

PREFACE

Generally the term 'budget' implies the detailed plan of annual income and expenditure of the Government. However, the concept of national budget is not merely limited to the accounts of income and expenditure; rather it is a vehicle for implementation of the economic, social and political will of the Government. As a Government responsive to the peoples' hopes and expectations, the present Government intends to use the national budget as a tool for accomplishing the expectations and desires of the people. To achieve this target, the Government is committed to make necessary reforms in the existing budget management system.

Although the process of bringing reforms in budget management in Bangladesh has already been initiated there still remain many important reform issues which need to be addressed. The national budget is still formulated in two segments, 'Development' and 'Non-development'. This division is essentially artificial. Although the intended objectives are same, this leads to duplication and lack of coordination in resource allocation process which is considered a major impediment in the budget management system. Therefore, we would like to remove this artificial division of the national budget and initiate the new idea of unified budget formulation.

As a part of the effort towards bringing reforms in the existing budget management system, we also intend to initiate necessary measures for formulating the district level budget. We feel that the hopes and aspirations of the people at the grassroots level are not adequately reflected in the central budget system. In the existing budget system there is no way to exhibit how much money has been allocated for a particular district. We would like to value the needs and expectations of the people living at the district level and let them know how much money has been allocated for different districts of the country.

In pursuit of the above, a concept paper has been prepared by the Finance Division on Unified and District Budget. The detailed process and different aspects related to the formulation of unified and district budget have been presented in this concept paper. Challenges and limitations in formulating unified and district budget are also outlined and related recommendations along with an action plan provided, so that, the concept of unified and district budget may be operationalised. I firmly believe that this concept paper will help us to move ahead in order to implement the proposed plan on unified and district budget. I would like to request the Honourable Members of Parliament and members of the civil society to put forward their valuable opinions and suggestions on this issue so that our efforts could be more productive. I express my sincere thanks to the officers of Finance Division for their contribution towards preparation of this concept paper.



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Unified Budget and District Budget

A Concept Paper

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Unified Budget and District Budget

A Concept Paper

Preface -----	ii
1. Introduction -----	1
2. Existing Budget and Budget Classification System in Bangladesh -----	2
2.1 Existing Budget System -----	2
2.2 Coverage of the Budget -----	2
2.3 Ministries Responsible for Budget Formulation -----	3
2.4 Introduction of MTBF-----	3
2.5 Budget Classification-----	4
2.6 Budget Classification Structure-----	4
2.7 Limitations of the Existing Classification System -----	6
3. Unified Budget -----	7
3.1 Single or Unified Budget -----	7
3.2 Rationale for Formulating Unified Budget-----	7
3.3 Constraints in Formulating the Unified Budget-----	9
3.4 Structure of Unified Budget -----	10
4. District Budget -----	10
4.1 Local Level Budget in Developed and Developing Countries-----	10
4.2 Constraints in Formulating District Budget -----	12
4.3 Rationale for Formulating District Budget -----	12
4.4 Outline of District Budget-----	13
5. Strategy for Reaching the Destination -----	13
5.1 Pursuing Strategy for Unified Budget-----	13
5.2 Pursuing Strategy for District Budget -----	14
6. Action Plan for Implementation -----	19
6.1 Formulation of Unified Budget-----	19
6.2 Formulation of District Budget-----	19
7. Conclusion -----	20

1. Introduction

Following the provision of Article 87 of the Constitution of the Peoples' Republic of Bangladesh, a statement of estimated annual income and expenditure known as "Annual Financial Statement" of the Government, is required to be placed before the National Parliament every year. This Annual Financial Statement is generally known as "Budget". The Annual Financial Statement or Budget is considered as an instrument of the Government for providing separate allocation for the Ministries/Divisions which are entrusted with the responsibilities of implementing policies and achieving the objectives stated in the public policies. In this case, allocation is made against each Ministry/Division under separate grant and development and non-development expenditure are shown separately under each grant. Since the independence of Bangladesh, formulation of national budget is being done centrally. However, in the central budget system estimated income or expenditure for a given District or any geographical area is not distinctly reflected.

In the presentation of budget speech of FY 2009-2010 before the National Parliament, the Honourable Finance Minister laid emphasis on unified budget in order to eliminate lack of coordination and duplication from the existing budget formulation process and declared that a suitable process for preparation of unified budget would be explored soon in consultation with the Ministry of Planning.

