



Government of People's Republic of Bangladesh  
Finance Division  
Ministry of Finance

## HOW BANGLADESH MANAGES ITS PUBLIC MONEY



### Preface

This pocketbook has been developed to improve the understanding of how the Government of Bangladesh manages public funds through its Public Financial Management (PFM) systems, and how these systems are being improved through a comprehensive PFM Action Plan (2018-2023).

The Bangla and English versions of the pocketbook are regularly being disseminated to a large audience both within and outside the government, including the citizens and civil society. This dissemination has stimulated a dialogue among stakeholders to support meaningful improvements in the PFM systems to enable better availability of resources for the delivery of public services such as security, education, and health on one hand and public infrastructures such as sanitation, roads, railways, and electricity on the other.

The pocketbook covers the complete PFM cycle. The cycle begins with financial planning system for both raising public funds through taxes and borrowings and spending for public services and infrastructure. The PFM cycle also includes budgeting, accounting, internal controls systems, and financial accountability through audit and public accounts committee.

## Contents

What is PFM?	4
Financial Planning	8
Raising public money	9
Managing public expenditures	10
Public procurement	15
Fund transfers to State-Owned Enterprises	17
Internal controls and accounting	18
Financial Reporting	19
Audit and accountability	19
PFM reforms agenda in Bangladesh	20
Governance of PFM Reforms	22
Public disclosure and citizen's participation	24

### 1. What is PFM?

Public Financial Management (PFM) is the way a government raises and uses funds for carrying out state functions, for example, law and order, education, health, social welfare, and infrastructure. The government raises its revenue from taxes, fees charged for various services (car registration, passport etc.), dividends from state-owned enterprises (SOEs), foreign grants, and by selling state assets such as land or an SOE's shares. Foreign and domestic borrowings provide deficit financing. These funds are then used for public spending as per government policies and priorities. The PFM systems operate within the overall principles of democratic governance defined in the Constitution, establishing the citizens' rights to basic necessities of life, work, and social security in exchange for their duty to observe laws, maintain discipline, and perform public duties as required by their elected government. Hence, the better the PFM systems are, the more transparent and accountable it makes the government in serving the people.



## 2. What are the key PFM goals in Bangladesh?

The PFM Reform Strategy aspires to achieve the following five goals;

Goal 1: Maintain aggregate fiscal discipline

Goal 2: Allocate resources consistent with Government priorities

Goal 3: Promote the efficient use of public resources and delivery of services

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

Goal 5: Enhance the enabling environment for improved PFM outcomes.

## 3. What are the key components of the PFM/ Budget cycle?

The PFM cycle (also known as budget cycle) has four stages - budget formulation, budget approval, budget execution, and budget evaluation - as elaborated below.

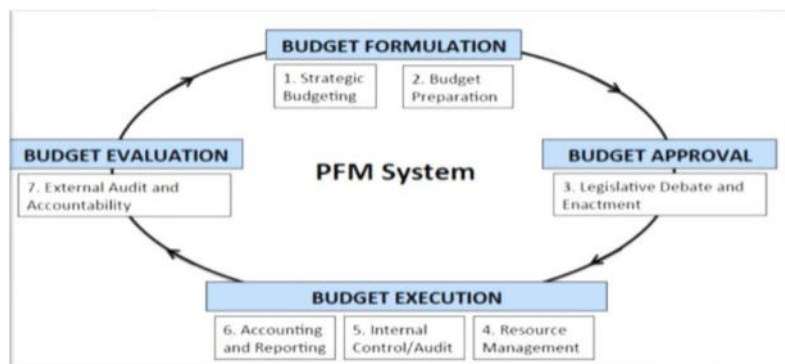


Figure 1: The PFM System and the 4 stages of the PFM Cycle (Andrews et al.,2014)

- **Budget formulation** involves converting the policy goals into financial targets. The financial targets comprise revenue, expenditure and deficit financing targets. Revenue estimates are the amount of funds expected to be available to the state, which includes tax and non-tax revenues and foreign grants. Similar calculations are done for proposed expenditures in different sectors, organizations, or spending programs. The excess of projected expenditures over revenues is the budget deficit which needs to be financed from domestic or foreign borrowing and grants from Development Partners. The strategic multi-year budgeting phase involves various organizations such as the finance and planning ministries, line ministries, and more. The multi-year forecasts are then broken down to the annual budget proposals compiled by the Ministry of Finance (MoF) for each fiscal year that runs from July 1 to June 30.

