Poverty Reduction and Government Expenditure on Social Safety Net: Bangladesh Perspective

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ABSTRACT
Poverty reduction is the most important challenge for Bangladesh and the social safety net (SSN) program is the mainstay of poverty alleviation strategies. Over the last decade, the country has increased safety net budget significantly and has achieved remarkable success in poverty reduction. The Government of Bangladesh has allocated 7.65 billion US dollars for social safety net programs in the financial year 2018-2019, but this expenditure is not sufficient in the context of the present situation. Insufficient tax revenue is the main barrier to effective public spending. In addition, institutional incapacity and poor tax compliance made the country's tax-GDP ratio is only 10.6%. To become a poverty-free nation, Bangladesh needs a sufficient revenue base to spend on SSN program.

KEYWORDS: Social Safety Net, Poverty, Government Expenditure, Tax, National Board of Revenue

INTRODUCTION
Social safety net (SSN) program is a non-contributory transfer program designed to support poor and vulnerable people. It is also called social assistance program and it is a component of the social protection system of a country [1]. Major examples of social safety nets include cash transfer, workfare program, food or in-kind transfer, school feeding, fee waiver and subsidy [2].

To combat against poverty, Bangladesh is practising various social safety net programs. Most of them are implemented by the government to aid vulnerable people, especially homeless households, old-aged people, destitute women and children. Right now the government is spending 13.06% of its total annual budget on safety net programs [3]. However, this amount of spending is not sufficient. At present 12.9% of people are extremely poor in Bangladesh, 1.3 million people are homeless and more than 8 million people are aged 65 and older [4-6]. In this context, it is essential to examine the current position of government expenditure in Bangladesh. So, the focus of this paper is to analyze major obstacles to efficient government expenditure on SSN to reduce poverty and vulnerability to ensure economic growth.

LITERATURE REVIEW
World Bank claims that safety net program has a significant impact on poverty reduction [7]. It increases resilience among the poor to combat life cycle risks and shocks. It is also helpful to reduce the poverty gap, inequality and vulnerability. International Monetary Fund considers social safety net as a policy and program that try to reduce poverty through direct transfer of resources [8].

Nowadays many countries are practicing social safety net programs to fight against poverty. Globally 2.5 billion people are the recipients of any type of safety net program. Of them, 50 million recipients have successfully escaped from extreme poverty. On average, the developing countries are spending 1.5% of GDP (Gross Domestic Product) on safety net programs [9].

In Bangladesh, safety net programs are the basis of the poverty alleviation strategy, but the coverage and budget are very limited [10]. Khan & Tahsina argued that safety net programs have a significant impact on bringing people out of poverty, especially in the rural areas of Bangladesh since most of the programs targeted the rural population [11]. International Monetary Fund asserted that the government directed workfare and food aided program in Bangladesh have a significant positive impact on the beneficiaries [12]. Japan Bank for International Cooperation argued that safety net programs increased income and investment opportunities of the poor in Bangladesh [13].

OBJECTIVES OF THE STUDY
The overall objective of this study is to explore the present situation of the government expenditure on the social safety net and its impact on poverty reduction in Bangladesh. Besides, this study tried to identify the reason for inefficiency in resource mobilization and allocation of the country.

METHODOLOGY
This study is descriptive and based on the secondary data that have been collected from different reports, journals, newspaper articles and policy papers of national and international level. The government policy papers of Bangladesh, especially the social safety net and budget-related documents got preference. Data have been presented in text, table and bar graph form and discussed simultaneously.