In the budget speech of FY 2009-2010, Honourable Finance Minister also declared that District Budget will be presented for the next FY 2010-11 along the lines of the national budget ensuring transparency and accountability in order to reflect the needs and aspirations of the people living in the district and down to the grassroots level. Honourable Finance Minister also emphasized that the existing Classification System and Proforma used for Development Project needs certain changes since the information is not available on how much money is allocated and spent for a given district. Therefore, Honourable Finance Minister expressed his desire that the new concept of 'District Budget' would be introduced and primarily at least one district from each division can be covered under this innovative budget formulation process.

In this concept paper, an attempt has been made to present all the aspects related to the formulation of 'Unified Budget' and 'District Budget'. The paper also discusses the generic process explaining the existing practice of budget formulation, budget code system, its classification and limitations thereon. Attempt has also been made to provide the ideas perceived from different developed and developing countries on Unified and District Budget system. In addition, several impediments in the process of formulating the Unified and District Budget have also been discussed and a guideline is provided as to how the concept of formulation of District budget can be operationalised removing the existing complexities in the budget formulation process.

2. Existing Budget and Budget Classification System in Bangladesh

2.1 Existing Budget System

Since independence up to FY 1997-98, the national budget of the Government used to be formulated in the traditional system based on the major head of accounts (101-Organs of the Government, 102-Judiciary, 103-Accounts & Audit). During this period the total Government expenditure used to be shown in two segments. The demand for grants on non-development and development expenditure were shown separately while placing before the National Parliament. Since FY 1998-99, after the introduction of computer based code classification system, the national budget continued to be separately reflected in the budget formulation process. In order to remove the division of the budget and facilitate the formulation of unified budget, since 2004 expenditure demand of a Ministry/Division is being placed in the Parliament for approval under a single grant as a part of the financial management reform. In fact, both Non-development and Development expenditures of a given Ministry/Division are shown under a single grant. But the estimated non-development and development expenditure still remain separated at the Ministry/Division level, which is being practiced till today.

2.2 Coverage of the Budget

The financial transactions of all the Public Offices/Directorates/Departments/subordinate field offices are reflected in the national budget. The national budget also includes the transactions of some departmental undertakings (e.g. Bangladesh Railway and Postal Department) and state trading-food etc. But the financial transactions of Local

Governments or State Owned Enterprises are not incorporated in the national budget. However, the national budget reflects the grants/loans allocated to the local government bodies, the subsidies and loans given to the state owned enterprises by the Government, the receipts of dividends, interests from these enterprises and payment of principal and interest are also shown in the national budget.

2.3 Ministries Responsible for Budget Formulation

There are two Ministries which are directly involved in national budget formulation in Bangladesh. The Finance Division of the Ministry of Finance plays the vital role for estimating the non development expenditure of different Ministries/Divisions. According to the Allocation of Business of the Government, since Finance Division is responsible for formulating the national budget, hence, it is evident that the Finance Division has the responsibility to formulate the development budget along with non-development budget. But the development budget is composed of Annual Development Programme (ADP) which covers 95-96 percent, and the non-ADP that covers the rest 4-5 percent (non-ADP includes the food programme, transfer of sale proceeds of food, which is given as aid by development partners according to contract). As Planning Commission is the formulating authority of the Annual Development Programme (ADP), Planning Commission along with the Ministry of Planning has been playing the vital role for preparing the development budget.

2.4 Introduction of MTBF

The Medium Term Budget Framework (MTBF) system has been introduced since FY 2005-06 as a part of the reform process in the financial management system. In accordance with Article 10(4) of Public Money and Budget Management Act, Honourable Finance Minister places the MTBF budget along with the national budget before the Parliament every year. The main target of the MTBF system is to establish a link between budget allocation with the policies and priorities of the Government and between budget allocations with performance. In this system, the concerned Ministries/Divisions are given a single expenditure ceiling and accordingly the said Ministry/Division prepares non-development and development budget within the given ceiling. In the MTBF system, the concerned Ministries/Divisions, instead of the Finance

Division and Planning Commission, play a key role in budget formulation process. So far 33 Ministries/Divisions have been covered under MTBF system and a plan has already been adopted to cover the rest of the Ministries/Division under MTBF within the next fiscal year. Although the prevailing procedure under MTBF system allows the Ministries to formulate their budget within the given single expenditure ceiling, thereby initiating the process of unification of the development and non-development budget a separate estimation process still remaining in place has resulted in the existence of artificial separation of non-development and development allocation in the national budget.