- **Budget approval** is the parliamentary authorization of the budget proposals presented by the Finance Minister in the form of Annual Financial Statement. During budget discussion in the Parliament, Ministry of Finance defends the budget proposals by providing adequate explanations. Finance Act authorizes revenue mobilization for the government. On the other hand, the Appropriation Act authorizes the expenditure ceiling of

the Demand for Grants and Appropriations for the ministries/divisions/other institutions for a fiscal year. The approved budget by the specific line item, administrative unit, program, etc. - is essential for establishing accountability and responsibility relationships and reporting requirements and standards.

- **Budget execution** is the process through which government spends the funds allocated and, accordingly, delivers on the promises and proposals which have been included in the budget. More than fifty ministries and divisions, each with their own departments and agencies, execute their respective parts of the budget. Internal controls are the prescribed operating rules, procedures and record-keeping requirements coupled with adequate checks and balances to ensure accountability. Typically, these checks and balances are applied through segregation of duties, authorization and access among staff to ensure compliance with the procedures. Internal auditing helps to strengthen the application of these internal controls. Accounting and Reporting allows the government to keep records of the funds being used by the different entities and to have financial information to support budget implementation decision making.

- **Budget evaluation** includes the external audit and accountability process carried out by the Comptroller and Auditor General (CAG) and review of audit reports by the Public Accounts Committee of the Parliament that conclude each budget cycle. The audit reports are meant to hold the government accountable on the use of public funds.

The processes outlined above represent common features that characterize PFM systems across a wide range of countries, despite obvious differences and particularities that each system will inevitably show.

#### 4. What is the significance of financial planning?

Financial planning ensures that public expenditures are planned within the expected availability of resources in the medium-term. The Government of Bangladesh (GoB) plans its Financial inflows and outflows for at least next three years. For this, GoB is developing a sophisticated model to estimate the government revenues and expenditures based on the most-likely and high- and low-





case scenarios for the country's economic growth and other contributing factors. This fiscal forecasting model will provide more credible information for the medium-term financial planning and for making more realistic annual budgets. This is extremely important to enable around 30,000 budget-holders (termed as Drawing and Disbursing Officers (DDOs), such as District Education Office, to spend their annual budget without worrying about cash availability in the government's bank account. Hence, the MoF provides this comfort to the budget-holders through improved medium-term financial planning together with in-year cash forecasting. This way, it is fair to hold budget-holders accountable for their performance on delivery of public services and infrastructure.

### **5. What's being done to raise more public funds?**

Bangladesh needs significantly more public funds, to move forward on the middle-income path, than it currently raises. For example, Nepal and India have a much higher tax-to-GDP ratio than



that of Bangladesh. These funds can come from taxes, foreign grants, loans and dividends paid from SOE profits. Bangladesh's tax collection is low; but the government is trying to increase this through an improved taxation strategy and automating the tax administration systems of the National Board of Revenue (NBR). The government also borrows to complement tax revenues, but it is important to keep an eye on how much the country is borrowing and the related cost of those loans. In this respect, the GoB is preparing a medium-term debt strategy and developing capacity to regularly update the country's debt sustainability assessment. Enhanced transparency on how the government raises and uses public finances leads to improved stakeholder confidence and thereby more and cheaper finances.

### **6. How do budget-holders manage annual budget?**

We can better explain this with an example of a government college. Long before the fiscal year starts on July 1, the college principal will prepare an estimate of the costs of running the programs offered by the college (such as teachers' salaries, maintenance of facilities, utilities, curriculum improvement, research, teaching materials etc.) and the cost of new infrastructure needed for expansion of the college physical facilities. These estimates will then be

negotiated with the ministries of finance and planning through the education ministry and will be included in the annual



budget presented to the Parliament for approval. Upon approval of the government budget, the college principal receives the budget distributed to him generally within a few weeks after the beginning of the fiscal year. The college principal will now be concerned with how to best utilize these resources to deliver on the promises he made in his annual performance agreement. Apart from administering the day-to-day activities of the college, he will procure goods and services, pay salaries, manage civil works and so on. During the year, he would need to review how much budget he has already spent and what is available. Regular review of budget execution reports enables him to make decisions if he needs to reallocate costs in different categories in order to achieve the performance targets, manage urgent needs as they arise, and/or request for additional budget in exceptional circumstances.

