of budget system of the country as the whole budget system is not totally placed under computerisation .

(c) It is recommended to set up an improved Cash and Debt Management in lieu of the existing Cash and Debt Management to meet the requirements of time .

(d) Budget For Result or the BFR system like Singapore may be introduced in Bangladesh

(e) It is recommended to present both revenue budget and development budget in a single form before the Parliament as unification of two sets of budget in a single budget is an urgent requirement

#### **(5) RECOMMENDATIONS FOR ACCOUNTING**

(a) It is recommended for complete separation of Audit from Accounts in the government .Because there was an attempt in 1983 to separate audit from accounting but in practice the decision not yet established completely .

(b)It is recommended to take necessary steps for full departmentalisation of audit because the policy of full departmentalisation of Audit not yet established

(c)It is recommended to introduced Impressed System for fund release like Nepal

(d) It is recommended to set up the computerisation of payroll system like Pakistan

(e) It is recommended to establish an authority to measure and observe the standard of accounting of the country as per declaration of the Prime Minister recently .

(f) It is recommended that all audit objections since Independence should be met up with in a specific period of time, for example from now to within the next six month

#### **(6) RECOMMENDATIONS FOR BANKING**

(a) It is recommended to expand of branches of Bangladesh Bank in the all district head quarters .

(b) It is recommended that Bangladesh Shilpa Bank and Bangladesh Shilpa Rin Sanghta should be placed under private sector .

(c) It is recommended for applying of Bankruptcy laws strictly in banking sector and publishing photograph of the loan defaulters in the news papers it is also recommended for Imposing serious punishment including life imprisonment for loan defaulter

(d) It is recommended for implementation of Task force recommendations immediately and sincerely

(e) It is recommended to develop staff skills by starting a Masters of Bank Management course in the Institute of Bank Management

(f) It is recommended to privatise all the rest nationalised banks

(g) It is recommended to relax laws to establish private banks

(h) It is recommended to ban all trade unionism and activities of collective bargaining agents forever in all banks both private and public and necessary laws should be made in this regard

#### **(7) RECOMMENDATIONS FOR TAXATION**

(a) It is recommended that the existing National Board of Revenue may be reconstituted and two separate revenue boards , one for direct taxes another for indirect taxes may be constituted .

(b) It is recommended to set up a separate 'Revenue Division' under the control of Ministry of Finance

(c) It is recommended that separate VAT department may be set up to gear up the VAT collection and the network of VAT should be larger and impose it on all domestic goods up to the retail stage -but exempting primary agricultural products , basic food items and educational items .The VAT should be imposed in some professional services such as Doctors ,Engineers ,Lawyers and Chartered Accountants

(d) It is recommended to legalise black money by allowing Bangladesh Bank or the nationalised and private banks to accept fixed deposits for a minimum period of five years at an interest rate two percent lower than the current bank rate and to

tax such deposits at a flat rate of fifteen percent . No questions are to be asked concerning the source of such taxed funds when invested in industries ,trade and commerce ,infrastructure development activities or rural and urban employment generation activities .

(e) It is recommended that the government should promote farm-related industries and those engaging in infrastructure development activities by supporting the firms with tax holiday or accelerated depreciation allowances .

(f) It is recommended to set a high powered committee to into the problems of the Tax department for necessary administrative reform

(g) It is recommended that ‘Golden Handshake Policy’ of the government should continue and emphasis should be given to the fourth class and third class employees in all the governmental organisations . It is also recommended that recruitment of the clerical staffs should be limited and forth class employees should be totally stopped .

(h) It is recommended that all the government officers must know or learn driving and computer literacy which would save lot of government money .

## **(8) RECOMMENDATIONS FOR REFORM**

(a) It is recommended that a ‘Permanent Reform Cell’ may be created to gear up the reform activities of different sectors of the country .

(b) Policy formulation for reform is a highly desired issue for developing countries . The country has no acute policy to reform the various sectors of the country in general . So it is recommended that for financial sectors as well as for other sectors , a cluster of reform policies may be formed as future agenda .