2.5 Budget Classification

The present budget classification was introduced on 1 July 1998. In the present classification system, all transactions with respect to the budget are shown using a 13 digit code number. This 13 digit code is divided into 4 levels. They are as follows:

- Level 1: Legal Code (Designed according to the legal and regulatory framework of receipt and expenditure of the government (1digit).
- Level 2: Ministry/Division/ /Directorate/Department /Operational Group (4 digit)
- Level 3: Operational Unit/Development Project (4 digit)
- Level 4: Economic Code (4 digit)

2.6 Budget Classification Structure

Level 1: Legal Code

Description	Code
Receipt/Deposit	
Consolidated Fund	1
Public Account of the Republic	6
Expenditure/Payment	
Charged	2
Non-Development (Other Expenditure)	3
Development	5
Public Account of the Republic	7

Examples of Level-2 and Level-3 Code (Ministry of Social Welfare)

Level-2 Code	Ministry/Division/ Directorate/ Department/Operational Group	Level-3 Code	Operational Unit/Development Project
	Ministry of Social Welfare		
	Administration		
2901	Secretariat	0001	Secretariat
2905	Autonomous and Other Organizations	3091	National Social Welfare Council
		3451	Non-Government Orphanages
		3960	Old Age Allowance Programme
		3970	Allowance for Persons with Disabilities
	Social Service		
2931	Department of Social Service	0000	Department of Social Service
2933	District Offices	0000	District Offices
2935	Upazila Offices	0000	Upazila Offices

Level 4: Economic Classification

Nature	1 st 2 digit (indicate main class/group)	2 nd 2 digit (indicate specific item)
Allowances	47- Allowances	05-House Rent
Supplies and Services	48- Supplies and Services	19-Water
Repair, Maintenance and Rehabilitation	49- Repair	06-Furniture
Acquisition of Assets/Procurement	68- Acquisition of Assets/Procurement	07-Motor Vehicles

It should be mentioned that specific codes are allocated for each District and Upazila. For example, the allocated codes for Dhaka District and Savar Upazila under Dhaka District are 1010 and 1013 respectively. However, until now these codes have not been used.

Box-1

Example of use of 13 Digit Codes

In the existing classification system, 13 digit codes are used for each transaction in which Level 1 represents the legal code having 1 digit, Level 2 represents the Ministry/Division and subordinate organization having 4 digits, Level 3 represents the operation unit/project code having 4 digits and Level 4 represents the economic code having 4 digits. For example, following code numbers are used for a salary expenditure of an officer working in the Head Quarters of the Department of Social Welfare:

Legal Code	Functional Code	Operation Unit	Economic Code
3	2931	0000	4501

Here, the salary of the concerned officer is other expenditure under non-development budget. Thus, 3 is used here as legal code. The salary recipient is an officer of the Department of Social Welfare under the Ministry of Social Welfare. So, Level 2 code number would be '29' for the Ministry and '31' for the Department of Social Welfare. The concerned officer works in the Head Quarters of the Department of Social Welfare. Therefore '0000' has been used as Level 3 code. Finally, the concerned person is an officer, thus, the '4501' assigned for the 'Salary of Officer' has been used as economic code in level 4.

2.7 Limitations of the Existing Classification System

National Budget is being prepared using 13 digit codes since FY 1998-99. However, there are some limitations in the existing classification system which is stated below:

- In Level-3 there are specific codes allocated for the Districts as well as for the Upazilas. But there is also a code for different operation units in the same level and that is why estimates of district level offices can not be shown in the budget.
- On the other hand, in case of development budget, the name of project needs to be mentioned in Level-3. As a result there is no way to reflect the allocation of development project in the lowest functional unit of the Ministry/Division that is at the Districts or Upazila levels.

- In the existing budget classification system, although there is scope to reflect the estimated budget based on functional and economic classification, but there is no way to reflect it based on the program classification.