## **7. How are the public expenditures managed at a macro- level?**

Similar to how a college principal manages his budget, each ministry and department manages the aggregated budget of all public institutions under its administrative control. After approval by the parliament, the MoF releases the respective budget to line ministries, which is then distributed to around 30,000 budget-holders (DDOs) such as the college principals. The ministries and departments monitor the budget execution and performance of their budget-holders. Sometimes the government will redirect funds from other projects or ministries if there is an urgent need for it in another area. For instance, the Bangladeshi government redirected funds to deal with the Rohingya crisis. Timely budget releases to DDOs is one important aspect that GoB is emphasizing in order to improve the budget execution levels. Finally, the Finance Division manages the payments of the government's overall obligations such as debt repayments, pensions, and transfers to State-Owned Enterprises.

## **8. How are the performance targets set?**

GoB has a comprehensive system of performance management through annual performance agreements

(APAs). These APAs ensure that the funds are best utilized to achieve the public policy objectives on economic growth, poverty reduction, gender equality, and combating climate change. The APAs are initially signed between the cabinet division and the sector ministry (such as health) and then cascade from ministry-level to departments/directorates/agencies and finally to the local level offices in that ministry. In this way all budget-holders negotiate what they would deliver each year in their respective APA. While the system is designed very well, the actual performance indicators and targets need to be improved. There should also be more attention on how credible data on actual performance is reported and to use this information to incentivize better performing budget-holders. Budget Management Committee (BMCs) headed by each Secretary plays an important part in setting direction of the respective ministry and use this performance management system to ensure maximum value for public money.



## 9. Where are the public funds kept?

GoB keeps public funds in a Treasury Single Account (TSA) with Bangladesh Bank. TSA has several sub-accounts for different types of funds and has the ability to receive and make payments in several currencies. Due to an overdraft facility and ability to borrow from commercial banks (through issuance of treasury bills), the TSA acts as a buffer to manage any short-term time-lag and shortfalls between the government revenues and expenditures. However, GoB relies on borrowings in the medium-term to manage the fiscal deficit. GoB is progressively strengthening the TSA by limiting the number of extra-budgetary funds and special accounts kept outside the TSA by different spending agencies of the government. The Government is also progressively introducing electronic funds transfers to expedite salary, pensions, and contractor payments from the TSA.



## 10. Who keeps the accounts of the public funds?

Controller General of Accounts (CGA) and the chief/district/upazila accounts offices under its control are



responsible for keeping accounts of public funds. Budget-holders send payment requests/bills with all invoices and claims to the respective accounts office for a preaudit, budget check, and accounting in the integrated Budget and Accounting System (iBAS++) before a cheque is issued in favor of the recipient. GoB is progressively rolling out the Electronic Funds Transfer (EFT) system that would enable a direct bank transfer to the recipients' accounts. Similarly, a DDO module of iBAS++ would enable electronic submission of the payment requests from the budget-holders to accounts offices and would save significant transportation costs and delays in payment processes because of travel to and fro between the government offices. Several types of budget execution reports are available in iBAS++, however, there is a need to improve the use of these reports by the management in ministries and departments and the budget-holders.

### **11. Why is public procurement important?**

A big chunk of the government money is used to purchase goods and services. Public procurement



is the term used to describe the buying of goods, civil works, and services that are needed by any government agency to carry-out its functions, such as buying medicines for health centers or hiring contractors for building roads. GoB has made notable advancements in rolling-out an Electronic Government Procurement system (e-GP) enabling online bids, which has enhanced the transparency of public procurement processes and strengthened the competition. Nevertheless, there is a need to establish a central procurement regulatory agency and further build the capacity of budget-holders and bid evaluators in procurement and contract management.

### **12. Which projects take preference over others?**

The Ministry of Planning (MoP) coordinates the approval of development project proposals through various tools of public investment management, such as the National Five-Year Plan, sector strategies, and appraisal of individual project proposals. Given competing pressures by interested stakeholders for each project proposal, it isn't easy to





prioritize and fully-fund a few critical proposals in the Annual Development Program (ADP). This often leads to many projects included in the ADP with limited aggregate resources to complete them in good time (meaning high through-forward). There are currently about 1400 projects in the active government portfolio. GoB is reviewing the portfolio to see if there is a need to close some projects pending for long or not relevant anymore due to change in government priorities.

### **13. Why does government provide funds to SOEs?**

State-Owned Enterprises (SOEs) and autonomous bodies should normally be financially self-sustaining.

