Government of the People's Republic of Bangladesh

Public Financial Management (PFM) Reform Strategy 2016-2021

June 2016

Contents

Chapter 1 Introduction

1.1 Structure of the Report

1. **This is the second multi-year public financial management (PFM) reform strategy of the Government of Bangladesh which intends to institutionalize past achievements and strengthen the foundations of PFM practices**. The Government has pursued several generations of reform, and this latest strategy is for the period of 2016-21. The objective of the PFM reform strategy is to ensure that there are solid basic public financial management practices in place, while at the same time building upon and institutionalizing the innovations of the last reform strategy 2007-12. The PFM reform strategy is presented in 6 chapters as follows:

- **Chapter 1** presents the background to the PFM Strategy 2016-21,
- **Chapter 2** summarizes the lessons learned internationally and from the 2007-12 PFM Reform Strategy implementation,
- **Chapter 3** outlines the implications for PFM reforms from the 7th Five Year Plan and leads to the identification of the 5 goals, 13 objectives and priorities for the 2016-2021 PFM Reform Strategy,
- **Chapter 4** provides the detailed actions under each of the goals and objectives including the priority actions,
- **Chapter 5** describes the change management challenge, risks, opportunities and coordination challenges,
- **Chapter 6** provides a concluding summary of the PFM reform strategy 2016-21
- **Annex A** provides the PFM reform matrix
- **Annex B** provides a list of documents which provide additional background information

1.2 Context and Background to the Strategy

2. **Bangladesh inherited a public financial management (PFM) system modeled according to the needs of the colonial administration in the Indian sub-continent.** The PFM system though evolved over time to cater to the development needs of the country, essentially retained the features of a system focused on controlling inputs with an emphasis on following administrative orders. The procedures and processes were laid down in a myriad of financial rules and regulations, codes and manuals, government orders and circulars. On the whole, there was a r clear lack of an enabling environment for improving practices. See the PEFA 2016 introduction for a more detailed context and background to PFM reforms.

3. **A series of public financial reform programs were undertaken since the 1990s onwards, which undoubtedly improved the management of public resources, but nonetheless fell short of expectations.** Until the Government embarked on reforms in the mid-1990s, budget formulation was entirely input focused: an annual number-crunching exercise with no link to policy and performance. Budget execution lacked efficiency with a rush of expenditure towards the end of the fiscal year compromising the quality of spending. Treasury operations were highly centralized. The accounting and reporting system was manual and not consistent with international standards, and failed to

generate quality fiscal information in a timely manner. External audit and oversight was too weak to hold public officials accountable.

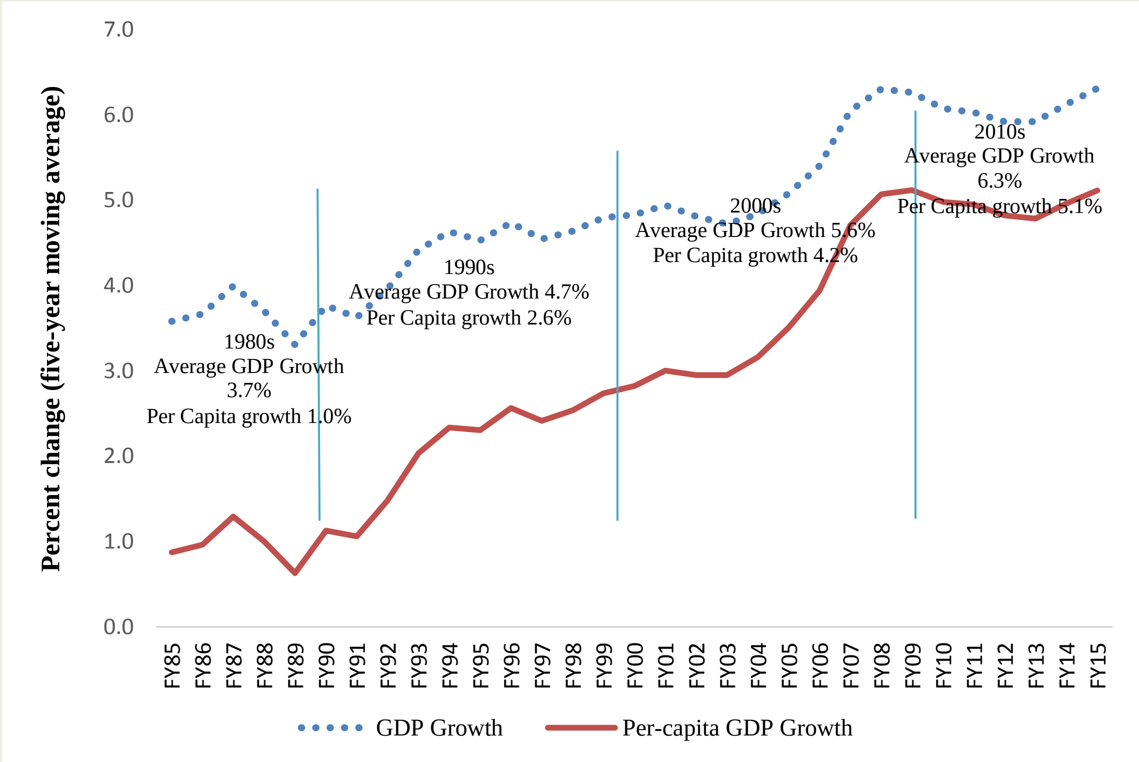
4. **The purpose of the new PFM Strategy 2016-21 is to build on the past reforms and learn from what has worked and what has not, in order to strengthen the basics required for achieving the overarching national goals.** Some PFM reform innovations are struggling to take hold, such as the development of a medium-term horizon when preparing budgets, and strengthening the linkages between budgets and policies. Others are picking up but yet to make a tangible difference – such as the development of a new chart of accounts or the roll out of a new financial management information system. This new strategy will learn from these past reform efforts to ensure that the strategy has realistic ambitions, is focused on the priority reform areas and is tailored to the capacity of the staff.

1.2.1 Overarching National Goals

5. **Bangladesh has made remarkable development progress since Independence; in the last decade average economic growth rates reached 7 percent per year, and growth has been inclusive: poverty headcount rates have fallen from 31.5 percent in 2010 to 25 percent in 2015.**[1] The last national plan, the 6th Five Year Plan FY11-15 highlighted the importance of developing strategies, policies, and institutions to enable Bangladesh to accelerate growth and reduce poverty. Much has been achieved, Bangladesh reached lower middle-income country status with GNI per capita of US$1080 in FY14.[2] Several successes from the last decade are notable and worth mention as they set the scene for the next public financial management reform strategy. These include macroeconomic stability which has supported a private sector-led export-oriented growth, and a vibrant non-government and private sector which together with the public sector have provided services that have contributed to reductions in infant and maternal mortality rates, improved gender equality and a rise in completion rates in education.

[1] See 7th Five Year Plan, Planning Commission 2015
[2] See Bangladesh Development Update, World Bank April 2016

Figure 1-1: Trends in Bangladesh GDP Growth Since 1985



Source: World Bank staff estimates based on data from the Bangladesh Bureau of Statistics.

6. **Against this progress, the government continues to set ambitious future goals including for Bangladesh to reach middle-income country status by 2021 and further reduce the poverty headcount to just 15 percent of the population.** The government's Vision 2021 and associated Perspective Plan (2010-2021) aim to transform Bangladesh to a middle income economy, and to reduce the incidence of poverty to just 15 percent living below the national poverty line by 2021. The 7th Five Year Plan (2016-2020) focuses on further reforms aimed at sustainable, productive employment for a growing labor force, and proposes a substantial increase in investment, including public investment, to spur economic growth rates to 8 percent per annum. The plan also includes social development and the development of a more citizen-centric set of institutions. In short, the 7th Plan has two overarching objectives:

- Accelerate growth from 6 percent to 7-8 percent per year;
- Empower citizens, through reductions in poverty and income inequality, increased human development, enhanced female empowerment and strengthened social protection and inclusion.

Other key strategic elements of the 7th Five Year Plan are to pursue an environmentally sustainable development process, and to tackle the challenges of ensuring good governance – seen as a potential constraint to service delivery and economic activity. Internationally, better perceptions of governance are more likely to attract inward investors and encourage local investment.

7. **To reach the new national objectives the public financial management system needs to be able to deliver several improvements; such as a broader tax base and higher government revenues, a program of public investments to build core infrastructure, and social expenditures that can deliver protection for the poor and vulnerable.** This strategy for public financial management (PFM) reforms is written with these national goals in mind, and provides the details of the action plan to deliver on these goals. Box 1-1 below summarizes the main PFM Actions which were identified in the governance background paper for the 7th Five Year Plan: public investment management; the financial management information system, the medium-term budget framework (MTBF) and budget execution and transparency.

Box 1-1: Priority PFM Actions in Background Paper for the 7th Five Year Plan[3]

1. **Public Investment Management**: Three issues remain unimplemented from the 6th Five Year Plan:
   a. Strengthening **project selection** procedures to ensure only affordable, well-designed projects with high returns enter the Annual Development Programme (ADP).
   b. Strengthening capacity for **project design and appraisal**. Projects approved by the Planning Commission should have a sound appraisal that demonstrates the consistency and relevance of the project to sectoral/economy-wide objectives, strategies and policies. The appraisal should be based on economic and financial analysis of the proposed project, gender and environmental analysis and implementation capacity.
   c. **Rationalizing** the existing portfolio. One activity is that the Government will do a proper review of all approved and active projects in the pipeline in cooperation with the line Ministries. The review of this portfolio stock will seek to clean out dormant or irrelevant projects and help line ministries close the projects that are facing implementation problems through restructuring or through other relevant interventions. The results of this exercise will be shared with the cabinet for endorsement and approval.[4]
2. **Financial Management Information System (FMIS):** Introduce a modern FMIS capable of producing timely, comprehensive and reliable financial statements in line with international accounting and reporting standards (cash IPSAS, GFSM 2001). Take steps to:
   a. Create a comprehensive, centralized Treasury Single Account linked to FMIS.
   b. Approve and introduce a Chart of Accounts consistent with the IMF's manual on government financial management.
3. **MTBF**: The GoB should follow through on implementation of the MTBF through:
   a. Removal of demarcation between non-development and development budgets and gradual joint programming of capital and recurrent spending.
   b. Institutionalization of a more strategic and policy based approach in budgeting, including through further rollout of Medium Term Strategy and Business Plans.
   c. Further development of line ministry FBEs[5] to prioritize spending based on available fiscal space.
4. **Budget and budget execution transparency**:
   a. Publish a citizens' budget immediately after the budget speech.

[3] *Background Paper for the 7th Five Year Plan of the government of Bangladesh: Governance and Justice*, Hasan, M, J Rose and S Khair, December 2014.
[4] A project is currently underway in the Planning Commission with support from JICA on strengthening public investment management.
[5] Credible Forward Baseline Estimates (FBEs) are still missing in Bangladesh. FBEs are a crucial design feature of a well-functioning MTBF, as they provide a baseline for spending estimates so that fiscal space can be estimated and spending priorities made in line with the top-down budget system.

b. Enhance transparency of public finance data in user-friendly and editable formats, such as through an Open Data Portal.

5. Audit systems:

a. The GoB should make all recent audit reports public on its website in a user friendly and accessible format, as well as clearly indicate how these audits have been followed up, particularly in holding the officials involved accountable.

b. Comptroller and Auditor-General is made a truly independent body with appropriate budget discretion and authority over human resources and a separate audit cadre.

6. Enhancing integrity in procurement:

a. Further expand procurement initiatives including e-Procurement and PROMIS: e-procurement to be rolled out in more agencies (current plans expand to 4, and might increase to 8 by the end of the FYP period), and IMED to further expand the online procurement performance monitoring system (PROMIS).

7. Parliamentary oversight:

a. Develop mechanisms to ensure timely responses to recommendations from the Public Accounts Committee, and provide easily accessible and comprehensible data for the public, including a progress report from the PAC.

1.2.2 Guiding Principles of Public Financial Management Reform

8. **The guiding principles of the PFM reform strategy 2016-21 is to build upon what has been achieved and strengthen the basics considered fundamental to achieving the 7th Five Year Plan and sufficient for the required human and physical investments.** Typically the objectives of public financial management are to: (a) achieve fiscal discipline consistent with macroeconomic stability; (b) effectively allocate resources to national priorities; and (c) ensure value for money and efficient use of resources to deliver services. Over the last two decades there has been solid progress toward sound fiscal discipline, and resources at an aggregate level are predominantly allocated to stated sectoral priorities.[6] There is room for improvement, and since the reform agenda pursued over the last two decades has not delivered according to initial expectations, there is also room for more realistic ambitions. Several reforms have been initiated but are taking time to bring into effect real outcome level change. There is a strong commitment to learn from the past and to proceed with a realistic reform strategy.

9. **The guiding principles of the PFM reforms have been, and will remain country ownership and gradualism, with a stronger focus on getting the basics in place.** The preparation of this PFM reform strategy has strengthened the principle of country ownership and is the outcome of a strong collaborative and consultative approach. The strategy has been developed by a cross-institutional team from the Ministry of Finance, the Office of the Comptroller and Auditor General, the Planning Commission and the National Board of Revenue among others who contributed significant inputs during the PFM Reform Strategy 2016-21 workshop retreat in February 2016. Second, the past reforms followed a gradualist approach in two distinct phases. The first phase addressed basic technical issues such as budget classification, core financial rules and the introduction of basic information technology in budgeting and accounting

[6] See World Bank Public Expenditure Review 2015

functions. The second phase, from 2009 onwards focused on more strategic and advanced reforms such as the introduction of the medium-term budget framework (MTBF), enhanced systems through the introduction of the Integrated Budgeting and Accounting System (iBAS) strengthened debt management and macro-economic forecasting, an updated budget classification system and enhanced cash forecasting and management, and gender expenditure reporting. See Box 1-2 for a brief history of PFM reforms. Going forward, the latest PFM reform strategy will continue to build on this and focus on enhancing the quality of the fundamentals for a sound PFM system and institutionalizing the innovations of the last phase.