3. Unified Budget

3.1 Single or Unified Budget

The concept Single or Unified Budget signifies that all expenditures, irrespective of its nature and type are shown together in one budget. The practice of this budget system can be seen in many developed and developing countries. Although the total expenditures of a functional unit can be reflected in the unified budget, the allocated expenditures in the budget are shown into two categories – current and capital expenditures. In many developing countries the total expenditure allocated in the budget are shown separating into two parts- non-development and development instead of current and capital expenditures respectively. In developing countries, the development budget is formulated separately to facilitate the utilization of aid/support from donor countries/organization.

The system of formulation of separate development budget has started in the 1950s during the Pakistan regime to receive aid through a convenient process from the donor countries/organizations. Since then, Bangladesh is still following this system. At present development budget is practiced by all Ministries/Divisions except defence budget (budget of Army, Navy and Air Force) under the Ministry of Defence. All the development activities of Army, Navy and Air Force (i.e. all civil works and major procurements) are financed from non-development budget.

3.2 Rationale for Formulating Unified Budget

- At present the officers working in the Administration Wing of different Ministries/Divisions undertake the responsibilities for formulating the non-development budget and the officers working in the Planning Cell in different Ministries/Divisions are responsible to formulate the development budget. Apart from this, Finance Division is responsible for formulating the non-development budget centrally while the Planning Commission is entrusted with the formulation of Annual Development Program (ADP) or development budget. Therefore, it is

evident that different officers of different Departments/Ministries are involved in formulating the non-development and development budgets at the central level, which results in lack of coordination and duplication in budget process.

- The activities/functions which are similar in nature (such as stipend, purchase of vehicles, construction and repair) are financed from both non-development and development budget which is not congruous with the discipline of budget management.
- At present, the size of the non-development budget is gradually increasing due to the increase of interest payment over time consequent upon accumulated loans used for development programs, increase of allocation for infrastructure maintenance and increase in wage payments for the personnel transferred from the completed development projects to the revenue budget. On the contrary, the size of the development budget is gradually decreasing, which at present is lower than one-fourth of the total budget. Moreover, currently many development activities, programs and projects are being financed from non-development budget. For example, Finance Division allocates budget every year under the head “Programmes financed from the non-development budget”. Also allocation is made for the projects which are not included in the ADP, Social Safety Net program and other programs of development nature. This scenario certainly implies that there is hardly any justification for formulating a separate development budget.
- The importance of formulation of separate development budget is gradually decreasing since the direct budget support by the development partners is gradually increasing.
- In the non-development budget, allocation is reflected on the basis of detailed economic codes. But, in the development budget, it is not possible to reflect the allocation under detailed economic codes since economic code-wise allocation is not given in the ADP. As a result, it is not possible to conduct any economic analysis on the whole budget (non-development and development). On the contrary, economic analysis of the whole budget would be possible if unified budget is prepared in identical format.

- Dichotomy between development and revenue budget is ultimately harmful for best utilization of resources. A facility is developed under ADP but no staff is provided for running it once the project is completed as the project may not have been transferred to revenue budget. So capacity remains unutilized. New buildings or roads are built but old ones are not provided with adequate funds for maintenance and thus scarce public resource is allowed to waste. Such occurrence will be rare once the budget is unified.

3.3 Constraints in Formulating Unified Budget

- Although the flow of foreign aid is gradually decreasing, because of the dependency on project aid, there is an obligation on formulation of separate development budget indicating the allocation for development projects. This is the reason why separate development budget is prepared.
- Although the new budget classification structure introduced in FY 1998-99 applies to whole budget, still it has not been used to the full extent for the development expenditure. Since the identical code for non-development and development expenditure have not been introduced, it is not possible to use identical format for the expenditure of non-development and development budget.
- The mandate of the Planning Commission is basically to formulate the national plan (e.g. perspective plan, Five-Year Plan). It is necessary to strengthen the role of Planning Commission so that it can generate a sound capacity to formulate an effective policy plan at the national level. At present, apart from the regular activities of plan formulation, the Planning Commission is involved in project approval, monitoring of project implementation and formulation of Annual Development Program (ADP). As a central planning agency, Planning Commission may publish reports on economic trends and analysis of socio-economic indicators on annual basis.
- It is worth-mentioning that the traditional concept of project approval is not congruous with the idea of unified budget. Thus, the traditional project based budget allocation system may be changed and instead of this, sectoral programmes like Primary Education Development Programme-2 (PEDP-2) or Health, Nutrition and Population Sector Programme (HNPSP) may be taken up

and implementation of such programmes through direct budget support may be given priority. At present, the Planning Commission determines the project wise allocation through formulation of Annual Development Program (ADP). However, through the active participation in tri-party meetings with the Ministries under MTBF system, the Planning Commission can play an appropriate role in resource distribution for different Ministries.