Nevertheless, there are instances when these entities receive

government subsidies for delivery of public services, or grants

earmarked for capital projects, or occasionally the funding intended to improve an SOE's financial condition. In Bangladesh, SOEs are some of the largest companies owned by the government, for instance, BIMAN is the largest commercial flight agency of



Bangladesh. Many of these SOEs also have their own debts that pose significant fiscal risk to the government in case these SOEs aren't able to meet their financial obligations (known as contingent liabilities) and GoB has to intervene with funding. Therefore, keeping track of the SOEs debts and grants is critical. In this respect, the GoB has initiated strengthening the fiscal monitoring of SOEs and launching a new system of independent performance evaluations.

### **14. What do we mean by internal controls?**

Internal controls are the clear mechanism of financial responsibilities to government staff trusted with managing public funds and related checks and balances to ensure that funds are used for intended purposes, with due regards to the economy, efficiency, and effectiveness. These internal controls are enforced through various legislations, rules and procedures. If government staff don't comply with the internal controls, they risk administrative action against them. In general, the automated systems such as iBAS++, e-GP, and Value Added Tax Online System (VOS) facilitate compliance with internal controls and improve documentation.

### **15. Are internal controls and internal audit different?**

Internal controls are processes designed to ensure compliance with established rules and procedures, whereas internal audits provide agencies with information on risky areas where controls are lacking or where routine failure to comply with rules may undermine an organization's potential to meet its objectives. Internal audit function is part of the overall control environment and strengthens the design and implementation of internal controls through necessary risk analysis. GoB is strengthening the internal audit function which is currently very weak.

#### **16. Where can I get GoB's balancesheet?**

GoB prepares annual Finance and Appropriation Accounts to summarize its financial activities during each fiscal year. However, GoB doesn't have a balance sheet, and very few governments in the world have balance sheets. GoB primarily follows a cash-basis of accounting, which records revenue and expenditure transactions when they are paid. This is unlike the private sector which follows the accrual basis of accounting, where revenues and expenditures are recognized as assets and liabilities when the obligations to receive or pay are incurred. Nevertheless, the government's public accounts are separately kept for specific amounts payable to others. In addition, the

budget provides several annexes with information beyond the cash basis, such as a statement of public debts and profitability of SOEs etc. Currently, the Finance and Appropriation Accounts (also referred to as financial statements) are delayed and their format also needs simplification so that stakeholders like civil society can easily understand these.

#### **17. Do government institutions get audited?**

The CAG has the Constitutional mandate to audit all government accounts and financial statements. These audits are done to hold the budget-holders accountable for funds allocated to them. The audit capacity of the office of CAG is being further strengthened to carry out risk-based audits accounting to international standards. The Public Accounts Committee of the Parliament conducts proceedings on the audit reports and issues directives to uphold accountability in cases of misuse of public funds/authority and to recover such losses.

#### **18. What are PFM Reforms?**

PFM Reforms are any changes being introduced to improve the functionality of the PFM systems. These changes aim to improve the use of public finances for the betterment of citizens. The PFM reform being introduced in Bangladesh include modifying

procedures, enhancing automation, and introduction of new processes which will improve the management of public finances. A series of reforms have been introduced by the GoB over the last two decades to modernize the PFM systems. New laws, such as the Public Money and Budget Management Act, 2009<sup>1</sup>, has also been put in place to ensure sound financial management.

**19. What is the objective of the PFM reform?** Bangladesh's PFM reforms agenda is aimed at improving the functionality of the PFM systems and enabling better coordination among various parts of the PFM systems. The reforms include modernizing the PFM systems and increasing government efficiency in the formulation and execution of the budget. The improved PFM system will lead to better service delivery, public resource management, and economic development. The GoB recognizes the PFM related challenges and how they impact public service delivery and the development of the country. A series of reforms have already been introduced by the GoB over the last two decades to modernize the PFM systems. The most noteworthy are the enactment of the Public Money and Budget Management Act, 2009, rolling out of iBAS++, and adoption of the new Budget and Accounting

Classification System (BACS). Please refer to the PFM Reforms Strategy (2016) and the PFM Action Plan (2018) on the MoF's website for further details.

**20. How does the international community support PFM reforms?**

International development organizations (like World Bank) and bilateral development programs funded by the European Union, the United Kingdom, Canada, and Japan actively support PFM reforms in Bangladesh. This not only ensures Bangladesh's rapid development through better use of its own resources, but also assures the international community on the use of foreign assistance.