Box 1-2: History of PFM Reforms Over the Past Two Decades

The initial impetus for PFM reform can be dated back to 1989 and the findings and recommendations of the Committee on Reforms in Budgeting and Expenditure Control (CORBEC). The Committee, consisting of high-level representation, identified the following areas for improvement-

- Improve the budgeting, accounting and expenditure control procedures
- Introduce a new budget and accounts classification
- Establish a financial management information system.
- Enhance accountability of the Principal Accounting officers
- Streamline accounting information and control system
- Improve the management of public debt, deficits, local currency loans etc.
- Improve the links between the Revenue and Development budgets
- Establish links between budget and macro-economic policy
- Introduce modern budgeting techniques like Programme-based budgets and Budgeting for Results
- Develop professionalism in Ministry of Finance
- Improve the capacity of GoB officers in public financial management
- Improve the training facilities for the officials in accounting and auditing
- Update and modernize the manuals and codes, numbering about 60
- Automate budgeting and accounting
- Rationalize the number of budget documents

Subsequent to CORBEC two updates where undertaken by the Mubin Committee in 1998 and the Khan Committee in 2000. Despite this comprehensive starting point and the subsequent endorsements and activity to improve public financial management since then, many of these 1989 recommendations remain valid today.

Several PFM reform projects have supported the reform agenda starting with the Reforms in Budget and Expenditure Control (RIBEC) and followed by the Financial Management Reform Program (FMRP). During the implementation of FMRP, the Government adopted a PFM Reform Strategy (2007-12) to take forward the ongoing agenda of reforms and broaden its remit to embrace the entire cycle of PFM. This led to the development of a comprehensive reform program: Strengthening Public Expenditure Management Program (SPEMP) which was a multi-donor trust fund which provided grant financing for three discrete projects- the Deepening Medium Term Budgeting and Strengthening Financial Accountability project (DMTBF, also referred to as SPEMP-A), the Strengthening the Office of the Comptroller and Auditor General project (SPEMP-B) and Strengthening Parliamentary Oversight project (SPEMP-C).

1.3 Analytic Inputs to PFM Reform Strategy Development

10. **The PFM Reform Strategy 2016-21 is informed by analysis, policy notes and the 2016 Public Expenditure and Financial Accountability Assessment (PEFA 2016)**

and the background papers for the 7th Five Year Plan. The PEFA 2016 and four policy notes: (a) the PFM legal and regulatory framework, (b) the budget preparation process, (c) the development of the new Integrated Budgeting and Accounting System (IBAS++) and (d) SOE governance and performance; were commissioned in 2015 for the purposes of strategy development.[7] Other analytical inputs include the World Bank's Public Expenditure Review Update, 2015; the Public Investment Management (PIM) Roadmap, 2013, the Implementation Completion and Results Report of the Deepening Medium Term Budget Framework and Strengthening Financial Accountability Project, 2014 (referred to as "SPEMP A Project") as well as lessons learned through the ongoing projects to support the Office of the Comptroller and Auditor General, Parliament, and the National Bureau of Revenue. In addition, the PFM reform strategy draws on the 2015 IMF Fiscal Affairs Department Technical Assistance Report on Strengthening the Budget Formulation Process, and other IMF analyses. The considerable analytic foundation is referred to throughout and was also used in the process of strategy development and workshop discussions. The main conclusions of the analytical work are reflected here, and readers should refer to the full list of the analytical work, which is provided at Annex-B.

[7] The policy notes were drafted by the staff and consultants of the World Bank as technical assistance provided under the Strengthening Expenditure Management Program (SPEMP), a Multi Donor Trust Fund with contributions from the Governments of Canada, Denmark, the Netherlands, and the United Kingdom, and the European Union.

Chapter 2 Current Performance, and Lessons from PFM Reform Strategy 2007-12

2.1 Current Performance and Progress PEFA Assessment 2015/6

11. **Recent diagnostic studies indicate that although there has been a considerable investment of time and resources in implementing PFM reform strategies since 2007, progress has been mixed**.[8] There has been progress in areas of medium-term budgeting, macro-economic forecasting, debt management, fiscal transparency, improved financial information, external auditing and training of officials on PFM. However, significant deficiencies remain in the PFM system, notably in the accounting, financial management information system, and internal controls, as well as the continued fragmentation of the budget, the lack of transparency, timeliness and quality of the annual audited financial statement and follow-up to audit observations. In some areas reforms are only just starting and are yet to see results. Fundamental reforms of the tax administration and public investment management, for example, are overdue and are only just getting off the ground.

12. The 2015 draft PEFA assessment summarizes the main PFM issues as follows.

- There is a lack of *reliability* in the revenue and expenditure budgets and limited improvement in the use of reliable annual macroeconomic and fiscal forecasts.
- Improvements have been made, but insufficient oversight of *fiscal risks* is an issue for concern.
- Progress has been made to introduce a *medium-term perspective* to the budgeting system but incrementalism and the fragmented dual (revenue and development) budget issues persist.
- There is a good degree of *predictability* in funding for ministries but there are weaknesses in revenue and expenditure controls, and in *reporting and accountability* mechanisms.
- The emphasis on improving PFM processes and procedures remain at a *technical* level where there is a desire to reform and improve practices.
- There is inadequate *disclosure* of a timely annual audited financial statement.

13. **The PEFA 2016 concluded that Bangladesh has made positive strides in developing its PFM systems since 2010, however the gradual approach has not been sufficient to shift scores in many cases**.[9] In some cases reforms have not been fully implemented. For example the development of a new chart of accounts has not yet been adopted, the financial management information system is in the process of being upgraded, the introduction of electronic procurement is on a pilot basis, the establishment of internal audit committees which are not meeting regularly, and the nascent oversight of

[8] See the draft Public Expenditure and Financial Accountability (PEFA) assessment 2015, the IMF review of Budget Development, 2015 and the Implementation Completion and Results Report of the Deepening Medium Term Budget Framework and Strengthening Financial Accountability Project World Bank, 2014.

[9] The PEFA 2016 assessment was conducted by a World Bank led team during the period from May to September 2015 using the PEFA 2015 testing framework. It was subsequently updated during January-June 2016 to the full 2016 framework. A 2015 benchmark PEFA was also conducted using the framework to provide consistency with the 2010 scores.

autonomous government agencies. As a result weaknesses remain, particularly in the control environment and tax reconciliation, as well as inefficiencies resulting from the fragmentation of the recurrent and development budgets.

14. **Using comparable scoring methodologies with the 2011 framework, the PEFA 2016 found that nine out of twenty eight performance indicators had improved.** While nine performance indicators improved; fourteen4 remained the same; and five deteriorated. Predictability and control in budget execution; accounting, recording and reporting, external scrutiny, external and internal audit, and, oversight of AGAs still remain the most fundamental weaknesses in the PFM system. Particular attention also should be given to the environmental control and tax reconciliation, as well as inefficiencies resulting from the fragmentation of the recurrent and development budgets. The PEFA comparison scores are provided in Table 2-1 below.

Table 2-1: PEFA 2006, 2010 & 2015 (2011 framework) comparisons

PI	Assessment Year	2006	2010	2015
1	PI:1 Aggregate expenditure out-turn compared to original approved budget	C	B	C
2	PI:2 Composition of expenditure out-turn compared to original approved budget	C	D+	D+
3	PI:3 Aggregate revenue out-turn compared to original approved budget	C	B	D
4	PI:4 Stock and monitoring of expenditure payment arrears	D	NS	NS
5	PI:5 Classification of the budget	C	B	B
6	PI:6 Comprehensiveness of information included in budget documentation	C	B	A
7	PI:7 Extent of unreported government operations	D	B	NS
8	PI:8 Transparency of Inter-Governmental Fiscal Relations	D+	D	D+
9	PI:9 Oversight of aggregate fiscal risk from other public sector entities.	C	D+	D+
10	PI:10 Public Access to key fiscal information	C	B	B
11	PI:11 Orderliness and participation in the annual budget process	B	B	A
12	PI:12 Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	B	B+
13	PI:13 Transparency of taxpayer obligations and liabilities	D+	C	C
14	PI:14 Effectiveness of measures for taxpayer registration and tax assessment	D+	C	B
15	PI:15 Effectiveness in collection of tax payments	D+	D+	NS
16	PI:16 Predictability in the availability of funds for commitment of expenditures	C	C+	B+
17	PI:17 Recording and management of cash balances, debt and guarantees	C	C+	B
18	PI:18 Effectiveness of payroll controls	C	D+	C+
19	PI:19 Competition, value for money and controls in procurement	B	B	B
20	PI:20 Effectiveness of internal controls for non-salary expenditure	C	D+	D+
21	PI:21 Effectiveness of internal audit	D	D	D
22	PI:22 Timeliness and regularity of accounts reconciliation	C	B	D
23	PI:23 Availability of information on resources received by service delivery units	C	D	A
24	PI:24 Quality and timeliness of in-year budget reports	C	C+	C+
25	PI:25 Quality and timeliness of annual financial statements	C	D+	D+
26	PI:26 Scope, nature and follow-up of external audit	D+	D+	D+
27	PI:27 Legislative scrutiny of the annual budget law	D	D+	D+
28	PI:28 Legislative scrutiny of external audit reports	C	D+	C+

Source: PEFA 2016. For the PEFA 2016 findings summarized, see Annex C[10]

2.2 PFM Strategy 2007-12 Ambitions and Outturns

15. The three high level goals of the 2007-2012 PFM Reform Strategy were:

Goal 1: Effective budget planning and execution to:

- Maintain aggregate fiscal discipline compatible with macroeconomic stability and pro-poor growth.

[10] PEFA 2016 has 31 indicators and 94 dimensions compared to 30 indicators and 90 dimensions in the 2015 testing version. The additional PEFA 2016 indicator, PI-22: is expenditure arrears. Other refinements to the testing version indicators relate to Performance Indicators 6, 7, 8, 9, 10, 11, 13, 14, 15, 16, 19, 20, 25 and 26. The refinements range from minor simplification of dimensions to new dimensions and substantial revisions of whole indicators. Dimension calibrations have also been updated to remove negative references, and terminology has been aligned with the Government Financial Statistics (GFS) Manual 2014.

- Allocate resources consistent with the government priorities as reflected in the national plan documents
- Promote the efficient use of public resources and delivery of services through better budget execution with enhanced transparency and accountability.

Goal 2: To ensure independent, external scrutiny and reporting on budget execution

Goal 3: To promote democratic accountability in both budget planning and formulation and budget execution.

16. **The achievements and progress made towards the PFM 2007-12 goals has been disappointing, indicating the need to be realistic and aligned to current capacity.** Drawing from the reviews of the last strategy, the achievements, challenges, shortfalls, and outstanding issues are summarized in Table 2-2. It is to be noted that the achievements and progress made under the 2007 PFM strategy are mainly attributable to the sustained efforts by the champions of reform which most importantly instigated some institutional reforms like establishing budget management outfits in the line ministries with additional manpower to support the agenda of budget setting under MTBF. Coordination between Finance Division (FD) and Planning Commission (PC) is now much stronger, which is manifested in the regular attendance of PC representatives in the tripartite meetings (between FD, PC and line ministries) held for finalization of the Ministry Budget Framework (MBF) of the line ministries. While finalizing the Annual Development Program (ADP), the PC shows respect to the MTBF ceilings agreed in the tripartite meetings. Development of PFM capacity among the GOB officials through several flagship training courses conducted by the Institute of Public Finance (IPF) is another agenda which has witnessed remarkable progress. Finance Division has also demonstrated its capacity to produce its Medium Term Debt Strategy (MDTS) as part of its agenda of streamlining debt management.

17. **On the other hand, while many initiatives were introduced they were mainly piloted in a few ministries and not systematically adopted and rolled out, mostly as a result of the need for high level commitment and greater technical capacity required to do this**. This is true of the Medium Term Strategy and Business Plans for example, which were intended to be a vehicle for the line Ministries to systematically align their businesses with the national objectives and plans, and with their annual budgets and activities. It is also true for the Annual Performance Reports–intended to be a vehicle for annual performance reflection prior to the next budget submission. In both cases, the capacity and motivation to whole-heartedly adopt these reforms appears insufficient. In some cases, there was an under-appreciation of the level of complexity and time required to get to real change—for example in the case of adopting the new chart of accounts, and the development of software for a new financial management information system. In other cases, progress has been "slow and steady" for example in building capacity of the oversight agencies of the Office of the Comptroller and Auditor General and the Parliamentary Secretariat, but which has not yet been sufficient to see shifts in outcome indicators in the PEFA which remain stuck at "D".

Table 2-2: 2007-2012 PFM Reform Strategy Objectives, Achievements and Outstanding Issues

2007-12 Objectives	Achievements	Challenges and outstanding issues
1.To formulate budgets consistent with the medium-term macroeconomic framework with central agencies providing greater predictability of resources to executing agencies through MTBF	▸ A new macro-fiscal model was built and staff trained ▸ Debt management capacity was strengthened and a new debt management strategy was adopted ▸ A MTBF with three year rolling budget ceilings was rolled-out across all 59 ministries, ceilings provide reasonable indicator of future budgets.	○ The model was too complex and there were data limitations, generating a lack of trust in the forecasts. ○ Annual budgets are subject to significant in-year adjustment ○ Development of forward baseline estimates, ministry-level strategic plans not rolled out.
2.To promote closer integration between the planning, prioritization, scheduling, monitoring and reporting of public expenditure	▸ New budget institutional arrangements in Line Ministries established with representation from planning and budget departments involved in budget preparation. ▸ Public Investment Management Roadmap developed	○ Continued fragmentation of development and revenue budgets ○ Continued disconnect between strategic plans, ADP and annual budgets ○ PIM reform roadmap awaiting approval ○ Budget institutional arrangements in Line Ministries not fully functional ○ Limited monitoring and evaluation capacity
3 To strengthen the financial and performance management capacity within line ministries in order to establish greater accountability for resource use and service delivery	▸ Internal audit strategy and guidelines developed ▸ Guidelines on Annual Performance Reporting (APR) developed	○ Internal audit strategy not implemented ○ Only a few ministries prepared APRs ○ Cumbersome and duplication of information requirements to complete the APR
4. To implement iBAS++ comprehensively and continue to improve the financial management systems and accounting practices in line with international standards and to support MTBF requirements	▸ New Budget Classification and Chart of Accounts ▸ iBAS++ budget module completed and tested ▸ International cash based standards (IPSAS) and manuals prepared ▸ EFT facility developed for payments ▸ Some financial reporting issues of Self Accounting Entities addressed	○ IBAS++ not finalized and rolled out ○ Significant delays in annual financial reports, and IPSAS yet to be implemented ○ Outstanding financial reporting issues in Self Accounting entities ○ Lack of ICT medium-term strategy and weak GoB ICT capabilities
5. To adopt international standards of procurement practice to facilitate service delivery and achieve value	▸ 2008 Public Procurement Rules adopted ▸ E-procurement functioning in 4 major ministries covering 21% of procurements ▸ All bidding opportunities, and relevant legislation	○ Roll out e-procurement to remaining ministries ○ Roll out procurement monitoring system ○ Strengthen role of Central Procurement