3.4 Structure of Unified Budget

It will be judicious to determine the structure of the Unified Budget considering the limitations as stated above. Although our Defence Budget is similar to the unified budget of some other countries (where all the expenditures of functional units are shown together and budget allocations are shown in two broad categories-current expenditure and capital expenditure according to the economic classification of expenditures), but it will not be realistic to follow the model of the Defense Budget for all the Ministries/Divisions at this stage. In particular, due to the dependency on foreign aid, it is necessary to reflect separate allocations for development projects. Thus, it seems that there is no way to follow the model of Defence Budget absolutely. Therefore, it would be prudent to keep the provision for separate allocation for development projects in the structure of Unified Budget.

4. District Budget

4.1 Local Level Budget in Developed and Developing Countries

Many developed and some developing countries like Indonesia, Malaysia, India and Philippines follow the federal form of government system. In these countries, the provincial governments and the local governments at the lowest level are functioning under the central government. There is no practice of direct District Budget in these countries, but there are local governments equivalent to our district level in terms of geographic area, which are responsible to prepare their budget or estimation of income and expenditure. In these countries, the sources of income of the local government equivalent to our district levels are: local tax, transfers and loans given by the provincial and central government. On the other hand the heads of expenditure are revenue expenditure (including government offices), expenditure on human development,

expenditure on social safety net, capital expenditure, interest and principal payment etc. Among the countries in South Asia, the practice of the concept ‘District Budget’ can be seen in Nepal. In Pakistan, the formulation of district budget is not in practice, but its existence can be seen in the education sector. The education budget is prepared by the district level officers except for some specialized areas. The expenditure for District Education Budget comes from the local resources of local government as equivalent to the district level and transfers allocated by the provincial and central government.

Box 2

Formulation of District Budget in Nepal

In Nepal, the formulation of district budget takes place every year. District Development Committee plays the major role in formulating district budget. The process of formulation of district budget in Nepal is briefly stated below:

- At the beginning of formulation of district budget, the National Planning Commission of Nepal sends guidelines about district level national plans and programs to District Development Committee;
- District Development Committee sends circular to each Village Development Committee and Municipality to prepare their budget and programs for next fiscal year;
- Village Development Committee and Municipality invite assembly of Village/Town Council to discuss and prepare the sector wise development programmes and projects through ward offices, NGOs and Consumer Committee;
- The Village Development Committee and Municipality send sector wise development programmes and projects to District Council;
- After a detailed discussion, District Council sends budget proposals to the District Development Committee. Simultaneously, the district level offices also send their budget proposal to the District Development Committee;
- District Development Committee finalizes and approves the District Budget through a discussion with District Council and district level offices. In order to avoid the duplication with centrally prepared plans and programs, District Development Committee sends final budget to National Planning Commission and respective ministries.

4.2 Constraints in Formulating District Budget

- There are individual annual budget for Municipality, District Council, Upazila Parishad and Union Parishad, but there is no mechanism and authority at the district level for compiling these budgets;
- There is no separate code to show the expenditure estimated for the District level offices in the central budget;
- There is no provision in project proforma for showing how much money is being spent for a District or Upazila under a project taken at the central level and there is no code in budget classification system for this purpose;
- All the income and expenditure of consolidated fund is part of central budget. But as all the transactions of local government are not the part of consolidated fund, these transactions are not included in government's budget. However the grants and loans given to the local government institutions by the central government are included in the government budget. As a result, centrally, there is no system to integrate the local governments' budget with the central governments' budget.