**21. Describe Governance Structure for PFM Reforms?**

The PFM Reforms, led by the National Program Director (head of Budget Wing-1, Finance Division), has a two-tier governance structure comprising of a Steering Committee (SC) and a Program Execution & Coordination Team (PECT). SC supervises the progress being made in the implementation of the reforms and creates the right environment for change to happen.

---

<sup>1</sup> <https://mof.portal.gov.bd/site/page/5668da35-0c3c-4115-a893-98c5f16db616/Budget-Management-Act>



SC is led by the Finance Secretary and comprises senior representatives from ministries, Cabinet Division, CAG, NBR, Economic Relations Division, and MoP.

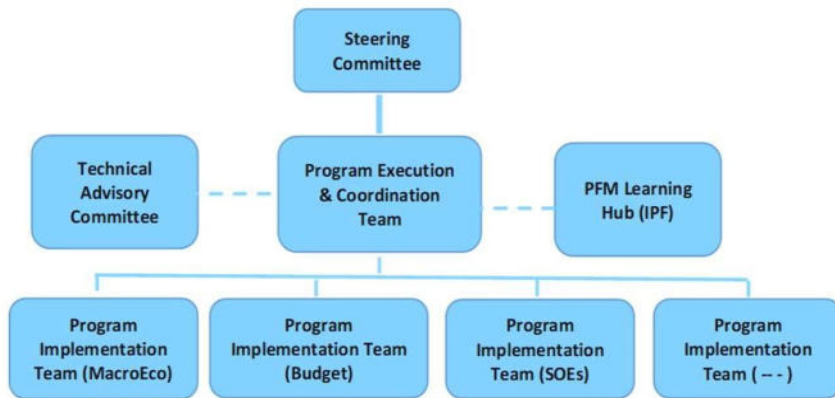


Figure 2: Governance Structure for the PFM Reform Program

PECT coordinates the reforms with support from the line ministries and the development partners. Program implementation teams are being notified for each PFM Action Plan component and are generally led by the head of the respective institution, such as Additional Secretary, Macro-Economic Wing, Finance Division.

## 22. Why is managing change important?

The PFM reforms are introducing changes in PFM systems, processes, and practices to improve the functionality, efficiency, and effectiveness of PFM in Bangladesh. These changes cover all actors including the ministries of finance and planning to 30,000 DDOs at the lowest level. This means the thousands of people

need to know and embrace these changes. Experience of past PFM reforms also underscore the importance of behavioral aspects of PFM reforms and emphasize on effective change management. The four pillars of change management are:

- Systematic learning of the government employees and sharing of good reform practice
- Communications and stakeholders' engagement among various institutions and administrative levels
- Rewarding good performance in implementing the PFM reforms
- Developing adaptive leadership skills through coaching of the senior civil servants for effective management of the PFM reforms

## 23. How can I learn more about PFM in Bangladesh?

The PFM Reform Strategy 2016 and the PFM Action Plan 2018 are primary documents governing the PFM reforms in Bangladesh, these two documents are available on the Finance Division's website. In addition, the Institute of Public Finance and Financial Management Academy provides high-quality training for civil servants to enable them to tackle the PFM related challenges.

## 24. What do citizens do with PFM?

Public inclusion and citizens' engagement are key factors

emphasized in every stage of the PFM system. Citizens and oversight bodies have the right to know if their elected officials and government staff have raised and spent public money in a manner consistent with law and public best interest. Enhanced transparency could prevent any potential misuse of funds. For example, the college management committee encourages the college principal to use public funds in the best possible manner to achieve targeted performance. The Right to Information Act (2009) enables a proactive disclosure of several government reports on the website in addition to establishing the citizens right to request most government documents. Be informed!



standards through civil society platforms, such as school management committees, health committees, and other advocacy/professional associations;

- Participate in pre-budget seminars and contribute your suggestions on public policy issues;
- Share your understanding of PFM and government's financial decisions with your peers;
- Publish blogs, reports, news and articles on PFM;
- Learn more about PFM reforms, so you can use your skills to contribute more effectively. Send your PFM reform ideas to [SPFMS@mof.gov.bd](mailto:SPFMS@mof.gov.bd) and your idea may get selected for implementation; and
- Join the PFM reform movement.

## **25. How can I contribute to the PFM reforms?**

Citizens may contribute to PFM in the following ways:

- Inform elected officials about their expectations from the state and how government spending should be aligned to those;
- Hold government employees in schools, health centers, police stations, etc. accountable to their service

HOW  
BANGLADESH  
MANAGES ITS  
PUBLIC MONEY