2007-12 Objectives	Achievements	Challenges and outstanding issues
for money	and regulations publicly available ▸ Procurement monitoring system partially implemented	Technical Unit.
6.To put in place the policies, processes and skills to manage and deliver a comprehensive training and capacity development program	▸ The Institute of Public Finance (IPF) has been established ▸ Over 14,000 GoB officials trained to date using several recognized modes of capacity building	○ Assessment of impact of training to date would be important to inform further development of the training and capacity development program
7. To raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness to provide adequate assurance that the public funds are used efficiently and effectively	▸ ISSAI-compliant audits conducted in selected cases. ▸ Financial Management Academy (FIMA) signed MOU with the Chartered Institute of Public Finance and Accountancy (CIPFA) to facilitate professional training qualifications for the officers of OCAG. ▸ Twining arrangement established with the office of the Comptroller and Auditor General of India.	○ Completion and publication of audits is very significantly delayed ○ Capacity to widen the coverage of ISSAI compliant audit is limited ○ Implementation of entity-wide audit requires major institutional restructuring
8. To enhance the capacity and commitment of the relevant financial committees of Parliament and their respective secretariats	▸ Committee reports are published regularly on Parliament website ▸ An MIS-assisted business process has been rolled out	○ Institutional arrangements and capacity of staff supporting the financial oversight committees ○ Delay and backlog in PAC review of audit reports
9.To ensure that the civil society and other citizen groups influence budget formulation and budget execution	▸ User friendly Ministry of Finance website provides most core budget documents ▸ Citizen budget "Budget at a Glance" published ▸ Recent improvements in disclosing mid-year and year end budget execution reports	○ Engagement of citizens by GoB has been limited and intermittent ○ Transparency significantly undermined by lack of timely audit report

2.3 Summary of Lessons from Past Experience and Internationally

18. **Generally, the success of PFM reform depends on whether or not the changes in practices become institutionalized.** Even though the improvement of PFM processes does not necessarily lead to improved PFM outcomes, and particularly not in the short-run, the fact that the PFM reform agenda in Bangladesh has not thus far delivered on the ambitions of its architects is a result of many factors, many of which are consistent with experiences internationally notably: (a) the challenge of implementing complex reforms with a limited human capacity—and in starting new generations of reform initiatives before putting some fundamental basics in place; (b) the overall environment for reforms has been benign, but has not propelled reforms (no real fiscal crises or windfall gains, no major political or institutional reforms) and entrenched civil service management issues remain un-tackled; and (c) the nature of entrenched incrementalism in budgets and thereby the difficulty in getting any real change.

19. **This section draws the lessons from 2007-12 PFM reform strategy implementation, and from international experience.** In particular, it focuses on the reform initiatives that did not progress well, the reasons for this and the implications for the development and implementation of the 2016-2021 PFM reform strategy. It also summarizes the lessons from the international experience and recent literature regarding PFM reform.

2.3.1 Past Experience in Bangladesh

20. **There are three general take away lessons from the implementation of the 2007-12 PFM reform strategy that would argue for greater focus and doing fewer things but enhancing comprehensiveness in this strategy.** The lessons indicate that: (a) moving across many fronts simultaneously is inevitably slow-going in the Bangladesh environment; (b) the lack of focus on few priorities has left some of the more fundamental PFM reforms "incomplete"; and (c) the technical commitment to reform in certain units and departments in agencies may be necessary but is not likely to be sufficient for comprehensive reforms to be rolled out across all agencies.

21. **Several limitations in the pre-2007 reforms were observed during the preparation of the 2007-12 strategy. They are still valid today showing how entrenched are the challenges.** The "lessons learned" back in 2007 are summarized in Box 2.1, this implies that learning lessons from the past is one thing, but being able to effectively overcome challenges remains difficult. The 2016-21 strategy is therefore intended to focus on tangible and feasible technical solutions but at the same time address the environment for reform insofar as this can be done through the PFM strategy. Fundamentally the institutional structure within the government has not changed. The demand for, and leadership of, PFM reforms has remained focused on relatively few people and receives relatively little attention from the political or public interest. The broader public administration environment has also not changed, which significantly constrains the ability to train to and incentivize improved PFM practices. The Annual Development Programme continues to be non-aligned with the MTBF process, even though the 2007-12 reform program established new budget management institutions to strengthen the integration. These new budget management institutions are not well-

resourced and although the Secretaries of line ministries join the tripartite meetings organized and chaired by Finance Division to discuss the Ministry Budget Frameworks (MBFs) held once in a year, their deeper engagement in budget management tasks is still an issue.

22. **The political interest in PFM reforms to mobilize taxes has grown over in recent years.** The new PFM reform strategy is keen to reflect the issues that have strong political commitment which has been evidenced in the references to the need for additional tax resources to finance the national development objectives and to develop the country for middle income country status. A much stronger pillar for tax mobilization appears in the PFM reform strategy 2016-21 as a result.

23. **Building a public discourse and promoting fiscal transparency will need to continue.** This will continue to be important and the strategy for ensuring good quality and timely information is available to the public is part of the solution to developing a stronger demand for, and interest in, the PFM reforms. Yet more will need to be done on the demand side to make sure that there are informed users for the citizen budget and fiscal information disclosed.

Box 2-1: Lessons Learned at the time of the 2007-12 Strategy

The 2007-12 PFM Reform Strategy reflected the following lessons from earlier:

- Reforms were process-oriented, and institutional restructuring and change management were not explicit objectives.
- Changes were incremental, seeking to achieve outputs rather than improved outcomes and impact.
- Implementation was 'low key' in the sense of not being dependent on key policy decisions and actions of other parts of government and intentionally being non-threatening to the status quo.
- The approach was largely 'supply' driven with the emphasis on process improvements which might provide the basis for more fundamental reforms in the longer term.

The 2007-12 PFM Reform Strategy noted a lack of structured and regular communication of the reform objectives (within and outside government) and the absence of much-needed reform activities in complementary areas such as civil service reform. Previous attempts to broaden and open the PFM reform program to a wider constituency in government had not met with success. Engagement at the political level had been limited with the Ministry of Finance; the Cabinet, Parliament, and civil society had been very limited.

The Strategy also noted:

- The reform program had been heavily dependent on the initiatives and efforts of a few key people in the Ministry with substantial technical assistance support. Informal systems of influence and communication had prevailed. Momentum, once established, was fragile.
- By operating in a wider reform 'vacuum', the program had suffered serious constraints through the working of the cadre system, the policy of staff rotation and the continuing non-alignment of the Annual Development Programme with the MTBF process at the national level.
- Failure to involve wider citizen participation in reform had insulated vested interests internal to government from public scrutiny.

In the next 2016-21 PFM Reform Strategy a different approach will be followed:

- Creating a successful and sustainable public financial management reform based on the technical solutions, on the implementation of complementary and reinforcing reform initiatives, and institutional change.

- Involving a wider number of national actors, including broader social scrutiny of public finances. This will be necessary in order to ensure that reforms become transformational and new practices are embedded as routine ways of working.
- Supporting the reform strategy through few large projects, as the SPEMP A project proved to be difficult to manage;
- Setting up of formal projects, and compliance with development partner financial and procurement procedures takes time and training investments;
- Intensifying the interest in the PFM reform agenda by the line ministry stakeholders is lacking, and capacity and incentives to comply with PFM reforms.
- Ensuring that sector-specific financing is sourced from the development community;
- Increasing the capacity to implement new ideas, and set up a list of clear priorities;
- Creating new and effective institutional reforms e.g. budget integration and improve fast decision-making
- Limiting the changes of international advisers within public institutions; and
- Increasing capacity building and the number of trainings.

24. **The previous PFM strategy was well funded, and lack of resources was not a limiting factor.** It was supported by a Multi-Donor Trust Fund with financial contributions from the governments of Canada, Denmark, the Netherlands and the United Kingdom as well as the European Union. A combined commitment of approximately US$ 110 million in grant resources was made available under this umbrella trust fund. The activities in the last strategy were grouped together under three main government projects to be led by the Finance Division, the Office of the Comptroller and Auditor General and the Parliamentary Secretariat. The resources available were more than sufficient, and as of 2016 there was still several million dollars undisbursed.

25. **The lessons from the independent post-review of the Deepening Medium Term Budget and Financial Accountability Project (DMTBF), which was the single largest project ($52.5 million) under the 2007-2012 Strategy confirm wide scope was in fact part of the problem, but additional factors prevailed too.** The post review of the project identified a number of relevant issues including: (a) inadequate preparation and lack of a consensus or final decision on key issues, particularly the development of the new financial management information system IBAS++ (b) the project was complex, with many components (reflecting inadequate prioritization and sequencing); (c) contracting a single firm to deliver on such a complex PFM reform agenda proved problematic; (d) the inclusion of the Public Investment Management component in the project failed to gain support from the Planning Commission, and this later became a separate project with inadequate links back to the budget process; (e) inadequate attention was given to the need for PFM reform communications and discussions especially with line ministries and other stakeholders on the objectives and need for PFM reforms; (f) weak monitoring and evaluation framework; and (g) there were few champions and limited political support to drive the agenda. The post review concluded the following:

> *"A key to successful PFM reform, therefore, lies in obtaining top level political support, which requires the political level to understand the nature of PFM and how reform can contribute to political objectives such as better public service with greater transparency. The 2007 PFM Reform Strategy notes the need to establish broader ownership by Government of any PFM reform process and the need to include "demand side" reforms (involving parliament and civil society, at*

least using in part the reports of the CAG) to improve the "demand" side of PFM reform. However, it does not appear that this has been the case. The 2007 Strategy also emphasized the need to involve line ministries more extensively in the reform program. Good PFM reform should have benefits for line ministries in terms of greater predictability of resource, increased autonomy and flexibility in managing resources and an ability to achieve results. Again, this does not appear to have happened thus far."[11]

26. **The post review of the SPEMP A project reinforces the finding that many of the limitations in the PFM reform processes remain to be tackled, particularly with regard to political support and involvement of line ministries and other stakeholders.** These limitations have to be acknowledged and addressed in the development and implementation of the 2016-2021 PFM Reform Strategy if the pace of implementation is going to increase or the impact of the initiatives is to be felt.

27. **Learning from "what works and what doesn't" is an on-going process and will require the PFM strategy 2016-21 to be flexible to scale up initiatives that are working and stop initiatives that are not.** Understanding the technical and institutional limitations is a good starting point, but this also needs to continue to be monitored during implementation. The 2007-2012 PFM Reform Strategy also reflected on and discussed the lessons learned that were summarized above in Box 2.1 during implementation, but that was not a sufficient step for a successful change. Although the lessons from earlier reform efforts were acknowledged there was insufficient attention to managing the challenges on the one hand, and limiting the ambition on the other. The 2016-21 Strategy needs to be monitored during implementation, with stronger oversight and governance arrangements in place, the closer monitoring of successes and failures can provide the policy makers with information that will allow for necessary course correction. Flexibility will be required in order to allow for these course corrections. Fundamentally, the strategy needs to reflect the interests of the policy-makers and the capacity of the implementers.

2.3.2 International Lessons

28. **Learning from international experience indicates that PFM reforms are typically an on-going process, take several years to implement and in many senses are never "done".** In this sense, the Bangladesh experience is fairly typical. Where success has been achieved internationally however, it can provide valuable lessons for the current strategy. International lessons are outlined in Box 2.2.

[11] World Bank. 2015. *Bangladesh - Deepening Medium Term Budget Framework (MTBF) and Strengthening Financial Accountability Project*. Washington, DC. http://documents.worldbank.org/curated/en/2015/03/24384888/bangladesh-deepening-medium-term-budget-framework-mtbf-strengthening-financial-accountability-project.

Box 2.2: Lessons from International Experience

Analytical work and literature assessing international PFM reform experience point to a number of key lessons. These reinforce those drawn from Bangladesh's own experience and provide some additional insights that are informing the development of the 2016-2021 PFM Reform Strategy. Notable contributors to the cross-country analyses include Allen[12], Andrews[13], Schick[14], Dener [15] and Brumby.[16]

<u>Political commitment, leadership and ownership</u>

- Political commitment and country ownership of the PFM reforms are critical (Dener). While the technical design and implementation of PFM reform are important, the political and institutional factors generally matter more. These factors include the willingness and incentives of the leadership to take actions that are likely to increase transparency and reduce political discretion (Allen).
- The finance minister is a critical leader of PFM reforms, but this is often not enough on its own. Support is also typically needed from the broader political leadership (for example the Prime Minister and Cabinet) if the reforms are to be successfully implemented (Allen).

<u>Results orientation and adaptation</u>

- PFM reform needs to be driven by the priority development results of government, rather than an externally generated model of best practice PFM solutions (Andrews).
- Clear understanding and acceptance of how the PFM reform can help achieve better outcomes is key to building broad-based country ownership (Brumby).
- An alternative approach to "packaged best practice solutions" is to focus on specific objectives or problems that the government is seeking to address. It also involves creating an authorizing environment for decision-making that allows for experimentation and learning to identify relevant, home-grown solutions, and engaging board sets of agents to ensure reforms are viable. This has become known as "problem-driven iterative adaptation" (Andrews).

<u>Institutional issues</u>

- Champions at the higher levels are needed to create the space, articulate and promote reform. In addition, champions are needed at all levels to spearhead the implementation at those levels (Andrews). The involvement of line ministries is an important component of this, as the objectives of many PFM reforms cannot be achieved without their buy-in and support.
- PFM reform requires changes not only to systems, but also to behaviors and practices of the stakeholders involved (ministry civil servants, front-line service providers, political leaders and others). For this reason, effective management of the process of change throughout the design and implementation of the reforms, and involving the wide range of stakeholders is very important (Allen).
- Communication of the expected outputs and benefits, the process and the progress is a key component of effective change management. Linkage to civil service management and

[12] Allen R, Challenges of Reforming Budgetary Institutions in Developing Countries (Chapter 14 of Public Financial Management and Its Emerging Architecture; Cangiano, Curristine and Lazare (Eds), International Monetary Fund 2012
[13] Andrews M, The Limits of Institutional Reform in Development; Changing Rules for Realistic Solutions, Cambridge University Press 2013
[14] Schick A, Basics First is Best Practice, IMF Public Financial Management Blog http://blog-pfm.imf.org
[15] Financial Management Information Systems, 25 Years Of World Bank Experience On What Works And What Doesn't, Eds. Dener C, Watkins JA and Dorotinsky WL. World Bank 2011
[16] Beyond the Annual Budget, Global Experiences with Medium-Term Expenditure Frameworks, Eds. Brumby J, World Bank 2013

incentives is typically required to accommodate new roles and organizational structures. Further discussion on change management lessons is provided in Chapter 5.