Financial Administration as field of study is a vast and complex subject . The present study is a humble effort only to explain the functional and structural problems of the financial administration of Bangladesh . So the researcher did not bring in details the other major specialised areas of taxation ,banking , accounting etc because the aim of the study was to examine the components of the financial



administration . However, it is also interesting that this research study is the first work considering the structural and functional aspects of financial administration of Bangladesh . This endeavour would be thought fruitful and useful if it inspires and shows guidelines for the students ,academicians , teachers and researchers of this field of study .

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*APPENDICES*

**BANGLADESH PARLIAMENT**  
**Committee Section-2**

Memo no1(2) 96-com-2/03

Dated 23-11-96

**OFFICE MEMORANDAM**

**Constitution of Public Accounts Committee**

Undersigned has been directed to inform all concerned that in the session held on 20-11-96 of the parliament, the Public Accounts Committee has been constituted with the members mentioned below with kind permission of the Leader of the House by the proposal of the Chief Whip as per Rules of Business no 234 of the Parliament. The members of the Public Accounts Committee will discharge their duties as per Rules of Business no 233 of the Parliament.

| Serial No | Name of M.P                    | Designation | Constituency       |
|-----------|--------------------------------|-------------|--------------------|
| 1.        | W.M. Akram                     | President   | 206-Narayanganj -5 |
| 2.        | Abdur Rabman                   | Member      | 236-Mulvihar -3    |
| 3.        | Engr. Md. Saikat Ali           | Member      | 211-Bariapur -2    |
| 4.        | Dr. Mizanul Haque              | Member      | 168-Kishoregonj-4  |
| 5.        | M.K. Anwar                     | Member      | 248-Comilla-1      |
| 6.        | Hossain M. Ershad              | Member      | 21-Rangpur -3      |
| 7.        | Md. Abdus Shuhid               | Member      | 237-Molvibazar -4  |
| 8.        | Abul Kalam Azad                | Member      | 141-Jamalpur -1    |
| 9.        | Mostafizur Rahman              | Member      | 10-Dinajpur-5      |
| 10.       | Khon. Assaduzaman              | Member      | 134-Tangail -2     |
| 11.       | Eng. Mossarof Hossain          | Member      | 279-Chittagonj -1  |
| 12.       | M. Morshed Khan                | Member      | 288-Chittagonj-10  |
| 13.       | Major(Rtd) Hafizudin Ahmed B.B | Member      | 119-Bhula-3        |
| 14.       | Abdul Mannan                   | Member      | 181-Dhaka-2        |
| 15.       | A.H.M Mostafa Kamal            | Member      | 256-Comilla-9      |

SD  
Secretary  
Parliament Secretariat  
Dhaka

## NOTICE

### NEW CLASSIFICATION IN GOVERNMENT TRANSACTION

It is for information for all concerned that from 1st July, 1988 a new classification system for Budget making and Accounting for the Government of Bangladesh will be effective in stead of current major heads and minor heads of classification structure of accounts. There will be 13 digit code for each government transaction.

The new classification will play effective role towards financial management and financial analysis and also will ensure accountability in Budget making and Accounting. After declaration of the new classification code, the former major and minor heads of transactions will be invalid and in stead of that the new chart classification will be used.

All concerned in government transactions will have to use 13 digit code appropriately. For this purpose published book for new classification of code numbers have been distributed among the governmental offices and other non-government offices, those regularly deposit money to the government accounts.

All necessary government forms have been modified as per requirement to reconcile with the new code number and the forms have been sent to all government offices.

There may be some problems and may arise confusion in using the code number as it will be effective from 1<sup>st</sup> July, 1988. In this connection all the accounts offices of the country have been instructed to help all individuals and offices. The Government of Bangladesh seeks co-operation from all concerned in this regard.

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8-1958(6.30)

Major(Rtd) Rouful Alam  
Joint Secretary (Administration)  
Finance Division  
Ministry of Finance, Bangladesh



GOVERNMENT OF THE PEOPLE'S REPUBLIC OF  
BANGLADESH  
MINISTRY OF FINANCE  
Finance Division  
Development Wing.