FINDINGS AND DISCUSSION
Social safety net programs in Bangladesh
Currently, the Government of Bangladesh is implementing 130 social safety net programs across the country [14]. These programs are divided into two broad categories: (i) Cash transfer and (ii) In-kind transfer such as food transfer, housing assistance and soon [15].
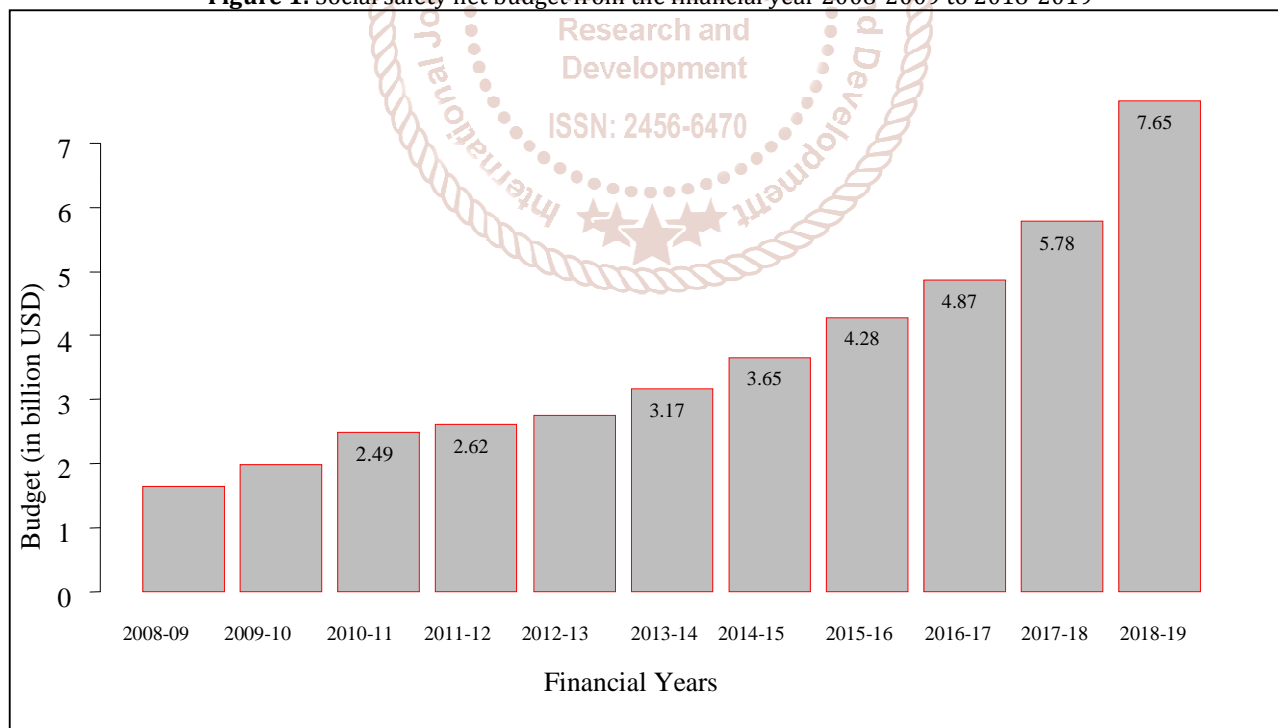
Table 1: Some major social safety net programs

Name of the Programs	Type of the programs	Description of the programs	Government expenditure for the financial year 2017-2018 (in million US dollar)
Old-Age Allowance	Cash transfer	The government provides financial assistance to the old-aged poor.	250
Vulnerable Group Feeding	In-kind transfer (food transfer)	The government provides food assistance to poor households during natural calamities.	160
Allowance for Widow, Deserted and Destitute Women	Cash transfer	The government provides financial assistance to vulnerable women.	90
Resettlement program for homeless people	In-kind transfer (housing assistance)	The government provides shelter to landless and homeless people.	422