- A sound governance and management structure for the PFM reform program is a key factor, to adequately address high level decision-making and authorization, effective coordination across government, technical leadership, and support arrangements.

Technical issues

- The sequence of reforms is an important consideration. This includes the need to first "get the basics right" before moving to more complex PFM reforms (Schick). In the case of medium term expenditure frameworks (MTEF), for example, the international experience indicates that multi-year fiscal projections should precede multi-year budgets, and that a robust and well-functioning annual budget system will facilitate MTEF adoption (Brumby).
- Capacity is a key factor in the design of PFM reforms. For example, Financial Management Information Systems (FMIS) reforms are complex and require focus on building the capacity of institutions, systems and public servants to implement the reforms (Dener). Capacity should also factor into the setting of PFM reform objectives; MTEF implementation in lower capacity environments requires selectivity regarding the outcomes sought and elements of reform that are adopted (Brumby). More broadly, the PFM system contains a wider range of different components, and there is a danger that PFM reform plans become overloaded with hundreds of activities and actions (Allen).

Chapter 3 Design of PFM Reform Strategy 2016-2021

3.1 Rationale and Approach

29. **The rationale for the new PFM reform strategy, is to put in place a PFM system that is supportive of the 7th Five Year Plan goals and which is appropriately prioritized to the main areas of PFM weakness yet consistent with the Government's capacity and commitment to address them.** The achievement of the 7th Plan objectives requires improvements in a range of PFM areas working through three major themes, shown in Table 3-1.

Table 3-1: 7th Five Year Plan Requirements and Implications for PFM Reform

7th Five Year Plan Requirements	Key Implications for PFM Reform
Macro-fiscal Performance	
Domestic resource mobilization to increase revenues by 5% of GDP, in order to fund increased public investments and priority current expenditures	Introduce tax and non-tax reforms (policy and administration) to augment revenues
Enhance public expenditure efficiency to allow reprioritization and deliver more with resources available	Improve management of public investments Ensure stronger budgeting and planning linkages
Maintain prudent debt management	Adopt and enforce medium-term debt strategy
Sectoral Programs	
Enhance programs for growth and citizen empowerment	Develop medium term sector strategies, Sector Strategy Papers, consistent with the national priorities Ensure channeling of resources to the frontline service delivery units
Ensure the quality of financial management in the line ministries	Ensure balance between capital spending and operations and maintenance Strengthen budget execution including cash management, procurement planning, and internal audit Ensure quick disposal of audit recommendations both internal and external
Institutions and Governance	
Strengthen PFM systems	Introduce a financial management information system with the functionalities required to meet the current and future requirements Strengthen treasury and cash management Build and sustain government employee data base Build a centrally managed database for the physical assets of the government

	Expand e-procurement and monitoring
Strengthen broader public sector management	Create change agents in the civil service to effect reforms Improve PFM in local government Enhance SOE oversight
Strengthen Public Service Oversight	Strengthen audit and legislative oversight Facilitate citizen oversight Publish citizen's budget Put in place Open Data Portal Full disclosure of C&AG audit reports presented before Parliament including the audited Annual Finance Accounts and Annual Appropriation Accounts Make presentation of Annual Reports of all SOEs before the House compulsory

30. **Since the adoption of 2007 PFM Reform Strategy, the policy regime and business processes of the PFM system have undergone some changes.** These include the enhanced penetration of information technologies as part of the policy of widespread digitization to replace manual processes, the development of a new budget classification consistent with international standards, the introduction of performance management orientation across the government ministries/divisions and agencies through annual performance agreements (APA) signed with the Cabinet Division, and new more integrated institutional arrangements for budget management. These together necessitate the adoption of a new PFM Reform strategy with renewed focus to address existing and emerging challenges and issues.

31. **The strategy is therefore intended to be: (a) more focused and sequenced; and (b) grounded in a realistic assessment of buy-in, champions and capacity.** The strategy also incorporates a change management strategy to support change in the behaviors and practices of thousands of civil servants; and identifies and manages risks to successful implementation.

32. **The process for developing the strategy has been collaborative, led by the Ministry of Finance and encompassing the Office of the Comptroller and Auditor General, the National Board of Revenue, the Planning Commission, Bangladesh Bank, Central Procurement Technical Unit among others**. The 2016-21 PFM reform strategy has been developed through assessments of needs for further reforms in all critical areas and drawn up as a sequenced and prioritized reform program under different time horizons: "short" the next two fiscal years and "medium" the following three fiscal years. This was done on the basis of stakeholders' response, capacity and their readiness to adopt the agenda for change. Furthermore, political-economy issues will be duly factored in to make sure that the agenda gains visibility and political support during implementation and that the institutions required to achieve the results are committed to doing so.

33. **Drawing on the lessons from the 2007-12 PFM Reform Strategy, the GoB has adopted a process to the development of the 2016-21 PFM Reform Strategy that has involved a greater level of consultation and involvement across the government including with senior Government officials**. Several rounds of discussions took place

involving representatives from key central agencies and sectoral ministries. From these consultations, together with analyses noted in Paragraph 1.2 and the requirements of the 7th Plan, a matrix of goals, objectives and actions was developed and refined (the goals and objectives are shown in Table 3.2). The matrix was a key input to the high level GoB PFM Reform Strategy Workshop held on 12-13 February 2016. The Honorable Minister of Finance was the chief guest; and others included the Hon. Minister State for Finance and Planning, Senior Secretary Finance, Senior Secretary Economic Relations Division, Senior Secretary Education, Chairman of the National Board of Revenue (NBR), Comptroller and Auditor General, and other senior representatives from Ministry of Planning, Ministry of Finance, NBR, Office of the Comptroller and Auditor General and key line agencies. The Workshop agreed a set of PFM Reform Priority Actions to deliver the reform objectives, and established cross-GoB working groups in order to further develop the matrix, and the plans to implement the Priority Actions. Consequently, the ownership of the strategy is significantly broader than that for the 2007-12 PFM Reform Strategy.

34. Following the February Workshop 5 thematic groups were formed who subsequently met to elaborate the details of the PFM reform workshop. Through the months of March and April 2016 the five thematic groups provided additional inputs to build upon the priority actions and developed the goals, objectives and priority actions discussed in the next Chapter.

Chapter 4 Goals, Objectives and Actions for the Strategy 2016-2021

35. **This chapter identifies the goals, objectives and priority actions agreed at the GoB PFM Reform Strategy Workshop, 12-13 February 2016 and further elaborated by the working groups.** It also provides a discussion of the full set of actions over the five year strategy.

4.1 Goals, Objectives and Priority Actions

36. **The GoB PFM Reform Strategy Workshop identified the critical requirements for the Strategy 2016-2012, in order to support delivery of the 7th Five Year Plan.** The critical requirements are:

- Raise revenue, especially through the new VAT law
- Implement a new financial management information system (IBAS++) based on the new chart of accounts
- Implement reforms to strengthen public investment management and planning-budgeting linkages
- Strengthen PFM skills and staff retention
- Improve the timeliness of publication of audited financial statements
- Roll out e-procurement across government

37. **The goals, objectives and priority actions were also elaborated by the PFM Reform Strategy Workshop, in order to achieve the critical requirements.** The Priority Action PFM Reform Matrix emerging from the Workshop and refined through the subsequent working groups is provided in Table 4-1.

4.2. Overview of Objectives

38. **In the remainder of this chapter, each of the objectives is explained in detail; this includes an assessment of the current performance and challenges, the reforms previously undertaken and underway to achieve the objective, and the full set of actions to be undertaken to achieve the objective under the 2016 strategy during the short term 2016-18 and medium term 2018-2021**. This section identifies the priority actions within each objective, most of which are to be undertaken in the short term. Consistent with the consultations and the findings of the cross-GoB working groups, this chapter further expands on the full PFM Reform Matrix which is the key outcome of the GoB PFM Reform Strategy Workshop 12-13 February 2016, and which is to be found in the Annex A.

Table 4-1: PFM Reform Goals, Objectives and Priority Actions for the PFM Reform Strategy 2016-21

Objectives	**Priority Actions**
Goal 1: Maintain aggregate fiscal discipline compatible with macro-economic stability and pro-poor growth	
1.1: Enhance tax revenues to create fiscal space for key public investments and priority social expenditure.	• Launch the VAT law July 2016 • Ensure harmonization and taxpayer data sharing across the NBR • Review and refine new direct tax law (Medium Term)
1.2: Improve the role of the macro model to determine resource parameters and maintain fiscal discipline	• Strengthen and operationalize the macroeconomic model and database • Build capacity and produce fiscal risk matrix for presentation to Coordination Council
1.3: Improve the management of fiscal risks, debt and cash to maintain fiscal discipline	• Develop new harmonized financial reporting framework and formats for SOEs • Prepare SOE law and regulations manual and consider developing comprehensive legal framework • Develop an operational strategy based on the medium term debt strategy
Goal 2: Allocate resources consistent with Government priorities as reflected in National Plan	
2.1 Improve the link between the budget and government policies and priorities	• Strengthen policy to budget links: • Adopt forward baseline estimates and determine fiscal space for reorienting expenditures to priorities in few ministries • Harmonize budget timetables for the development and revenue budgets by having a joint Planning Commission-Finance Division budget circular • Capture recurrent cost implications of projects in project appraisal and the budget
2.2 Strengthen the management of public investments	• Review the stock of development projects and IMED's list of low-performing projects and take actions • Establish PIM Unit in Programming Division • Strengthen project design, appraisal and approval processes to ensure high quality, affordable projects • Introduce multi-year PIP and roll out sector strategy papers
2.3 Strengthen the financial and performance management capacity within line ministries	• Ensure that APAs are aligned based on the Sector Strategies, MTSBP, National Plan and Sustainable Development Goals • Training and retention of PFM staff for PFM functions (in central and line ministries) • Integrate and strengthen the planning and budgeting wings in all line ministries
2.4 Strengthen PFM capacity of local government	• Conduct an assessment of local government PFM systems and identify the areas for strengthening and reform
Goal 3: Promote the efficient use of public resources and delivery of services through better budget execution	
3.1 Improve business processes,strengthen internal controls for service delivery	• Roll-out commitment control for improved cash and budgetary management

3.2 Adopt International Standards of Procurement Practice	• Expand e-GP to all ministries/ agencies • Further roll out of the procurement monitoring system
3.3 Improve accounting and reporting to international standards	• Improve the timeliness of in-year management reports and completion of the annual finance accounts and its presentation and contents
3.4 Modernize internal audit	• Undertake a detailed study on internal audit options
Goal 4: Promote accountability through external scrutiny and transparency of the budget	
4.1 Raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness to provide adequate assurance that the public funds are used efficiently & effectively	• Improve timeliness and public availability of audited financial statements (Appropriation Accounts and Finance Accounts) • Enhance training and professional capacity to conduct more ISSAI-compliant audit, and roll out ISSAI compliant audits • Organizational restructuring of OCAG • Upgrade and sustain IT infrastructure • Strengthen LM responses and audit committees • Strengthen capacity for OCAG support to PAC
4.2 Enhance the capacity and commitment of the relevant financial committees of Parliament and their respective secretariats	• Adopt mechanisms to ensure timely responses to PAC recommendations, and provide easily accessible and comprehendible data for the public • Strengthen capacity of staff and technical support to committees
4.3 Enable civil society, and other citizen groups to engage on budget formulation, budget execution and oversight	• Publish all recent audit reports in user friendly and accessible format • Publish Budget Booklet immediately after budget speech • Public finance portal
Goal 5: Enhance the enabling environment for improved PFM outcomes	
5.1 Put in place a comprehensive and clear legal framework	• Appoint a Commission to review and update the PFM legal and regulatory framework with a 1 year tenure.
5.2 Put in place the policies, processes and skills to manage and deliver a comprehensive training and capacity development program	• PFM skills strategy, including a needs assessment, and prepare action plan in consultation with relevant stakeholders • Commit funds for professionalization of PFM skills • IPF needs a strategic plan, a financing strategy and a roll out of the existing training programs. • Creating a pool of officers trained in PFM and assigning them to PFM related work
5.3 Leverage iBAS++/BACS, e-procurement as enablers to improve PFM	• Adopt and implement plan for full implementation of iBAS ++ to all ministries/divisions, directorates, DDOs up to Upazila level and SAEs • Integrate the employee and pension databases with IBAS++ , ensure timely payment of beneficiaries
5.4: Implement BACS covering the whole of general government	• Adopt and implement the new budget and accounts code
5.3 Develop organizational change agility	• Develop a change management plan

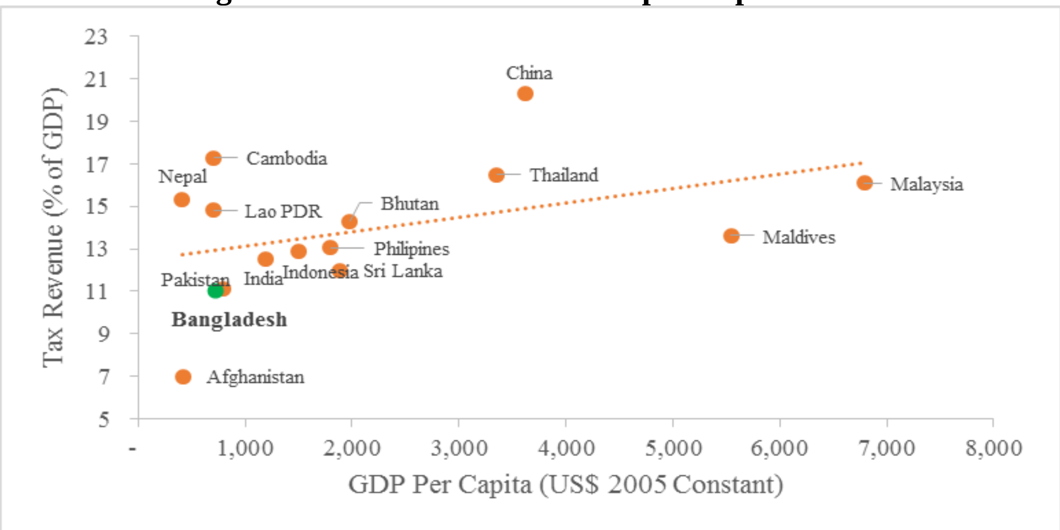
Goal 1: Maintain Aggregate Fiscal Discipline Compatible With Macroeconomic Stability And Pro-Poor Growth.

