

Time to revisit ADP size

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The size of Bangladesh economy is expected to hit \$100 billion by June 2010. That is a long way from the barely \$7.0 billion economy it was in 1972. The Annual Development Programme (ADP) has played a significant role in channeling public resources into productivity enhancing investments that eventually contributed to raising the economy's growth trajectory to the 6.0 per cent per annum that we are witnessing today. Though the relative share of public investment in the economy has been dwindling over time, as private sector takes on a bigger role, ADP – which encapsulates public sector's investment plans – still has a significant role to play when it comes to outlays on infrastructure, health and education. So, the size of ADP is relevant, but what matters more is its utilization, which is what builds infrastructure, creates jobs and augments national wealth.

To be sure, ADP utilization and its implementation has been receiving topmost priority from policymakers. Thanks to these efforts, it is reported that ADP utilization in the past four months hit a four-year record. However good that may sound, ADP utilization of the past nine years ranged from a low of 66% in FY08 to a high of 92% in FY01, averaging 78% (Figure 1).



Does this not say something about the lack of realism in, among other things, planning the aggregate size of ADP expenditures? Or, perhaps it has to do with capacity constraints in the government machinery. Whatever it is, it makes good sense to step back and think about an ADP size which can be fully spent – or, almost fully. It is also a matter of record that the ADP is loaded with projects that have been in existence for years, taking a life of their own. As a consequence, new and innovative projects, and projects of high priority, have a hard time to find a place in the ADP. In the current fiscal year, we are told that of the 886 projects listed in

the ADP, only 35 are new. The rest are old projects that are in various stages of completion. Some, of course, are not moving at all, but have a berth in the ADP simply due to bureaucratic inertia. In these circumstances, it is often the case that small but critical projects at the grassroots level – the truly poverty alleviating variety – find no place anywhere for lack of funds while big item national projects are allocated massive amounts that eventually remain grossly underutilized. That becomes the irony of under-spending at the national level.

What has been happening for the past decade or more is bordering on the absurd. Year after year we are given a lofty number as the size of ADP. With as much frequency we find actual spending fall far short of planned – by as much as 35% in FY07. By now, it has become as certain as sunrise and sunset that the ADP number we see at budget time will never be spent. That will be true even this year, even with the best efforts of the government machinery.

We have heard bureaucrats and policymakers blame each other for the malaise. Most recently, much of the blame has rested on the shoulders of the Anti-Corruption Commission and the Public Procurement Act. It is better to get real rather than play the blame game. Let us look at the facts. Only once in the last twenty years was the ADP fully utilized – 100% in FY00. Every year since then, the shortfall in utilization has been in excess of 15%. True, resource mobilization has always been a challenge in this country where taxpayers or so few relative to the income earning population. But that is hardly the problem when one looks at the fact that budget deficits have remained steady at 3.0-4.0 per cent of GDP and its financing has also been pretty much under control, with prudent levels of domestic and foreign financing.

Then where lies the problem. It lies in what might be aptly described as “incremental budgeting”. Planned expenditures in any year must be greater than that of the previous year. As such one can see that every year since FY2000, ADP size has been increasing by at least 10% every year despite the fact that the previous year’s ADP was grossly under-utilized. Perhaps there is some political weight attached to the size of ADP. And the principle that is being adhered to runs something like this: the political cost of planning too little is much more than planning too much. Hence the practice takes a life of its own. What is surprising is that even a non-political government like the caretaker government could not be immune to

such over-planning of expenditures. In FY07, only 65% of the 260 billion Taka ADP or Taka 172 billion was actually spent. Yet the FY08 ADP was estimated at Taka 265 billion – a whopping 54% higher than actual spending in the previous year. At the close of FY08, only 70% or Taka 184 billion was actually spent, that is, only 7% more than actual ADP spending of the previous year.

In keeping with tradition, current year's ADP has been planned at 55% above the actual ADP spending (Taka 196 billion) of last year (Fig.2). Now this cannot be realistic, even with 16% of ADP spent in the first four months of the current fiscal year. With government machinery what it is, for all the verbal whiplashing that might be forthcoming, it will not be too far-fetched to guess at the predictable outcome of gross underutilization. At this speed, and with all the traditional shenanigans displayed in the last quarter of each year to pad accounts of public spending, one can predict with confidence that no more than 75% of ADP will get spent by year end.

The irony is that, if the tradition of “incremental budgeting” continues, increments based on planned rather than actual ADP spending, the yawning gap between planned and actual ADP will persist to the point of becoming irrational. Instead, it is time to make a break with the past and plan a size of ADP next year that is “incremental” but related to actual ADP utilization. That will be more realistic than the dream ADP that is given to the public year in and year out.

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