Note. Author's analysis of the safety net budget documents of 2017-2018 (Revised) by Bangladesh Ministry of Finance [16]. Retrieved from https://mof.portal.gov.bd/site/page/32220b73-846f-4a33-b4c0-a6650c918e25/Safety-Net
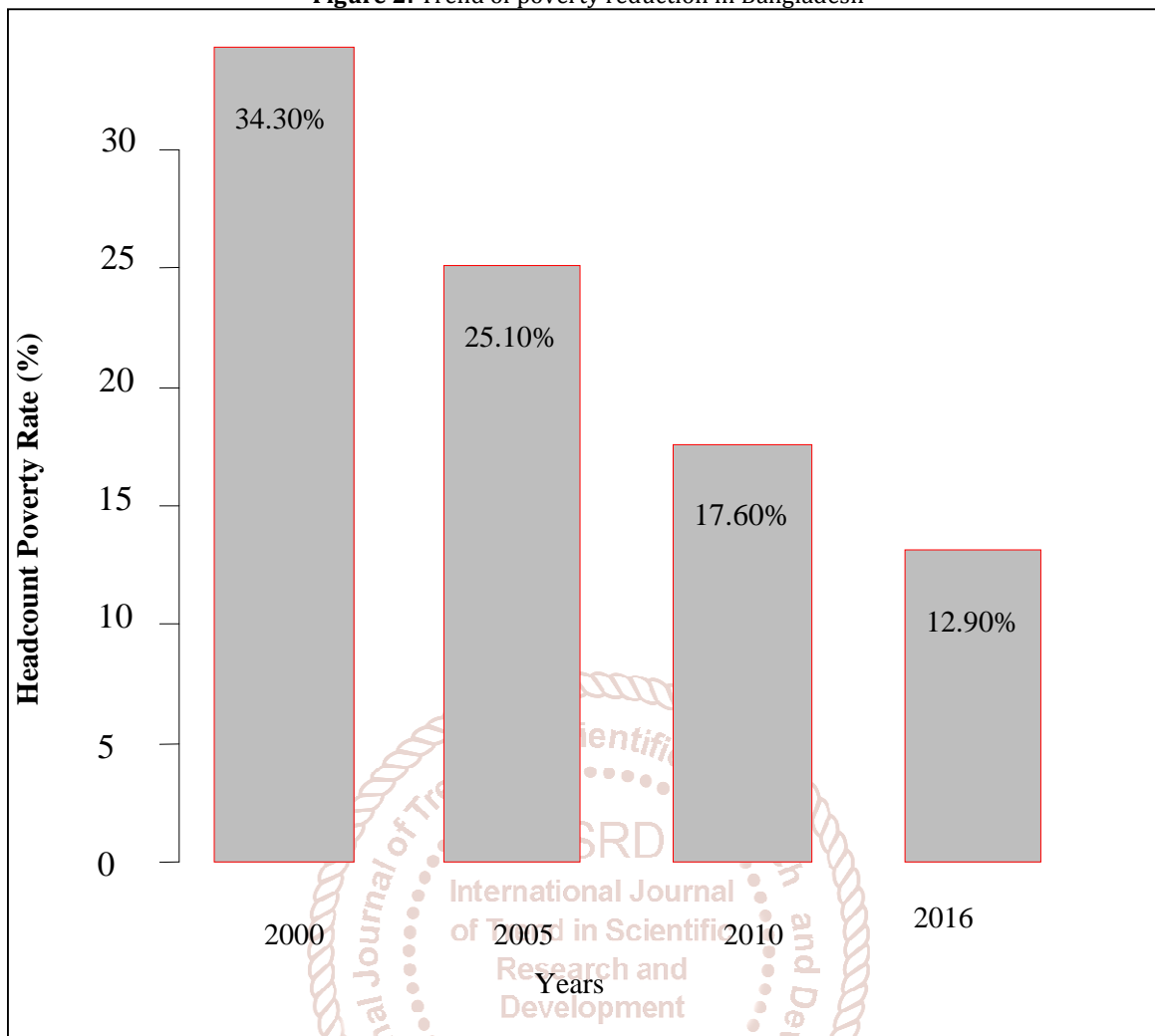
Expenditure on social safety net and poverty reduction
To reduce poverty and vulnerability, the Government of Bangladesh has given importance on the SSN budget. In the financial year 2008-2009 the budget was only 1.65 billion US dollars, now it stands at 7.65 billion US dollars (Figure 1).

Figure 1: Social safety net budget from the financial year 2008-2009 to 2018-2019

Note. The graph was developed from the data of safety net budget of 2008-2009 to 2018-2019 by the Bangladesh Ministry of Finance [17]. Retrieved from https://mof.portal.gov.bd/site/page/32220b73-846f-4a33-b4c0-a6650c918e25/Safety-Net

This increased budget has a significant positive impact on poverty reduction in Bangladesh. Thousands of people escaped extreme poverty with the help of safety net programs. Figure 2 shows the trend of poverty reduction in Bangladesh.

Figure 2: Trend of poverty reduction in Bangladesh

Note. The headcount poverty rate is in percentage from 2000 to 2016; data are from Preliminary Report on Household Income and Expenditure Survey, 2016 by Bangladesh Bureau of Statistics [18].

In 2010, the headcount poverty rate was 17.60% at the national level while in 2016, it was 12.9%. Figures 1 and 2 show that the expenditure on SSN has been increased and the headcount poverty rate has decreased. Therefore, it could be inferred that the SSN budget has a significant impact on poverty reduction in Bangladesh.

Sector-wise government expenditure
Over the last decade, government expenditure on SSN has been increased substantially. Now Social Safety Net sector is the second-biggest spending sector in the country's annual budget (Table 2).