Objective 1.1: Enhance Tax Revenues to Create Fiscal Space

Augment Revenues through Comprehensive Tax Modernization.

39. *Current performance and challenges*: Tax revenue has been on average 8.76 percent of GDP in the last five years, which is low compared to other countries in South Asia (see Figure 1 below). Income tax covers both individuals and corporates and comprises some 30 percent of total tax revenue and Value Added Tax (VAT) around 35 percent, with the balance being customs and other tax revenues. Although the economy has been growing above the 6 percent in the last 10 years, revenue collection has been lagging behind mainly because tax policy and administration limitations. The recent country's economic performance evidences a significant tax revenue potential. The government finds 'the revenue gap defined by the difference between revenue collected and potential revenue is one of the highest in the world.'[17] A recent diagnostic about the domestic Revenue Mobilization is summarized in Table 4-2 for the 2015 PEFA report. The tax system is characterized by several rates, narrow tax base, weak enforcement capabilities, and challenges to promote voluntary compliance. In fact, revenue targets of the 6th Five-Year plan felt short in at least 2 percentage points in terms of GDP (see Figure 4-1). In order to revert this trend, the 7th Five Year Plan revenue targets are an increase in revenue to GDP from 13 percent to 16.5 percent (see 2). While this includes non-tax revenues, in fact 80 percent of total government revenue is tax revenue collected by the National Board of Revenue (NBR).

Figure 4-1. Tax Revenue to GDP per Capita - Asia



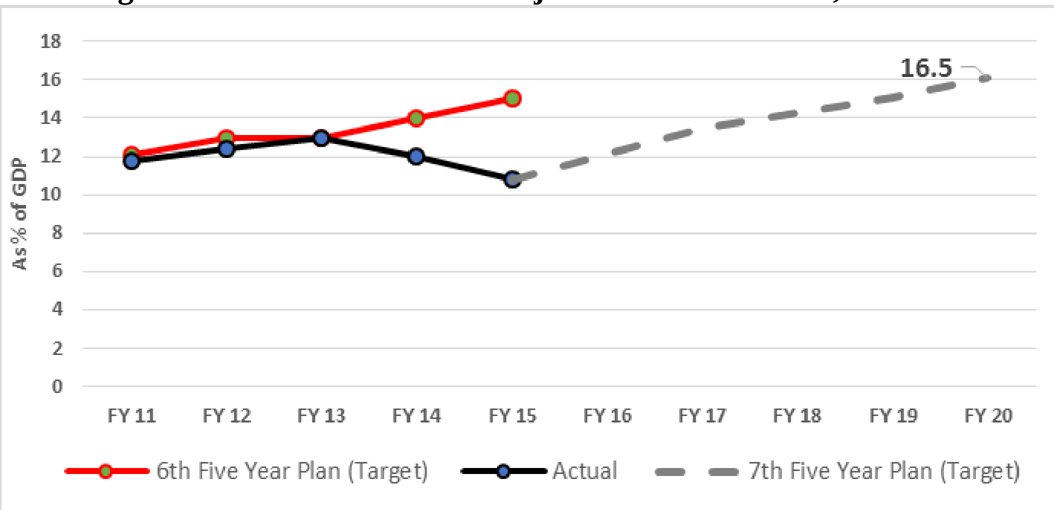
Source: World Economic Outlook, IMF

[17]Macroeconomic Wing, Finance Division (2015). Medium Term Macroeconomic Policy Statement (2015-16 to 2017-18). Government Printing Press. Dhaka

Table 4-2: PEFA 2016 Assessment of Revenue Raising Functions

Dimensions	PEFA Assessment
i) Information to individuals and enterprises about their obligations and rights concerning payments to the government.	Recently a consolidated website for the three wings of the NBR (Income Tax, Customs and VAT) detailing legislation, tax liabilities and rights of redress was established. Nevertheless, there is anecdotal evidence about the lack of consistency and common interpretation of laws and regulations especially during tax audits.
ii) Management of risks to revenue	Audit for returns under Universal Self-Assessment System is conducted on the basis of the guidelines issued in Bangla by NBR Secretariat. In addition, the guidelines also set out a number of criteria against which the returns should be brought under audit interventions. In other cases e.g. customs and non-self-assessment, there is little capacity to carry out risk assessment. Often audits are carried out on the recommendation of field officers. Therefore over 50% of NBR's risk assessment is limited in scope.
iii) Audit and fraud investigation practices (including penalties) to achieve planned outputs in terms of coverage and additional revenue	As the automation of NBR operations are limited, the collection and analysis of data for risk management purposes is limited as well. In addition, no systematic audit annual plan is produced and staff skills are limited in knowledge and number. Therefore, no significant additional revenue results from audits.
iv) Management of revenue arrears	The Annual Report of NBR for FY 2012-13 indicates that tax arrears stood at BDT 72.68 billion and collection of BDT 9.91 billion. However, the practice of field offices submitting arrears figures on a regular basis has not been maintained and these figures are likely to be an underestimate of actual arrears.

Figure 4-2: Tax-GDP Ratios Projections and Outturns, FY11-20



Source: Revenue Mobilization Background Paper to the 7th Five Year Plan

40. *Reforms undertaken and underway*: The Government adopted a comprehensive Modernization Plan (2011-16) in 2011 which was presented to Parliament in 2012. The

Plan identifies strategic reform including legal and structural reforms, administrative reorganization, and an automation. Since 2012 a high point has been the adoption of the new VAT Law which is due to come into effect in July 2016. The Law implementation will come along with a modernization and automation of the VAT Wing. This process will complement the undergoing automation of the Customs Wing and Income Tax Wing. Nevertheless, the automation efforts are not integrated which is expected to happen as systems are rolled out and demand for integrated information increase.

Table 4-3: Reform Actions for Priority Objective 1.1 to Augment Revenue

	Reform Actions including Priorities in Bold
Intermediate-Short term	• **Launch the new VAT Law July 2017.** o Introduce registration return from July 2017. o Introduce filing of online tax return from August 2017 • **Ensure harmonization and taxpayer data sharing across the NBR** • **Reorganize the VAT Wing along functional lines** • **Review and refine new direct tax law** • **Adopt new Direct Tax Code** • Introduce filing of online tax return from Jul 2016 • Introduce registration and filing of online VAT return from July 2016. • Launch on-line payment system for VAT, Income Tax and Customs together an interface with iBAS++ • Build taxpayer awareness on new VAT system (IVAS) to promote more voluntary compliance • Carry out systemic risk assessment in VAT, Customs and Income Tax Wings before planning audit and establish systematic approach to risk management and risk-based audit. Also automate the process of selection of audit • Strengthen capacity to carry out risk assessment across NBR • Introduce new arrangements (legal, institutional, procedural and others) for strengthening withholding of VAT and income tax. • Strengthen the capacity of intelligence, the research and statistics, and the budget outfits • Build capacity to estimate tax expenditure • Ensure effective coordination with Securities and Exchange Commission, Registrar of Joint Stock Companies and Firms, Institute of Chartered Accountants of Bangladesh (ICAB) and other relevant agencies
Medium Term	• Integrate and expand tax base automated systems • Reorganize Income Tax Wing on functional lines • Develop tax expenditures statements to be annexed to the budget • LTUs of income tax and VAT integrated • Ensure automation for full disclosure of arrears with their aging.

41. What has not been implemented is a reorganization of the entire NBR moving from a tax type into a functional organization though a reorganization of the VAT Wing along functional lines is planned. A new direct tax code has been drafted but progress for adoption has been slow with various commentators on the initial draft suggesting an overhaul. Additional, reforms in tax administration have included wider automation including linking taxpayer identification numbers with national ID, e-filing of income tax returns and an electronic system for Customs administration using ASYCUDA World.

As the new VAT Law is implemented, new operating procedures for major tax functions will be operational (i.e. registration, tax returns, payments, and refunds). It is expected taxpayers will interact with the NBR mainly through the system. This will facilitate the payment of VAT obligations, enhance the tax base, bring additional revenue, and make NBR more transparent and accountable. The automation of the procedures will also imply a reorganization of the NBR VAT Wing initially through new roles for the main office as well as local offices.

42. The actions to be taken under PFM Reforms 2016-21: The overall domestic revenue mobilization objective is a priority for the PFM reforms. There will be 3 priority actions to be taken in the short term: (a) launch of the VAT Act, 2012 from July 2017; (b) reorganization of the VAT wing, and automation of business processes; and (c) adoption of a new direct tax code. The cross-GoB working group identified reform actions that would be required to enhance tax revenues that will create fiscal space for key public investments and priority social expenditure. The main objective of the new VAT Law implementation is to simplify the tax system and therefore increase revenue collection through more voluntary compliance. The VAT Law application will demand the automation of core tax functions and the reorganization of the VAT Wing in line with those functions. As the system is rolled out, the VAT Wing will be in a better position to exchange information with other agencies driving the tax base enhancement. The tax system simplification will be streamlined by the new direct tax code in order to protect the fairness of the system through improved progressivity.

Objective 1.2: Improve the Role of The Macro Model To Determine Resource Parameters And Maintain Fiscal Discipline

Improve the Macroeconomic Forecasting

43. *Current performance and challenges*: Although the macroeconomic management of the country evidences good results in terms of fiscal discipline, public debt, and expenditures controls, the macroeconomic model that has been developed is not playing a strong role in the budget preparation, including the MTBF. The 2015 PEFA report notes that macroeconomic forecasting informs the top-down elements of the budget process and the government prepares and uses macroeconomic projections in the preparation of the annual budget covering GDP growth, inflation, expenditure, budget deficit, revenue and other key indicators, which include risks to debt, but not to revenue and expenditure. This is undertaken for the upcoming fiscal year and two year projections, and is presented in an accessible manner in the Medium Term Macroeconomic Policy Statement (MTMPS) which accompanies the budget. However, the projections are not fully derived from the macroeconomic model, and instead forecasts include a strong element of "targeting" rather than realistic projections. Projections do not include different macro-forecast scenarios.[18] Risk to revenue and expenditure is discussed qualitatively in the MTMPS, but quantitative analyses are not prepared.

44. The GoB has been successfully maintaining the fiscal deficit below the 5 percent of GDP in the last five years. However, there have been significant shortfalls in both expenditure and revenue compared to the budget levels, indicating that the forecasts may not be fully dependable or adequately reflected in the budget. During 2012-2014 the

[18]See Medium Term Macroeconomic Policy Statement for 2015-18

shortfalls were: (i) weak tax collection due to a decline of import prices and underperforming activities; (ii) reduced nominal revenue collection growth compared to the nominal GDP growth reflecting issues in tax policy as well as in tax administration; (iii) declined nontax revenue as dividends from SOEs decreased; and (iv) reduced subsidies and under execution of capital expenditures.

45. *Reforms undertaken and underway*: The Finance Division has been developing a strengthened macroeconomic model and database to improve the forecasts that inform the preparation of the budget and medium term expenditure framework. The main focus is to complete the database as the model functionalities full exploitation depends on the quality and coverage of the data.

46. *The actions to be taken under PFM Reforms 2016-21:* There are three priority actions. First, as the macro model has the required functionalities to exploit data, the FD needs to focus on the finalization of the macroeconomic data. Second, the need to streamline the FD institutional capabilities to develop different fiscal scenarios under different assumptions of critical macro variables including the definition of risks associated to revenues and expenditures. Third, produce a fiscal risk matrix in the medium term to monitor and evaluate the revenue performance against revenue targets systematically in order to ensure credibility and consistency of the forecasting exercise.(See Table 4-4 **:**)

Table 4-4 : Reform Actions to Improve Objective 1.2 Macro-Economic Forecasting

	Reform Actions including Priority Actions in Bold
Intermediate-Short term	• **Strengthen and operationalize the macroeconomic model and database** • **Finalize the macroeconomic database and process for regular collection of historic data.** • Build capacity to use the model to develop fiscal scenarios including the quantification of risks to revenue and expenditure • Build capacity to maintain and use the macroeconomic model • Improve the quality of MTMPS • Improve the contents of monthly fiscal reporting. • Develop scenarios for optimistic and risky outlooks along with the base case, to drive any mid-term budgetary revisions as required. • Retain trained technical staff during the next 5 years to sustain capacity.
Medium Term	• **Produce fiscal risk matrix for presentation to Coordination Council** • Monitor performance of the FD in terms of aggregate revenue and expenditure forecast and outturn; and ensure credibility of forecasting

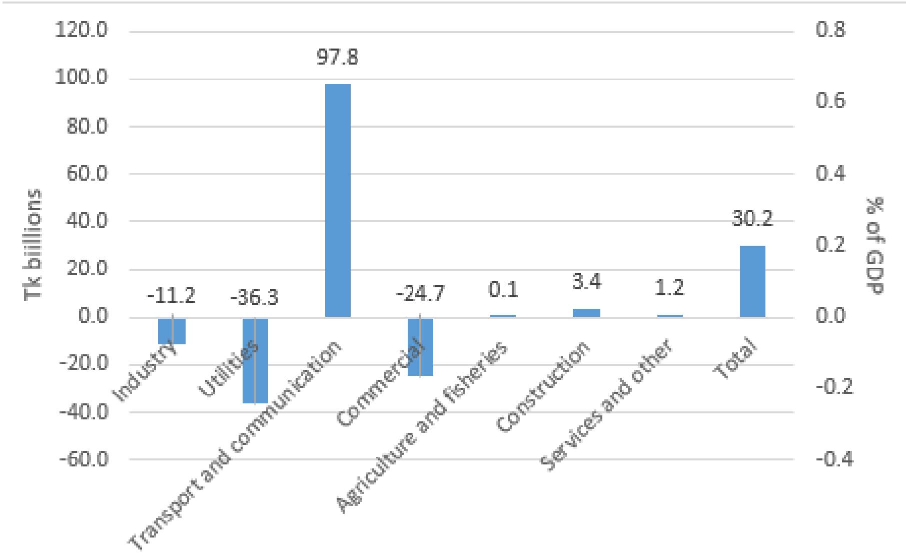
Objective 1.3: Improve the Management of Fiscal Risks, Debt and Cash To Maintain Fiscal Discipline

Improve Governance and Performance of State-Owned Enterprises

47. *Current performance and challenges*: Bangladesh has an extensive State-Owned Enterprise (SOE) sector which includes 46 non-financial public corporations and 8 financial institutions (6 commercial banks and 2 specialized banks). SOEs provide services in agriculture, construction, industry, power and gas, trade, transport and communications sectors. They are a significant part of the economy in that their operating

revenues are around 10 percent of GDP and total assets around 18 percent of GDP. Generally, SOEs create fiscal risk to the extent that Government may guarantee their borrowings that they may be unable to repay, and unprofitable SOEs may require direct support from the Budget to maintain assets of even for operating expenses. In Bangladesh the SOE return on assets was negative in FY2010-FY12 and there is considerable variation of profitability between different SOEs (Figure 4-3).