No. MF/FD/DRS/85/96/931

Date : 24 October 1996

CIRCULAR

**SUBJECT :** Procedures for Operation of Revised Imprest Accounts for ADB Aided Development projects under Govt. Deptts. / Autonomous / Semi - Autonomous Bodies.

The Government of the peoples Republic of Bangladesh (GOB), in consultation with Asian Development Bank (ADB), have decided to introduce Revised Imprest Accounts with commercial Banks for ADB aided development projects under Government Departments, Autonomous/Semi-Autonomous bodies. It is, however, to be noted that ongoing projects funded by ADB under Imprest Account procedure as per Finance Division's circular No. MF/FD/DRS/25/92(P-1)/141(200), dated 25-4-93 shall not come under the purview of Revised Imprest Account procedures. Such Imprest Accounts will cover all loan categories (except for unallocated and service charge during construction), both foreign and local expenditure. All new ADB loans will adopt the Imprest Account Procedures. ADB's Statements of Expenditure procedures should be combined with Imprest Accounts to facilitate replenishment/liquidation. Detailed Procedures of New Imprest Accounts and Statements of Expenditure will be included in

initial advance to ADP Headquarters through ADB Bangladesh Resident Office. ADB's Controller's Department in Dhaka processes the transfer and will advise Executing Agencies accordingly.

5. **Payments of Expenditure :**

Executing Agencies will make

(i) all local payments from the Imprest accounts, and

(ii) Foreign Exchange payments (limit US \$ 50,000 equivalent per payment) from imprest fund held at the Commercial Bank. Imprest fund can be utilized for all kinds of payments and transactions including small letter of credit (L/C) amounting US\$ 50,000 or less. Such small L/C transactions can be made between the shipper and the buyer without going through commitment letter procedures. \$ 50,000 limit will be reviewed by the Government and ADB periodically. Procedures for opening /settlement of small L/C and for direct payments in Foreign Exchange will be circulated by Bangladesh Bank.

6. **Liquidation and Replenishment:**

For replenishment, Executing Agencies accumulate payment documents and then submit withdrawal applications to Bangladesh Resident Office of ADB, in principle on a monthly basis. Withdrawal applications must be supported by the standard documentation as required under ADB procedures along with the Bank statements of Imprest Account. Bangladesh Resident Office of ADB reviews the applications and sends them to ADB's Controller Departments for replenishment. This process will continue till, (i) amount one year before loan closing date, or (ii) the time when the undisbursed balance of the loan becomes twice the amount of the prevailing ceiling of the Imprest fund, whichever come first: after-which, withdrawal applications received will be treated as liquidation against outstanding Imprest Fund.

**TAPP**

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**FOR**

**REFORMS IN BUDGETING AND  
EXPENDITURE CONTROL-2000 (RIBEC-2000) PROJECT**

**RIBEC-2000**

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**FINANCE DIVISION  
MINISTRY OF FINANCE  
GOVERNMENT OF BANGLADESH**

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| (23) <b>FINANCIAL ARRANGEMENTS WITH DONOR</b><br>NONE ( ) DISCUSSED ( ) AS GRANT ( <input checked="" type="checkbox"/> )                                             |
| (24) <b>NAME/DESIGNATION OF DONOR CONTRACT:</b> DFID                                                                                                                 |
| (25) <b>FINANCING AFTER COMPLETION OF THE PROJECT:</b><br>Recurring expenditure on the maintenance of establishment and equipment will be borne by the GoB.          |
| (26) <b>MODE OF FINANCING:</b><br>DONOR LOAN( ) GRANT ( <input checked="" type="checkbox"/> ) GOB ADP BUDGET ( <input checked="" type="checkbox"/> ) REV. BUDGET ( ) |
| (27) <b>SELF FINANCING %:</b> NIL                                                                                                                                    |

## TAPP PART: D - 1

### (28) PROJECT DESIGNATION: REFORMS IN BUDGETING AND EXPENDITURE CONTROL-2000 (RIBEC-2000) PROJECT

#### 1. Background

1.1 In 1989 Government of Bangladesh (GOB) formed a Committee on Reforms in Budgeting and Expenditure Control (CORBEC) in Ministry of Finance to examine the existing Budgeting, Accounting and Expenditure Control systems of GoB and recommend improvements on them. The recommendations of CORBEC were accepted by the Government, and phased implementation through a technical co-operation project proposed. As a result, the Reforms in Budgeting and Expenditure Control project, financed by DFID, came into being.