4.3 Rationale for formulating District Budget

- Although Bangladesh has a small geographic area, it has a vast administrative unit in terms of population size. But the activities with respect to the budget preparation, implementation and monitoring are being performed centrally. This type of practice can hardly be seen in any other countries of the world.
- As having a vast administrative unit, there are some weaknesses with respect to the budget; such as-
 - Revenue collection is not satisfactory although the potentials are there;
 - Peoples' needs and expectations are not reflected in the formulation of expenditure estimation;
 - Regional disparity prevails in resource allocation;
 - Actual target is not achieved due to ineffective monitoring of implementation;
 - There is no scope for setting target from the central level for potential districts to be self-sufficient;
 - Dependency on central government dominates in all respect.

4.4: Outline of District Budget

Geographically, a District is composed of a number of Municipalities, Upazila Parishads and Union Parishads. Usually, the concept 'District Budget' explains the idea of estimation of annual income and expenditure of a District. The following Table exhibits the outline of a District Budget:

Table: District Budget

Income	Expenditure
Local Tax	Revenue Expenditure (Including Government offices)
Transfer of money to the Local Government institutions to meet its expenditures.	Social Safety Net programmes
Grants from the Central Government	Repayment of principal and interest
Debt	Capital expenditure
Others	The Development Projects of the District (approved by both Central and Local Government)
Total Income	Total expenditure

5.0: Strategy for Reaching the Destination

5.1 Pursuing Strategy for Unified Budget

In order to formulate the unified budget, short and long term measures may be adopted. For a short term, unified budget can be formulated keeping the provision for showing the allocation for development projects separately. Under the proposed system, budget allocation of the operation units of the Departments/Organizations of the Ministries (e.g. Head Offices, Districts Offices, Upazila Offices) may be exhibited at the beginning, which will be followed by allocation of the development projects of the respective Department. In this case, detailed economic codes may be used to exhibit allocation of development projects. This procedure will open a new avenue for the respective Ministry to present its total expenditure in two major categories such as Current Expenditure or Revenue Expenditure and Capital Expenditure. Under this system, despite separately

presenting allocation for development projects, there will actually be no existence of separate development budget.

It is worth-mentioning that 33 Ministries Divisions have already been brought under MTBF system and a policy decision has already been adopted to cover the rest of the Ministries/Divisions by the next Fiscal Year. Under the MTBF system, the concerned Ministries are given a preliminary expenditure ceiling and requested to prepare Ministry Budget Framework (MBF). MBF and expenditure ceiling is finalized in a tripartite meeting at the Secretary level held between the Finance Division, Planning Commission and concerned Ministries. The concerned Ministry prepares its own budget within the given expenditure ceiling following the guidelines given by the Finance Division and Planning Commission. Therefore, it is not necessary to involve the Programming Division of the Planning Commission to determine again 'which' Ministry will get 'what' amount under ADP. However, Planning Commission can play an active role in determining the Ministry wise expenditures ceilings or making resource allocation decisions in accordance with the national level planning documents.

For the long term, the 'Defence Budget' may be considered as 'Model' which can be followed by all Ministries. In this case, all development activities (e.g. all construction works and major procurements including all capital expenditure) will be financed under a single budget instead of existing project based system. However, in order to avail the continuous aid from the development partners, necessary efforts may be taken on acquiring loan as budget support instead of existing project tied loans from the development partners. In this case, the donor organizations/countries may be requested for program/sector based financing as budget support and sector wide programs like Health, Nutrition and Population Sector Programme (HNPS) or Primary Education Development Programme-2 (PEDP-2) may be implemented under unified budget.

5.2. Pursuing Strategy for District Budget

Although the concept of 'District Budget' is a new idea to us but it may be implemented in our country through long term structural reform process or adopting some short term measures. However, in order to operationalise the concept District Budget under the existing administrative and financial structure, the adaptation of short term measures

would be more realistic. The short term strategies for implementation of the concept District Budget are stated below:

Reforms in the Existing Classification Structure

- Under the existing classification structure, the Districts and Upazilas have their own code. However, so far, those codes had not been used. Under the proposed system, it will be required to add 4 (four) digit code for the District and Upazila Offices in Level 4 after Level 3 in the Ministry Budgeting Module of the Integrated Budgeting and Accounting System (iBAS). As a result, total code numbers will be increased from 13 digits to 17 digits in the existing classification structure;
- The proposed code system provides for some Ministries to exhibit their budget for the District and Upazila Offices, while some other Ministries do not have the facility. In the case of Ministries, which already have this arrangement (e.g. Ministry of Social Welfare, Local Government Division and Ministry of Land) necessary measures may be taken to reflect the allocation of district level offices along with allocation for all upazila level offices and other offices (if any) under the same district in order to show the total allocation of the District;
- In the case of Ministries which partially have or do not have the arrangement for showing the allocation for District and Upazila Offices (e.g. Ministry of Education, Ministry of Agriculture) the budget allocation of the District and Upazila Offices need to be separated first from the existing location (i.e. Head Office) and arrangement should be made to show the allocation for each District separately;
- For development projects, the existing arrangement that shows the total allocation for development projects in Level 3 shall continue. However, in order to reflect the allocation of the Districts where project activities will be implemented, budget allocation for the project may be shown against respective Districts and Upazila code in Level 4 after Level 3;
- At present, payments which are made from the centrally allocated budget (e.g. grant for educational institutions under MPO, Old Age Allowances, VGF, FFW) may be reallocated in due course against respective Districts and Upazilas during

budget preparation and necessary data entry will be done in the Ministry Budgeting Module;

- Under the proposed system, it will not be possible to reflect District-wise allocation for certain expenditure (e.g. principal and interest payment on Government borrowing, defence expenditure, project allocation like Padma Bridge). Thus, District budget may be formulated excluding these expenditures;
- The process of bringing reform in the existing classification system in order to formulate the District budget may create the opportunity to reflect the government expenditure based on the Program Classification along the line with Functional and Economic classification.

Change in Project Proforma:

- In order to ensure reflection of development expenditure of respective Districts along with the non-development expenditure some changes in the existing Project Proforma shall have to be made. At present, budget is allocated against each economic code on yearly basis in the present Project Proforma of the Development Project. In order to reflect the project or development expenditure in the District budget, a revised proforma is needed so that the budget allocation of the District and Upazilas can be exhibited against the respective economic codes;
- Afterwards, the budget allocation of the respective project may be shown according to District following the District wise allocation shown in the Project Proforma.

Use of Identical Code for the Development Budget

- At present, although budget allocation is shown against different economic codes in the projects proforma, there is no arrangement to reflect the detailed economic code wise allocation in the development budget;
- The existing format of the development budget needs to be changed with a view to reflect the detailed economic code wise allocation so that identical code may be used in case of development projects.

Compilation of District Budget and Presentation to Parliament

- Having finalized the budget estimates after threadbare discussion with the line ministries, Finance Division will send the final estimated budget allocation to the concerned Ministry requesting them to reflect the detailed District and Upazila wise budget allocation within a given time frame. The concerned Ministry/Division will complete the data entry at Level 4 showing District and Upazila wise budget allocation in the Ministry Budgeting Module of iBAS. Thus, brief report on ministry wise allocation of the District Budget and total budget allocation will be generated from the Central Budgeting Module of the Finance Division. Finance Division will present the District Budget along with the National Budget to Parliament. However, respective Ministries will take necessary action to demonstrate detailed district-wise allocation through their respective website;
- As soon as the Annual Development Program (ADP) is finalized through consultation with the respective Ministries, Planning Commission will make a request to all concerned Ministries for showing the project allocation in their respective economic codes under the Ministries. The respective Ministry/Division will exhibit the District budget allocation of their projects for the respective financial year in different economic codes as shown in the project documents. Afterwards, it will be necessary to complete district-wise data entry at level 4 in the Ministry Budgeting Module of iBAS;
- The whole process, including the data entry of the District budget, generating reports, is shown as flow chart in the Annexure 1 and 2.

Long Term Reforms

In order to fulfill the need and desires of the people, the existing structure of the national level as well as in the field needs vast reforms for formulating the field level budget. Before making this reform, the existing structure of the developing and developed countries may be reviewed and analyzed. In particular, local government system in UK may be considered. An outline of the probable reforms is given below:

- Zila Parishad may be reconstituted and entrusted with new responsibilities. Alternatively, formation of District Government may be considered;

- Most of the Government offices/Departments (except a few) may be placed under the new authority;
- The new authority may be entrusted with the responsibility of collecting revenues (local tax and where possible central tax as commission agent), formulation of expenditure budget (including the authority to receive loans for the development activities) and disbursement of fund;
- A link may be established between national level budget (consolidated fund) and proposed district budget;
- Despite these changes and reforms, the roles and authority of the central government and National Parliament will remain unchanged.