Figure 4-3: Non-Financial SOE Profitability By Sector



Source: Bangladesh Economic Review.

Note: Data are for 47 entities including regulatory agencies and excluding SOEs corporatized under the Companies Act.

48. The legal, oversight and reporting arrangements for SOEs are generally weak. There are multiple ways in which SOEs in Bangladesh may be established and there is no umbrella legislation for SOEs which would provide consistency. In addition, SOE oversight is fragmented, involving the SOE Monitoring Cell in Ministry of Finance, Budget Department in Finance Division, and line ministries. One key consequence is that there has not been a systematic monitoring of SOE risks by Ministry of Finance. Furthermore, SOE financial statements are not publicly available, are frequently late and may have a qualified audit opinion. The PEFA assessment finds that there is no routine and consolidated monitoring of the financial flows and liabilities of SOEs. The SOE Monitoring Cell collects the annual reports of most SOEs, that could be expected to identify any significant issues, but there is no consolidation and presentation of fiscal risk to the GoB.

49. *Reforms previously undertaken and underway*: There has been very limited reform in the area of SOE oversight and reporting in the recent period, and it was not a feature of the 2007-12 PFM Reform Strategy. Its inclusion in the 2016-21 PFM Reform Strategy reflects the importance of SOEs in terms of fiscal risks and potential fiscal impact. While there are a broader set of governance and performance issues for SOEs, the Priority Actions focus on the fiscal dimensions in particular. The Priority Actions may also encompass Extra-Budgetary Funds (EBFs) that, while part of central government, present similar risks and oversight issues to SOEs.

50. *The actions to be taken under PFM Reforms 2016-21:* There are two priority actions. The first is to strengthen the financial reporting by SOEs and EBFs to GoB, using a common framework that will enable effective oversight of the financial performance and to monitor consolidated fiscal risks arising across the sector. The framework could specify the key financial information required, the formats, and the more regular and timely submissions. The second is to examine the fragmentation, inconsistencies and gaps in the legal framework across SOEs, and develop a comprehensive and consistent policy and legal framework for government ownership and dividends.

Table 4-5: Reform Actions to Strengthen Governance and Reporting Of SOEs

	Reform Actions
Short term	• **Develop new harmonized financial reporting framework and formats for SOEs and Extra Budgetary Funds (EBFs) – Priority Action** • **Prepare SOE law and regulation manual and consider developing comprehensive legal framework** • **Review the existing legal framework and formulate a government** ownership and dividend policy • Revamp the role of SOE Monitoring Cell to make it more comprehensive and to focus on overall performance management rather than approval of SOE budgets • Build capacity in Finance Division to monitor fiscal risks and publish a comprehensive statement of fiscal risks as part of the annual budget papers, consistent with the objective of fiscal transparency • Ensure that SOE budget-setting is in alignment with financial performance and fiscal risks and the government budget function is better informed on SOEs • Review oversight arrangements with a view to streamlining and ensuring appropriate incentives and empowering stakeholders (e.g. SOE boards). • Improve fiscal transparency of SOEs
Medium Term	• Generate annual fiscal report on extra-budgetary funds, and require all EBF to report. • Improve financial reporting of SOEs and public disclosure • Consider case for comprehensive law/umbrella legislation for public enterprises governance. • Review the regulatory framework for each of the entities as some of the entities no longer exist, and for some the regulatory framework renders unnecessary confusion for the entity.

Improve Debt and Cash Management

51. *Current performance and challenges:* The establishment of a debt management unit (now part of the Treasury and Debt management Wing of Finance Division) in mid-2005 marked the beginning of the application of modern concepts and practices to government debt management in Bangladesh. Since then, significant changes have taken place in debt recording, debt reporting, debt analysis and debt management. The creation and regular updating of a dedicated debt management database, in-house capacity building in debt and fiscal management, fortnightly and quarterly debt reporting are some of the significant steps that have strengthened the debt management. In addition, with the support from DMTBF, the government adopted an explicit medium term debt strategy (MTDS) in 2014 and automated the debt management system.

52. At the end of FY14, the total public debt stock stood at Tk. 4814 billion,[19] which was 35.8 percent of GDP; of this domestic debt was 20.2 percent and external debt was 15.6 percent of GDP. Recent debt sustainability analysis carried out by Finance Division as well as that conducted by IMF in 2013 show that given its current level of debt stock, domestic and external combined Bangladesh is at a low risk of debt distress. Total debt to GDP has fallen from 41 percent in FY08 to 35 percent in FY14, with external debt falling from 22.9 percent to 17.6 percent over the same period. Therefore the share of domestic debt is increasing, which is typically at higher rates of interest, and consequently more costly to service.

53. *Reforms previously undertaken and underway*: Despite the solid progress made so far in debt management, there is currently not an operational strategy to implement the MTDS. An operational strategy is required in order to tackle some of the challenges which include: (i) the rising cost of debt service; (ii) fragmentation of debt management across agencies (including Finance Division, Bangladesh Bank, Economic Relations Division (ERD), National Savings Directorate (NSD) and Controller General of Accounts (CGA)), and lack of clarity in the legal framework; (iii) irregular regular debt sustainability analysis; (iv) lack of an adequate, integrated database of the liabilities of different borrowing agencies; (v) lack of adequate recording and monitoring of contingent liabilities and associated fiscal risks; (vi) weak capacity in the National Saving Directors to manage retail debt; and (vii) inadequate investor access and information on treasury securities and weak secondary market for securities.

54. Regarding treasury and cash management, a key issues is that the current Treasury Single Account does not cover all government cash holding. For example, several special accounts for donor-funded projects are being operated outside TSA. Transfers once made to different public entities remain outside TSA operations and purview. In addition, while efforts are underway to strengthen cash forecasting and management, this requires information from spending agencies but this can very late, inconsistent or unreliable.

55. *The actions to be taken under PFM Reforms 2016-21:* Reform actions have been identified by the cross-GoB working group that would be required to improve debt and cash management. These are shown in Table 4-6. A priority action is to update the MTDS annually. This will include the development of an operational plan for implementation of the MTDS.

Table 4-6: Reform Actions to Improve Debt and Cash Management

	Reform Actions including Priority Action in Bold
Short term	• Develop an operational strategy based on the medium term debt strategy, through an interest rate rationalization market-based • Update MTDS annually • Enhance debt data quality, timeliness and reliability • Review and update the current legal framework for debt management • Develop the securities market for treasury securities • Enhance and sustain the technical capacity of front, middle and back offices of the Debt Management Units

[19] Macroeconomic Wing, Finance Division.(2015). *Medium Term Macroeconomic Policy Statement (2015-16to 2017-18).* Government Printing Press: Dhaka

	• Carry out debt sustainability analysis at regular intervals • Strengthen management of contingent liabilities arising from guarantees issued to various public sector entities • Automate the retail debt management • Operationalize the Debt Database (DMFAS) • Introduce regular publication of quarterly debt bulletin and annual debt portfolio report • Automate and refine cash management and cash forecasting • Create user-friendly database for debt service liability management and digital archiving of subsidiary loan agreements (SLAs)
Medium term	• Structural reorganization of NSD • Put in place an expanded TSA which includes Special Accounts and EBFs. • Improve preparedness for issuance of sovereign debt

Goal 2: Allocate Resources Consistent With the Priorities in the National Plan

Objective 2.1 Improve the Link between Budgets and Government Policies and priorities

Develop A Single Harmonized Budget And Improve Credibility Of The Annual Budget.

56. *Current performance and challenges:* The Public Money and Budget Management Act, 2009 (PMBMA) requires that the medium term budget framework establish a link between GOB policies/objectives and performance, and the allocation of resources. Under the 2007-2012 PFM Reform Strategy, reforms have been adopted that seek to strengthen this linkage, in particular the roll out of the Medium Term Budget Framework (MTBF) across the GoB. However, a key challenge in achieving better the linkage is the lack of a single strategy of resource allocation across both the development budget (Annual Development Programme-ADP) and non-development budget (NDB). This situation limits the potential of the resources allocation to ensure quality of services as for example inadequate provision in the NDB for the operating costs arising from the ADP spending. The lack of a unified budget process might produce overlapping and duplication of expenditures undermining the PFM systems performance. In addition, as sectors have competing priorities the budget system needs a prioritization of expenditures criteria to accommodate both current and capital expenditures within the budget envelopes. Finally, it is important to strategize about a decentralized budgeting process to ensure quality of service delivery especially in the social sectors (See objective 2.4).

57. A further challenge in implementing GoB policy through the budget arises because the original approved budget and actual expenditures diverge. The 2015 draft PEFA Assessment Report records a significant divergence in the composition of spending (excluding contingency and interest of debt) over 15 percent over the period of analysis (2011-2014). In fact, the implied discrepancy was on average 20 percent in the indicated period. Therefore, the credibility of the budget preparation is undermined as sectors reallocate their expenditures in some cases as soon as the budget is approved.

58. *Reforms previously undertaken and underway*: Recently, developments have been underway that can contribute to building the budget and policy linkages, and improve budget reliability. In particular: (i), the Medium Term Strategy and Business Plan (MTSBP) which seeks to bridge the gap between national/sector strategies and ministry budget frameworks; and (ii) the Forward Baseline Estimates (FBEs) for line ministries

that support more realistic annual and medium term planning and budgeting. The MTSBP and the FBEs guidelines have been drafted and they will be piloted in four pilot ministries and two pilot ministries respectively. In addition, the new Annual Performance Agreements (APA) also create an opportunity to improve line ministry PFM performance; for example, with performance indicators on adherence to the budget. The latter can be implemented through the MTSBP as they set out Key Performance Indicators (KPI) to link sectors' KPIs to the planning and budgeting processes. Furthermore, there are opportunities to align APAs and ministry budget frameworks, and for common reporting on APAs and budgets via Annual Performance Reports (APRs). The Planning Commission has been implementing the Strengthening Public Investment Management System (SPIMS) project since August 2014. [20] In this project, the preparation of two new tools are underway: (i) Sector Strategy Papers (SSPs) – a planning tool to help translate national goals and priorities outlined in the Five Year Plan (FYP) into sector goals and priorities, and thereby aiding design, appraisal and selection of new development projects for the ADP; and (ii) Multi-Year Public Investment Programme – a programming tool to achieve sector goals and priorities in SSPs through budgeting for development projects from medium-term perspectives. Both SSPs and MYPIPs are designed for the use of sector-level planning and budgeting, and are therefore complementary to MTSBP and FBE that are developed at the ministry/division level.

59. *The actions to be taken under PFM Reforms 2016-21:* Reform actions have been identified by the cross-GoB working group that would be required to develop a single harmonized budget and improve credibility of the annual budget. These are shown in Table 4-7. First the adoption of the accounting and classification system to develop a more oriented program budgeting. Second is the need to harmonize the budget preparation calendar, circulars, and guidelines of the ADP and NDB; and third, a more comprehensive project's cycle completion by including recurrent costs of closed public investment projects in the MTBF and in the derived annual budgets. In the medium term the roll out of the MTSBP guidelines is the main priority to improve the links between policies and budgets of strategic ministries.

Box 2.2: IMF Report Recommendations for Strengthening Budget Credibility

- More realistic revenue forecasts - with motivational targets being part of the NBR's APA, rather than the Budget. Revenue shortfalls typically result in expenditures being revised downwards in the mid-year budget review causing significant budget reliability problems.
- Developing "policy as is" baselines for operating expenditures of line ministries, and thus reducing the level of reallocations in the mid-year budget review. At present the revised budget determined after the mid-year budget review appears to be regarded as the "real" budget
- Making full and accurate provision in the NDB for operating costs emerging from the ADP. There is currently no arrangement under which line ministries are required to determine recurrent expenditure requirements when preparing DPPs.
- Ensuring new development projects are only approved during the fiscal year if the current year resource ceiling and outer year indicative ceilings, can fully absorb all capital and recurrent costs.

[20] Provided with JICA support

Table 4-7: Reform Actions to Improve Debt and Cash Management

	Reform Actions
Short term	• Add sector links 7FYP -> SSPs -> MTSBPs -> MBFs -> APAs + budgets and evaluate using APRs • Adopt FBEs and determine fiscal space for reorienting expenditures to priorities • Adopt the new charts Budget and Accounting Classification System – • Harmonize budget timetables for ADP and NDB by having a combined budget circular • Recurrent costs implications of projects are part of project appraisal and captured in the budget • Address broader policy and administrative reform • Develop an analysis on the transfer of all non-capital expenditure to the revenue budget • Support the Planning Commission to strengthen the Project Evaluation Committee (PEC). • Diagnose the effectiveness of BMC and BWG and bring necessary changes
Medium Term	• **Implement Medium –Term Strategy and Business Plan (MTSBP) for the strategic ministries** • Implement Forward base line estimate FBEs across all line ministries and divisions

Objective 2.2: Strengthen the Management of Public Investments

Implement PIM roadmap

60. *Current performance and challenges:* Improving the quality of the ADP is another key aspect in improving expenditure prioritization and better linking the DB and NDB budgets. The ADP needs to be better linked to national priorities stated in the 7th Five Year plan and translated into more detailed sector strategic plans (such as the Sector Strategy Papers being piloted). The latter are mostly absent and therefore sectors' resources allocation is done in an incremental basis as new projects are approved. As project appraisal capabilities are still facing challenges, the selection of projects is mainly based on sectors' demands which might not be necessarily consistent with budget constraints. This is why is common to find project with overruns in terms of cost and time. In fact over 30 percent of the undertaken projects faced these issues in 2014. Finally, there is an insufficient allowance for the operational and maintenance cost in project planning. The latter undermines the quality of the project cycle as finished projects have the risk of becoming unsustainable and/or rapidly deteriorating in terms of quality.