1.2 Phase 1 comprised a nine-month diagnostic and design study on the implications of implementing the CORBEC recommendations. Approximately UK Pound 1 million was spent for this phase. The report of this phase identified areas of priority reforms in budgeting, accounting, financial administration, financial rules and regulations, computerisation and training which formed the basis for phase 2 implementation.

1.3 Phase 2 began in January 1995, with preparation for reforms in all areas identified in Phase 1. This proved an ambitious agenda, and a joint GoB-DFID review at the end of the inception period recommended a restructured project having fewer but more focussed outputs with a duration of 10 months. During this phase the following outputs were achieved:

- capability built for production of the national budget through a computer spreadsheet system, with initial development of a database system
- computer based accounts consolidation system in 12 Chief Accounts Offices (CAOs) and in the Controller General of Accounts (CGA) office
- development of a new classification coding structure for budgeting and accounting
- collating and reprinting of the Accounts Code and collating updated Treasury Rules and General Financial Rules

training. It was recommended that training in financial management should be taken up as a separate project to be implemented at and by FIMA.

III. Capacity building in the C&AG's Department with an emphasis on introducing modern audit techniques aimed at promoting the concept of transparency and accountability in the Government. It was recommended that strengthening audit should also spin-off as a separate project.

The Steering committee of the RIBEC Project approved the recommendations of the joint GOB-DFID review report and the outputs to be targeted during proposed RIBEC 2000.

## **TAPP PART D-2**

### **(29) PROJECT OBJECTIVES**

The broad objective of the RIBEC 2000 project would be to achieve improved management of financial resources in the government through adopting modern budget and expenditure control techniques. In order to achieve the above broad objective the reform outputs already achieved will be further consolidated and sustained and logical follow-on reform activities will be undertaken keeping in view GOB priorities.

### **(30) CONSEQUENCES IF NOT APPROVED**

The present phase of RIBEC project is a logical continuation of the reform programmes, which had, began in January 1995 in Budgeting and Accounting area. This programme was considered to be an important component of the greater Public Resource Management Programme. The implementation programme through RIBEC 2 and RIBEC 2000 phases are therefore, very important. If not approved it would be difficult to sustain the reform outputs already achieved and the Government will not be in a position to make resource allocation decisions on the basis of accurate and timely financial information. The flow of information will be slow and unreliable, processing of data and information will remain manual and institutional arrangements for updating and revising financial rules and regulations will not be there. Moreover, the Government will not be able to use and further develop the tools already established for better ways to prepare budget, make budgetary projections, monitoring expenditure and making resource allocation decisions. The reform initiatives will remain half done and will not contribute to the achievement of long term goal of the Government.

### **(31) LINKAGES WITH OTHER PROJECTS/ORGANISATIONS**

This is a complex project encompassing wide area of government accounting and budgeting across the ministries, divisions and departments and involving establishment of computer based accounts and budget information system, which is quite large in the context of Bangladesh.

Officials dealing with financial information in the Finance Division will also be covered.

- 1.2 Restructuring the flow of accounts at the existing RAO level and computerisation of at least three of these offices as pilots which will have increased accounting responsibility. Providing assistance to GoB with the institutional change required in this connection.
- 1.3 Collecting accounting data at the transaction level subject to the completion of a feasibility study and agreement of an achievable programme of work.
- 1.4 Bank reconciliation will be completed after determining the scope of work through a feasibility study.
- 1.5 A Central Reconciliation Unit and a Central Data Processing Unit will be set up in CGA Office to enhance both flow and quality of financial data.
- 1.6 Preparing an action plan for the reforms of all Government accounts, namely, Railway, PT&T, Defence, Food and Foreign Aid.