The local government will be further strengthened if the District Government system can be introduced or Zila Parishad reconstituted with new responsibilities. It is expected that the overall implementation of the Government budget will be much improved if the Zila Parishad is given new task/responsibilities. In that case direct budget allocation can be made to districts by the central government for specific purposes and district budgeting and planning units may be set up. At the same time, an effective implementation, monitoring and evaluation system will be developed which will help to improve the overall public management efficiency of the Government.

It will indeed be rational to implement the concept of District Budget in phases. At the initial stage, District Budget can be formulated showing the allocation for the different government offices at district level along with the budget for Zila Parishad. In the second stage, the District Budget can cover the budget of the Zila Parishad, allocation for different government offices at District and Upazila levels and budget of all the Upazila Parishads and Union Parishads under the respective District. At the final stage, District Budget can be formulated showing the budget of the Zila Parishad, allocation for different government offices at District and Upazila levels and budget of all the Upazila Parishads and Union Parishads under the respective District and the budget allocation which is reflected at the central level (grants for educational institutions under MPO, Old Age Allowances, VGF and Food for Works).

6. Action Plan for Implementation

6.1 Formulation of Unified Budget

It will be necessary to implement the recommended strategies as enumerated in Para 5.1 to formulate the unified budget. In order to materialize it, the following measures may be adopted:

- As a short term step, a consultation with the Planning Commission may take place in July-August 2010 on formulation of unified budget keeping an arrangement of separate budget allocation for the development projects;
- With a view to formulate the unified budget, the process of designing formats, adding them in the Budget Database and developing necessary guidelines may be initiated from September 2010;
- Unified Budget for a few Ministries/Divisions may be formulated from the next fiscal year;
- As a part of long term reforms the model of defence budget can be adopted in phases in case of different ministries from FY 2011-12.

6.2: Formulation of District Budget

The recommended strategies as stated in Para 5.2 may be initiated in order to implement the concept District Budget. For this, following measures may be adopted:

- There is a provision to reform the existing classification system under the project titled “Deepening MTBF and strengthening Financial Accountability which is currently being implemented by the Finance Division. Necessary reforms/changes of classification system can be initiated under this project in order to formulate the District budget;
- Complete restructuring of existing classification and taking them to implementation stage may take time. The process of restructuring of classification system may be initiated on urgent basis in July-September 2010 attaching priority to the District Budget.
- On pilot basis six/seven Districts from the six/seven Divisions can be chosen for the budget of FY 2011-2012.

Revision of Development Project Proforma and ADP Format and Implementation of Revised Proforma and Formats

- Necessary steps may be initiated by the Planning Commission to include the District budget information in Project Proforma in July 2010;
- December 2010 may be the target date for circulating the official order on revised DPP/TPP.

Structural Reforms

- Finance Division may arrange a workshop in the middle of August 2010 involving the representatives from the Cabinet Division, Planning Commission and 10 Ministries/Division which are large in terms of the size and scope of the budget;
- After this workshop, a High Level Committee may be formed for the reform of Central Budget Management System. The Committee will identify and make recommendations to the Government on to what extent the responsibilities and authority could be delegated to the District level in the areas of tax collection, formulation of expenditure plan, implementation and monitoring;
- Finance Division will render the secretarial services for this committee.

7. Conclusion

In order to make the dream into a reality, it is proposed to bring about necessary changes in the existing budget management system in order to achieve 8% growth by 2013 and 10% by 2017. With strong initiatives from the Finance Division, 33 Ministries/Divisions are already covered under the MTBF system and the rest of the Ministries/Divisions will be covered by the next fiscal year as a part of budget management reform process and a policy decision has already been adopted for this. The Finance Division is committed to rational and efficient use of public money using the MTBF system. The system will certainly allow establishing a link between Government policy-priorities and resource allocation, and between resource allocation and performance. Simultaneously, extending the scope of MTBF under the budget management reform process and deepening the scope of MTBF, the formulation of Unified and District budget may be introduced. With successful implementation of all reform activities, certainly, it will be a paradigm change in the Budget Management System of the Government i.e. whole financial management system of the Government will be more efficient.

Financial Information Flow of District wise Budget Database