61. *Reforms undertaken and underway*: With the assistance of the Asian Development Bank (ADB), the GOB is implementing the PIM project to streamline the public investment of the country. The project seeks to setup an information solution to support the project cycle. In addition, the FD is preparing the FBEs guidelines to support the annual budget allocation for existing projects and new projects under a Multi-Year investment plan aligned with the budget envelope. The FBEs guidelines will be piloted in the Ministry of Health (MOH) and the Ministry of Primary and Mass Education

(MOPME). Tthe Planning Commission's SPIMS project aims to improve capacity of public investment management through: (i) establishing and operationalising a PIM Unit as the reform anchor; (ii) strengthening project formulation and appraisal by introducing the Ministry Assessment Format (MAF) and Sector Appraisal Format (SAF); (iii) strengthening the strategic linkage of the ADP with the FYP and MTBF by introducing Sector Strategy Papers (SSPs) and Multi-Year Public Investment Programmes (MYPIPs); and (iv) strengthening sector-level M&E by introducing a M&E framework for SSPs and MYPIPs. In this project, the new PIM tools above are being validated in two pilot sectors: (i) Power and Energy; and (ii) Local Government and Rural Development. The guidelines and manuals for those new tools are also being developed, and officials will be trained.

62. *The actions to be taken under PFM Reforms 2016-21:* As indicated a high priority for the PFM Strategy overall is to improve the links among policies, planning and budgeting. In the short term, the selection and implementation of public investment projects should strengthen those links. To do that a priority action is to develop and roll out the Sector Strategy Papers (SSPs) and Multi-Year Public Investment Programmes (MYPIPs) for the 14 sectors identified in the 7th Five Year Plan. The SSPs will clarify sectoral priorities, provide clear strategic guidance to MDAs and Planning Commission in designing, assessing and appraising development projects, and thereby improving the quality of projects considerably. The MYPIPs will enable more informed decision in allocating resources for development projects by estimating the budget implication of the decision in the medium term. In addition, the revision of projects listed as low-performing will help to extract lessons about the reasons why some projects are performing poorly. Once this activity is completed, priority actions to improve regulations and information systems will come up. In the medium term and complementary to objective 2.1 is to implement a single planning and budgeting processes across the Government.

Table 4-8: Reform Actions to Improve Public Investment Management

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• **Roll out the sector strategic papers (establish link between the 5-year plan, and the MTSBPs and investments).** • **Review the stock of development projects and IMED's list of low-performing projects (those off-track with the timing and the spending profile)** • **Strengthen project design, appraisal and approval process to ensure high quality, affordable projects** • Introduce a multi-year public investment program (MYPIP) • Review the existing business processes and management information systems, databases and introduce automation in the planning process. • Introduce a handbooks for ministries for preparation of project proposals and a manual for PC for carrying out project appraisal • Establish PIM Unit in Programming Division tasked with implementing PIM reforms within PC. • Carry out exercise to ensure that out-year ceilings indicate space for capital and recurrent expenditures.
Medium Term	• **Implement single Budget and Performance, Planning and Development outfit established in each Line Ministry.** • Planning and Development outfit established in each Line Ministry.

	• Specify the roles and responsibilities for a restructured Planning, Development and Budget Wing. • Work out a capacity improvement program for PC staff on project appraisal. • Review the existing business processes and management information systems, databases and introduce automation in the planning process

Objective 2.3: Strengthen the Budget and Performance Management Capacity

Develop A Government Wide Planning, Monitoring and Evaluation System

63. *Current performance and challenges:* In addition to the 7th Five Year Plan, the PC has developed some ten broad sector strategies but these need to be linked to ministries and to include recurrent costs if they are to be effectively implemented. The draft 2015 PEFA assessment states that three large ministries (primary education, health and agriculture) have fully costed strategies or plans two of which are related to Sector Wide Approaches (SWAPs) which including medium term projections for both recurrent and development expenditures.

64. While the MTBF and ministry MBFs set out the overall allocation of resources to and within each ministry they focus only in presenting financial information, rather than being an outcome from a the result of any systematic prioritization exercise which considers both development and non-development expenditures.

65. *Reforms previously undertaken and underway*: To ensure a clearer linkage between the Five Year Plan and the ADP as well as to ministries' budget preparation and management, the Sector Strategy Papers (SSPs) with Sector Results Framework, Multi-Year Public Investment Programme (MYPIP), Medium Term Strategy and Business Plan (MTSBP), and Forward Baseline Estimates (FBEs) are all being piloted through various reform initiatives under two technical assistance projects.[21] MTSBPs are being implemented in four line ministries (Ministry of Health and Family Welfare, Ministry of Primary and Mass Education, Ministry of Education and Power Division). The Guidelines on MTSBPs should be reviewed so that MTSBPs become operational as a key part of the budget setting process, involving both FD and PC and the planning and finance wings of each ministry. MTSBPs would also be the basis on which ministry MBFs are prepared covering both the reformulated development and the recurrent budgets. The MYPIP deliberations would thus be part of this process, involving all three parties.

66. This MTSBP performance framework must also link with the important new development of Annual Performance Agreements (APAs) between the Cabinet Division and the line ministries. This new performance management initiative has considerable potential for improving the performance and accountability of all ministries. However,

[21] The JICA financed project supports the introduction of Ministry-level Project Assessment Formats (MAF) and Sector-level Project Appraisal Formats (SAF**)** for the use by the Sector Divisions of the Planning Commission, as well as developing Multi-Year Public Investment Programmes (MYPIPs) and the introduction of Manuals for MAF and SAF for Ministry/Division and Planning Commission and guidelines for SSPs and MYPIPs for concerned officials in Planning Commission and MDAs. A SPEMP financied project supports the introduction of MTSBPs, the Annual Performance Reports and the Forward Baseline Estimates. Another SPEMP financed project has supported the introduction of the APAs.

APAs will require some refinement over time to improve the relevance and reliability of the data which is reported.

67. *The actions to be taken under PFM Reforms 2016-21:* In the short term main priorities are related to ensure the collection of information about the budget execution as well as physical execution provide inputs for budget execution review in tripartite meetings between the CD, FD and PC. In addition, ensure that the APAs are aligned with the sector strategy (SSP) and the MSTBP for strategic ministries. In the medium term, the main priority is to delineate the roles of the FD, CD, and PC within the budgeting process vis-à-vis the achievement of strategic goals for the development of the country. Table 4-9 summarizes the discussions of the working group about the strengthening of financial and performance management of line ministries.

Table 4-9: Reform Actions to Strengthen Financial and Performance Management in Line Ministries

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• **Use policy and performance indicators routinely collected by FD and CD to inform budget decisions at the tripartite meetings.** • **Ensure that APAs are aligned based on the Sector Strategies, MTSBP, National Plan and Sustainable Development Goals** • **Training and retention of PFM staff for PFM functions (in central and line ministries) including in project appraisal** • **Integrate and strengthen the planning and budgeting wings in all line ministries** • Reconstitute and revise the ToR for the Budget Management Committee. • Ensure that the Annual Report of all line ministries/divisions incorporates financial and non-financial performance to fulfill the requirements of the Public Moneys and Budget Management Act, 2009.
Medium Term	• **Delineate the clear roles and responsibilities across FD, CD and PC** • Identify additional performance indicators for line ministries for inclusion in Annual Performance Agreements

Enhance PFM Skills Capacity In Line Ministries.

68. *Current performance and challenges:* Under the previous PFM strategy considerable efforts were made to establish core training courses at the Institute of Public Finance. The IPF is now established and functioning as a semi-autonomous government authority. The IPF is ready to undertake core public finance courses and roll these out to a cadre of PFM staff in line Ministries. However, the IPF is operating on a self-financing model, so the staff who need to undertake the training will need to also be funded by their agency. There is also a large number of potential trainees, not all of whom will stay in their current roles. Therefore a strategy for determining who is required to undertake training and how they will be retained or deployed in suitable roles is required.

69. *Reforms previously undertaken and underway*: The development of strong training materials and cadre of trainers is a strong achievement under the previous PFM reform strategy.

70. *The actions to be taken under PFM Reforms 2016-21:* In the short term the priority is to develop a work plan for the institutional strengthening of the line Ministries

so that they are organized, staffed and trained to take on the PFM responsibilities. Table 4-9 summarizes the priority actions.

Table 4-10: Reform Actions to Strengthen Financial and Performance Management of Line Ministries

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• Work out a plan for institutional strengthening of line ministries to take over the full financial management functions • Enhance the skills of PFM Staff in line ministries to tackle the new and emerging tasks • Move away from the current fragmentation of planning and budgeting and integrating these two functions

Objective 2.4 Strengthen PFM Capacity of Local Government

Enhance Public Financial Management of Local Government

71. *Current performance and challenges:* As Bangladesh's public sector is highly centralized; there is a long way to improve decentralization. . In this area progress is scant although challenges are important. Main issues are related to the fact that within a centralized system the quality of services could be affected as population is concentrated in highly populated areas where local governments are not playing any important role. In this context, a more decentralized system might help to overcome some of the issues for better service delivery. For instance, as budget allocations are not executed because lengthy centralized processes to purchase even small items, a more decentralized expenditure system will improve the use of resources as well as provide better services.

72. *Reforms undertaken and underway*: As indicated, progress is scant and an important knowledge gap is needed to be fulfilled in first place. Once better knowledge is incorporated, a set of solutions and a sequencing of activities can be worked out and implemented

73. *The actions to be taken under PFM Reforms 2016-21:* The basic action in the short term is to carry out a PEFA for local governments to gather insights about the centralized-decentralized expenditure systems. In the medium term and based on the PEFA conclusions a set of recommendations and a sequencing of activities can be planned and implemented. Table 4-11 summarizes the working group discussions regarding the strengthening of the PFM capabilities of local Governments.

Table 4-11: Reform Actions to Enhance Public Financial Management of Local Governments

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• Conduct a PEFA to assess the local government PFM system and identify the areas of reforms
Medium Term	• Based on the Local Government PEFA report, produce a strategy paper on priorities and recommendations to fill the underscored gaps.

4.3 Goal 3: Promote the Efficient Use of Public Resources and Delivery of Services through Better Budget Execution

Objective 3.1 Improve Business Processes and Strengthen Internal Controls for service delivery

Improve business processes and treasury management practices

74. *Current performance and challenges:* Although the PFM system in Bangladesh witnessed significant improvements to budget formulation following successive reform interventions, the budget execution process could not match with them due to structural and institutional constraints. The 2015 PEFA assessment notes several weaknesses in predictability and control in budget execution. Overall financial management controls are in place with good segregation of duties and procedures, but there is no commitment control, reconciliation of government cash accounts with the Bangladesh Bank records are weak, and the SAI reports that compliance with procedures is a significant problem.

75. The Government has reduced the number of bank accounts considerably but these are not consolidated fully, though all funds transferred to the Treasury Single Account are reconciled and tracked individually. On the expenditure side, there is a cash forecasting model which is established at the beginning of the year for each month and this is updated based on actual collection/expenditure. Expenditure is based on monthly allocations which are adjusted on a monthly basis according to actual receipts and payments.

76. Personnel and payroll records are manual. They are generally consistent with each other and payroll controls are in place and backed up by partial payroll audits conducted by the SAI for each MDA. Significant reform has occurred in the legal framework governing public procurement, and the rollout of e-procurement is underway. Although only 21 percent of procurement is done electronically at present it is aimed to achieve over 70 percent coverage within two years.

77. Overall financial management controls are in place with good segregation of duties and procedures, but there is no commitment control, reconciliation of government cash accounts with the Bangladesh Bank records are weak, and the SAI reports that compliance with procedures is a significant problem. Internal audit activities consist primarily of ex-post reviews focused on financial compliance, though plans exist to upgrade these activities to a full IA function according to International Standards.

78. Internal controls and internal audit remain an area of substantial weakness across the system, notwithstanding progress that has been made since the last PEFA. The control environment is dependent on detailed financial rules and regulations that outline in great detail internal controls that should be followed for all transactions, however, as noted by OCAG in its reports, and by those working in the administration, the detail, which is quite explicit and theoretically well-constructed, is often circumvented by the officers themselves to expedite their workloads. Also, to further complicate the issue, as the systems are mechanized and modernized the rules and regulations themselves do not follow the changes in business processes and methods of work that come hand-in-hand with modern information technology systems. Incorporating in due time these business process changes is a factor that needs to be addressed with greater timeliness.

79. Internal control objectives are statements of the desired result or purpose to be achieved by implementing control activities (procedures[22]). Controls include policies, procedures and practices (tasks and activities) established by management to provide reasonable assurance that specific objectives will be achieved, e.g. safeguarding of assets, authorization and authentication, segregation of duties, availability of information technology services and information on automated systems is current and secure from improper access. Internal audit is an essential component of a well-functioning internal control system.

80. *Reforms undertaken and underway:* OCAG reports indicate that compliance with internal controls is a significant problem. There is a need to establish/strengthen efficient internal controls such as authorization and approval procedures, segregation of duties (authorizing, processing, recording, reviewing), verifications, reconciliations and supervision. In determining whether a particular control (preventative; detective; or corrective) should be established, the likelihood of the risk occurring and the potential effect on the entity are considered along with the related costs of establishing a new control. For the controls to be effective, rules must be accepted as fair, workable and legitimate.

81. Internal control goes hand-in-hand with internal audit, whilst the two are distinct and separate in their functions and aims. Whilst again there has been substantial progress since the last PEFA, internal audit does not play a very substantial role within the overall controlling framework for Bangladesh. There are pockets of internal audit in certain ministries but the reports produced are not used by the OCAG, nor do they carry any great weight within the administrative structure.

82. Internal audit should play an important monitoring role in evaluating the effectiveness of the control systems within the Government's operations in meeting the strategic objectives in the FYP. To discharge its functions effectively, the GoB internal audit function lacks the key twin attributes of (i) professionalism - audit practice should be in accordance with *International Standards for the Professional Practice in Internal Audit (ISPPIA)* issued by The Institute of Internal Auditors (IIA); and (ii) independence - not involved in maintaining the controls it is supposed to evaluate. For these to be in place a suitable legal framework adjusted to meet not just current demands and expectations, but to also empower an Internal Audit function that could be relied on by B-SAI.

83. *The actions to be taken under PFM Reforms 2016-21:* There is a need to develop a strategy to transform/modernize the ICU to a proper internal audit function and adopt risk-based audit methods concentrating on systemic issues with the objectives of ensuring (i) conformity to the Government's strategy; (ii) effectiveness and efficiency of operations; (iii) reliability of financial reporting; and (iv) compliance with applicable laws and regulations.