## **2. Enhancement of Budget process in the Ministry of Finance:**

Following computerisation of budget, installing the budget database and implementing new classification in the previous phases of the project it is necessary now to take up following activities to achieve the potential benefits of the database and to further develop it in the light of GOB requirement for improved financial management:

- 2.1 Enhancing the links between National Development Plans and Budgetary procedures.
- 2.2 Developing the budget database tool to enable better financial and economic modelling and analysis
- 2.3 Enhancing the macro level monitoring module of the budget database
- 2.4 Creating the system linkage between the management accounts/ministry system (MACS) and national budget database
- 2.5 Assisting Ministries involved in the Budget Committee/ Management Accounting developments
- 2.6 Subject to the findings of a feasibility study, and subsequent agreement by GoB and DFID, creating an Internal Control Unit within Finance Division.



(4) The upgrading of the financial management capability of government officers will encourage the development and application of market orientated skills and approaches to public sector activities.

(5) The total of these changes will significantly improve accountability, both by individual officers to their superiors, and in broader terms by the executive to the parliament. The improvement of monitoring against budgets and the enhanced system of internal accounting controls are all factors in this upgrading of accountability.

### 3. TECHNOLOGY TRANSFER:

A number of foreign experts are expected to work in the project with local consultants and counterpart officers. In this process their expertise and skill (know how) will be transferred to actual users of government systems through familiarisation and training programmes. Besides this, automation in budgeting, accounts consolidation, establishment of a reliable computer based Management Information System Directorate, and a computer training laboratory in the FIMA with other training aids will form a technology base which can be sustained for further improvement locally.

### 4. TRAINING:

Training has been one of the very important outputs of RIBEC 2. A large group of government officials had received training in implementation of new Budget and Accounts classification, Accounts consolidation, Budget Database and in Computer use. Training will form an important component of this (RIBEC 2000) project as well. The proposed complementary project for training of officers in public financial management will lead to the sustainability of overall financial reforms across the Government.

### 5. MANAGEMENT IMPROVEMENT:

This project will improve the base of public sector financial administration to lift up the management skill of all finance related managers/ officers. The successful implementation of the new classification supported by a reliable MIS Directorate and computer network will enable the senior management of the Finance Ministry to have required information for both strategic and tactical decision making easily. The Management Accounting Units will contribute to informed decision-making in the line ministries and support improve resource management capability of the line ministries.

### 6. INSTITUTIONAL SUPPORT:

By the end of this phase the government will have an improved budgeting and accounts consolidation system based on new classification and computer network. This will definitely institutionalise a new working culture for Ministry of Finance and Controller General of Accounts and the Chief Accounts Offices with all its positive benefits. The line ministries with Management Accounting Units will have effective budget committees capable of allocating, controlling and managing resources placed at their disposal by the MOF.

The following chart is a summary of the reform actions agreed by the government at the Paris Aid Consortium meeting and their progress of implementation till date.

### ASSESSMENT OF PROGRESS IN MEETING TARGETS UNDER THE PARIS UNDERSTANDING FOR FY 96

#### PRIVATE SECTOR DEVELOPMENT: ESTABLISHING A FACILITATING BUSINESS ENVIRONMENT AND ACCELERATING PRIVATISATION

[Revised August 6, 1996]