Table 2: Sector-wise spending for the financial year 2017-2018

Sectors	Percentage of spending of the national annual budget
Education & Technology	16.3%
Social Safety Net	13.06%
Transport & Communication	12.2%
Interest Payment	10.4%
Local Government & Rural Development	6.9%
Defense	5.7%
Public Order	5.5%
Energy & Power	5.3%
Health	5.2%
Public Administration	4.9%
Subsidies & Incentives	4.9%
Agriculture	3.9%
Others	5.74%
Total	100%

Note. Author's analysis of the budget documents of 2017-2018 by Bangladesh Ministry of Finance [19]. Retrieved from https://mof.gov.bd/site/page/f9aab5cd-f644-47bb-bb94-a70cb64c15ce

The government expenditure on the social safety net was 13.06% of its national annual budget in the financial year 2017-2018. Although it was the second-biggest spending, it was not adequate. That amount of expenditure represented 5.78 billion US dollars, which was just 2.17% of the country's GDP [20]. Indeed, Bangladesh is far below the average spent by the OECD (Organization for Economic Co-operation and Development) countries on the social safety net, which is 17.3% of GDP [21].

The inefficiency of the country in resource mobilization

To implement public programs successfully sustainable revenue base is essential. However, the Government of Bangladesh is not getting enough tax revenue to meet its expenditure, which is a major obstacle for better public finance. Consequently, each year the government is facing a budget deficit, which is more than 5% of its GDP [22].The National Board of Revenue (NBR) is the prime tax authority and the main source of resources in Bangladesh. NBR collects 62% of resources as the tax (Table-4).

Table 4: Source of resources of the annual budget for the financial year 2017-2018

Source of Resources	% of total resources
Foreign grants	1.4
Foreign loan	11.6
Domestic loan	15.1
Tax revenue (NBR) [income tax, value added tax, import duty and others]	62.0
Tax revenue (Non-NBR) [narcotics duty and land tax]	2.1
Non-tax revenue	7.8
Total	100%

Note. Author's re-elaboration of the budget documents of 2017-2018 by Bangladesh Ministry of Finance [23]. Retrieved from https://mof.gov.bd/site/page/f9aab5cd-f644-47bb-bb94-a70cb64c15ce

The tax-GDP ratio in Bangladesh is only 10.6 % [24]. Whereas, the average tax to GDP ratio in OECD countries is 34.3% [25]. According to Finance Minister of Bangladesh, at least 50 percent of people should come under the tax net, but only one percent of people pay taxes regularly [26].

Moreover, to fulfill budget deficit Bangladesh has fallen into debt. 11.6% of the total resources are coming from a foreign loan (Table-4). At present, the total foreign debt is 13 percent of GDP. The World Bank and the Asian Development Bank are the two largest creditors of Bangladesh. The largest bilateral creditor is Japan. Besides, the domestic debt of the country is 21.3 percent of GDP [27].

Problems in tax collection

Institutional incapacity of the National Board of Revenue is adversely affecting the tax collection activity [28]. Manpower shortage is vital and there is no tax office at all sub-districts in Bangladesh. Currently, there are tax offices in 87 sub-districts, whereas the number of sub-districts in the country is 492 [29, 30]. Consequently, NBR is unable to reach effectively to most of the potential taxpayers. In addition, the attitude of tax evasion and avoidance is a deep-rooted culture in Bangladesh. Most of the people don't like to pay taxes willingly. However, government initiative is very limited to develop tax morale.

CONCLUSION

The socio-economic development of Bangladesh depends on efficient government expenditure on social sectors. However, the performance of Bangladesh is not so satisfactory in this regard. As demonstrated above, the share of government expenditure on social safety net is not so high, although it is the mainstay of the poverty alleviation strategy of the country [31]. With the aim to eradicate poverty, Bangladesh is supposed to rethink of its budgetary allocation.

On the other hand, the Government of Bangladesh is not getting enough funds through tax revenue. It is creating a budget deficit and forcing the government to borrow. This insufficient revenue base is responsible for insufficient spending on SSN.

In this context, it is recommended to the government to increase the competence of NBR to boost up tax collection activities. Firstly, the number of tax offices and manpower must be increased. Secondly, the awareness campaign should be operated to enhance tax morale of the people. Thus, a strong revenue base will be ensured and the government will be able to spend a sufficient amount of money for SSN programs to reduce poverty and vulnerability in the country.

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