| Reform Actions under the Paris Understanding                                                                                                                                                                                                                                                                                                                                                                                                                                    | Progress to Date                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>A. FINANCIAL SECTOR</b><br/>Strengthen Bangladesh Bank's monitoring and supervision functions, particularly for effective enforcement and strict implementation of the revised loan classification and provisioning guidelines.</p>                                                                                                                                                                                                                                       | <p>An IMF expert on bank supervision and restructuring is assisting the Bangladesh Bank (BB) in improving BB's supervision and inspection functions. Further strengthening is planned under the proposed Commercial Banking Reform Project being prepared jointly by GOB and IDA. GOB has requested ADB to participate in this project. In the area of prudential regulation, Bangladesh Bank issued guidelines for the implementation of the second phase of the loan reclassification and provisioning programme commencing on December 31, 1995. In early January 1996 BB also issued a circular introducing a new capital adequacy system based on a risk weighted measure of banks' portfolios. This system - with minimum eight per cent capital adequacy ratio - replaces the previous liability based, minimum six per cent capital adequacy system.</p> |
| <p>Undertake steps to deal effectively with loan defaults, including the publication of the Banking Policy Statement; taking steps to strengthen loan collection services; streamlining procedures for debt recovery through appropriate changes in the Financial Loan Courts Act (1990); empowering the courts to execute their judgments, and strengthening these courts with additional judicial officials to enforce decrees for faster collection of defaulting loans.</p> | <p>GOB has drafted a banking policy statement and this draft is awaiting formal issuance. Amendments to Financial Loan Courts Act, 1990, drafted in July 1995, is awaiting clearance by the Law Ministry. Action is still required to strengthen the courts with additional judges.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <p>Embark on a programme of bank restructuring, procedural improvements and training needed to establish the viability of publicly-owned and private commercial banks.</p>                                                                                                                                                                                                                                                                                                      | <p>An IDA mission discussed with GOB the reform of the banking sector in October 1995, with the participation of IMF and the ADB representatives, and made institutional and organizational arrangements with GOB to undertake in-depth project preparation activities in key reform areas. GOB is collaborating with IDA for preparing a Commercial Banking Reform Project by forming seven working groups focusing on Bangladesh Bank's institutional strengthening, NCB privatization, private bank restructuring and recapitalization, legal reform and loan recovery, accounting and auditing, human resource development and technology development. These working groups will be assisted by international experts financed under PHRD funds of the Japanese Government from September 1996.</p>                                                          |
| <p>Ensure that arrears of non-performing SOE loans, which are attributable to government policy directives, are cleared expeditiously and that quasi-fiscal burdens are not imposed on the banking system.</p>                                                                                                                                                                                                                                                                  | <p>Progress so far has been limited. While GOB has decided to compensate banks for "past" bad loans in the jute and textiles sector, the "current" substantial losses of SOEs in steel/engineering, chemicals, sugar, and textiles and jute continue to be sustained by bank loans.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
| <p>Continue progressively the process of rationalization and consolidation of the Nationalized Commercial Banks (NCBs), and replace their unprofitable branches with viable alternative banking services.</p>                                                                                                                                                                                                                                                                   | <p>Rupali Bank has identified 85 unprofitable rural branches for closure or merger with the agricultural bank. No progress has been achieved with respect to the other three NCBs.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| <p>Review the period of 2-5 years stipulated for the phasing-in of international standards in loan classification and loan provisioning; remove two of the three existing lending rate bands for special activities in FY96.</p>                                                                                                                                                                                                                                                | <p>The new classification and provisioning standards will be reviewed in January 1997. Meanwhile, the commercial banks have moved to the second phase of the revised loan classification and provisioning policy with effect from December 31, 1995, according to which all new loans sanctioned, renewed or re-scheduled after January 1, 1995, are to be classified as substandard, doubtful or bad, if they are overdue for more than six, twelve, and twenty four months respectively. The policy of lending rate bands remains unchanged.</p>                                                                                                                                                                                                                                                                                                               |
| <p><b>Reform Actions under the Paris Understanding</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                      | <p><b>Progress to Date</b></p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
| <p>Contingent on strengthening banking supervision and management of the banks as set out above, privatize at least one public sector commercial bank expeditiously. Proceed with the issuance of licenses to the remaining six (out of seven) private companies whose applications for establishing new private banks have already been approved as part of the Government's ongoing policy of increasing competition in the banking sector.</p>                               | <p>Licenses have been issued to six private banks, all of which are already in operation. GOB has also allowed two foreign banks (Citibank and Societe General de Paris) to start branch banking. A task force for privatizing Rupali Bank has been formed at the Bangladesh Bank and an audit firm has been hired to evaluate the assets of Rupali Bank. The auditor's report is expected soon. In addition, a financial adviser with international experience is expected to be hired to complete the privatization of Rupali. Contrary to the spirit of the banking sector reform, GOB has placed a freeze on licensing new banks.</p>                                                                                                                                                                                                                        |