[22] INTOSAI: *Guidelines for Internal Control Standards for the Public Sector* issued by the Internal Control Standards Committee at www.intosai.org

Table 4-12: Reform Actions to Improve Business Processes and Treasury Management Practices

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• Automate fund release, distribution and re-appropriation • Strengthen the Budget Implementation Plan process on monthly basis for robust cash forecasting and cash management • Roll out commitment control for improved cash and budgetary management • Improve re-appropriation process in line with the legal provisions • Strengthen and consolidate Treasury Single Account (TSA) • Strengthen internal control system (*preventative; detective; or corrective*) covering financial controls, personnel controls and procurement procedures • Improve budget monitoring (recurrent, capital and performance).

Implement iBAS++ and New Budget and Accounting Classification

84. *Current performance and challenges:* An effective FMIS is important to achieving key PFM objectives. Reliable and timely financial information is required for aggregate fiscal control, for efficient budget implementation to deliver services and for accountability to Parliament and the public. FD is leading the development and implementation of the new FMIS, iBAS++. This is an Internet and Oracle based system supporting a General Ledger that will cover budget preparation, execution, accounting and reporting, payroll and employee pension payments. It will use a new multi-dimensional budget and accounting classification system (BACS) which is GFSM and COFOG compliant and is currently awaiting approval.

85. The new BACS is a nine-segment hierarchical classification structure divided into "Posted" and "Derived" segments. Posted segments are explicitly coded for each transaction and are maintained in the general ledger of iBAS++. Derived segments are not determined by the users rather these are produced using mapping tables or other coding mechanisms within the iBAS++ and used mainly for reporting purposes. The posted segments of the new BACS comprise of the Organization (11 digits), Program (9 digits), Fund (8 digits) and Economic (7 digit). There are also additional posted segments which include the Mode of Payment (1 digit) and the Location (8 digits). The derived segments include Authorization (1 digit), Function (4 digits) and Budget Sector (4 digits).

86. *Reforms undertaken and underway*: The new classification system has been designed to accommodate both existing needs and those arising from the on-going PFM reforms. The modern software features in iBAS++ will support users in using the expanded coding structure whilst simultaneously making substantially simpler the recording of transactions. This will provide, among others, the following benefits:

- Facilitating more accurate financial transaction recording
- Providing complete information for forecasting, appraising and valuing resources and expenditures, developing and executing the budget and making available financial information to the relevant agencies
- Enhancing transparency through more detailed and meaningful reporting
- Building controls in the budget execution process
- Facilitating GFS and IPSAS compliant external reporting

- Expanding the scope of the government accounting and financial information system to the entire central government and potentially over the entire general government

87. iBAS++ was an important agenda under the previous donor funded SPEMP A project. Following the closure of that project in 2014, FD has taken over this initiative under a program called Public Expenditure Management Strengthening Program (PEMSP). The system is intended to provide an enhanced financial control framework and support financial decision-making at all levels of government. For example, the current iBAS does not provide budgetary control, as expenditure transactions cannot be checked against available funds. It will support both the cash and accrual bases of accounting. The system should provide electronically for budget submission and review, for electronic submission of bills by drawing and disbursing officers as well as self-drawing officers, for communication of allocations to and within line ministries, for any requirement and reallocations, for the production of financial reports for all levels of management and for the production of annual financial statements based on IPSAS and GFS. The centralized database will be able to produce real time reports and financial statements at any level of organization, fund or economic classification.

88. A recent IMF review of progress on iBAS++ comments favorably on its design and implementation progress and recommends a five year implementation program, including the addition of cash and commitment control modules and a fixed asset management module. Also, a recent World Bank Policy Note reviews key issues for the successful implementation of iBAS++. It notes the importance of iBAS++ being capable of use by donor funded projects including sector wide approaches (SWAps), of fully communicating the system's benefits to future users and ensuring an adequate ICT cadre for the sustainable maintenance and ongoing support of iBAS++. It considers that the project management office is not sufficiently resourced to drive implementation and roll-out and recommends the adoption of the COBIT IT Governance Framework for system implementation. It also notes the need for a comprehensive change management, communication and training program covering all stakeholders.

89. iBAS++ does not cover Defense and Railways which, have their own accounting systems nor other self-accounting entities – Public Works, Roads and Highways Department and others. These organizations will retain their separate systems but interfaces will need be developed with iBAS++ and opportunities to extend the iBAS++ platform to these entities should be considered.

90. The system is now about 90 percent developed - the budget preparation module is complete and is now being used by all line ministries/divisions for preparing the budget for FY2016-17. The budget execution module has been completed and is being piloted. The central government version (functionality required accounting offices and drawing and disbursing officers) of accounting module has been completed and now operational in a Chief Accounting Office in Dhaka. It is proposed to roll this system out during the current fiscal year and in 2016/17 first on a pilot basis, using the existing classification system and COA. It will be rolled out progressively to all accounting offices and to all drawing and disbursement offices.

91. *The actions to be taken under PFM Reforms 2016-21.* It is also important to ensure that the institutional and change management aspects of iBAS++ are addressed

and that line ministries are made well aware of how the new system will meet their reporting needs. These aspects have been addressed in the forthcoming World Bank Policy Note. At the end of the five year period, given Bangladesh's high IT capacities the system should operate so that all budget holders (including the foreign-aided projects) are able to use a fully automated system.

Table 4-13: Reform Actions for IBAS++ and Accounts Classification

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• **Confirm the timetable and action plan for full implementation of iBAS++ including the cash and commitment control and fixed assets modules** • **Implement roll out of IBAS++, (incl. training and change management, BACS, Data center) and utilization** • SAEs (including CGDF and Railway) integrated into IBAS++ and BACS • Integrate the employee and pension databases with IBAS++ , ensure timely payment of beneficiaries, and update/maintain databases regularly • Feasibility study for introduction of IBAS++ for LGs, Semi-Autonomous bodies, Autonomous bodies, SOEs • Further review the payroll and pension system to identify the systemic flaws and recommend actions to improve the business processes. • Pay and pension fixation database upgraded with facilities for recording increment, transfer, posting, promotion etc developed and implemented • Provision for submission of employee Pay Bill in iBAS++ developed
Medium Term	• Make operational a full-fledged HR/payroll module of iBAS++for all employees of the government • Pay Slips, Last Pay Certificate (Service Book) produced from iBAS++ • Position control and Manpower planning linked to budget module • Seamless transition from payroll to pension payment system

92. *Current performance and challenges:* As part of the CGA's responsibility for financial reporting, CGA prepares the consolidated appropriation accounts and finance accounts (annual financial statements) which go to the President and then Parliament with certification from the Auditor General. The priority issue that remains is with respect to the timeliness of reporting; that is the delayed production of these documents which eventually go to PAC after lapse of 2 years or so; and the fact that they are not made available to the public. This is due at least in part to the lateness of information being supplied by the self-accounting entities such as Defense and Railways which delays the preparation of a consolidated financial statement. It would be appropriate for the CGA to develop a strategy to improve this timeliness. See Box X for the SAE challenges.

Box 4.1: Financial Reporting Challenges of Self-Accounting Entities (SAE)

Self-accounting entities (SAEs) together constitute an important segment of the whole PFM system in Bangladesh. They include Bangladesh Railway, Defense, Roads and Highways Department (RHD), Public Works Department (PWD), Forest Department, Postal Department, Public Health Engineering (PHE) Department and Telecom Department. Much of their expenditure is on engineering works. While they are part of the national budgeting process and have direct access to Treasury to make their own payments, their accounting systems are entirely different from normal civil accounts of the government and from each other and are guided by separate codes, manuals and guidelines.

SAEs report their financial transactions to Controller General of Accounts (CGA) for eventual incorporation in both monthly central accounts and annual finance accounts. However much of the delay in the production of these accounts is due to the delayed reporting of their transactions to CGA. In addition, the quality of their financial data is compromised by the limitations of their separate accounting systems and adversely affects the overall quality of financial reporting by CGA and the ability of MOF to monitor budget implementation.

Bangladesh Railway (BR)

BR operates as a department but has adopted both the cash basis and accrual basis of accounting principles and generates financial reports to meet the needs of a government department as well as of a commercial undertaking. The monthly accounts are based on the cash deposited and withdrawn from the treasury.

Several rounds of reforms were carried out to modernize BR's PFM system. However, interfacing the railway accounting system with the CGA central system remained an issue which is reflected in both lack of timeliness in production of accounts and the quality of the information. Under DMTBF project software for this purpose was developed. Reportedly this software became fully operational both in CGA and BR Offices in September 2013 and is working satisfactorily. The quality of BR financial data is reduced by the complexities surrounding the operations of its many suspense accounts with many of them remaining unadjusted for years. Secondly, BR with its operational peculiarities should be separate from general finance and therefore the decision that led to its amalgamation with general finance should be reviewed and options should be worked to avoid the current anomalies.

Defense Finance

The Controller-General Defense Finance (CGDF consolidates the accounts of the defense services on a monthly basis. Pay and allowances of the defense personnel (other than the officers) which constitute around 70 percent of the total salary budget are paid through imprest system and the pay and allowances of army officers and civilians are paid using conventional pre-audit system. Currently the three separate services (Army, Navy and Air Force) each have their own different software to manage budgeting and accounting activities. None of these systems provide for on-line submission of invoices by suppliers. For staff payments the forces have arrangement with Bangladesh Bank but payment calculation is still performed manually.

Given CGDF's readiness to adopt changes it would be worthwhile to revisit the recommendations of the reports prepared under the DMTBF project and include CGDF in the iBAS++ implementation plan to meet the comprehensive reporting needs of the government.

Roads and Highways Department

The Department has already developed in-house a software (RHD Central Management System or CMS) having 4 modules at the field level which is used in monitoring and managing contracts for both the non-development budget and development budget covering both GOB and foreign aided projects. However it is not integrated with the central iBAS and the project codes used are different from the project codes used nationally. Other issues in RHD are: a time lag of one month in transmitting accounting information to the CAO and remittances not being cleared - leaving scope for understatement of both receipts and payments, undermining the quality of accounts and resulting in the appropriation accounts not reflecting the actual outturns against budget.

93. Apart from the timeliness of production, the Finance Accounts, in particular, is too voluminous having a number of unnecessary schedules and information overload. Both in terms of style and contents, it does not conform to IPSAS. Also, carrying out bank reconciliation is an integral part of CGA work but this is not done.

94. CGA is committed to move away from paper records as soon as possible and this will also be part of iBAS++. On line submission of payment requests will occur shortly and checks will also be replaced in due course with EFT but this will take time. Some 40,000 EFT transactions are made on the first day of the month with recipients receiving a text message informing them that funds are now in their account. EFT will next be rolled out to divisional offices in other major centers.

95. Under the Citizen's Charter approach to service delivery now being implemented in Bangladesh through Cabinet Division they have adopted service standards for timeliness of payments. All payments are required to be made within a prescribed period of time from the receipt of a correct invoice and this is to be carefully monitored.

96. *Reforms undertaken and underway*: None of the SAEs were included in the first two rounds of PFM reforms implemented through the Reforms in Budgeting and Expenditure Control (RIBEC) Project and Financial Management Reforms Program (FMRP). However, under the DMTBF project of SPEMP, the existing accounting system of some SAEs was reviewed and attempts were made to streamline their accounting functions to improve the quality of their financial reporting. Under the DMTBF project attempts were made to bring about reforms. Reports on greater computerization of accounting functions, streamlining the transfer of information to CGA and easier consolidation of CGDF accounts were prepared in 2012 but were not implemented. Thus CGDF has never had any comprehensive financial management reform program, although some piecemeal reform efforts were made in the past. CGDF is interested in taking advantage of ongoing automation program being facilitated by iBAS++ and are in touch with Finance Division to have an extension of the iBAS++ platform of to streamline their accounting function.

Objective 3.2: Adopt International Standards of Procurement Practice to Facilitate Service Delivery and Achieve Value For Money

: Roll-out Improved Public Procurement Practices

97. *Current performance and challenges:* Procurement is delegated to line ministries with the CPTU exercising a policy and oversight role. Roads and Highways Department, Local Government Engineering Department and Bangladesh Water Development Board are the major contracting organizations. However procurement delays may occur in line ministries due to inadequate readiness to commence procurement processes once funding is confirmed, this reflecting excessive caution on the part of line ministries as to their authority to commence and to nervousness by some responsible officers about making decisions, leading to attempts to delegate decision making "upwards".

98. The draft PEFA Assessment indicates that Bangladesh's procurement system scores well in terms of transparency. The Act and Regulations, all bidding opportunities, line ministry procurement plans and details of contracts awarded (over a certain threshold) and resolution of contract complaints are all published on the CPTU website. The independent administrative complaint appeals mechanism also meets all six of the PEFA criteria. However, the PEFA Assessment also comments that the legislation may not always be observed, with inappropriate procedures such as short bidding periods, poor advertising, non-disclosure of selection criteria, poor technical specification and

negotiations with bidders and rebidding without adequate justification. This non-observance may reflect lack of probity as well as lack of training.

99. *Reforms previously undertaken and underway*: Bangladesh has had on ongoing program of procurement reform since around 2002, which saw the establishment of the CPTU (Central Procurement Technical Unit) as part of IMED within Ministry of Planning and the development of a modern Public Procurement Act (2006) (PPA) and Public Procurement Regulations (2008) (PPRs). The Bank funded an extensive Public Procurement Reform Program amounting to some $23.6 million over the period 2007-13.

100. Useful progress has been made in strengthening the professional capacity of procurement officers through a certification program. There have been recent useful improvements in procurement performance as reflected in:

- The level of participation of the business community in bidding for government contracts
- The timeliness of contracting, which is now completed on average within 40-50 days compared with around 90 days previously
- The expansion of e-procurement which increases transparency and thus probity as well as improving timeliness
- Reduction in procurement related complaints with increased transparency
- The establishment of an independent review panel to consider complaints concerning procurement decisions

The PPA provides for open competition as the default method of procurement with a requirement for approval by a Cabinet Committee for any non-competitive procurement above the prescribed threshold. This Committee is said to be vigilant in its operations. A procurement monitoring system PROMIS measures transactions covered by e-procurement performance against various indicators, including the OECD/DAC procurement performance indicators.

101. *Reforms undertaken and underway*: By December 2016, 123 agencies, should be in the e-procurement system.

102. *The actions to be taken under PFM Reforms 2016-21*: As summarized in Table 4-14 it is a priority to expand e-GP to all ministries and further roll out the procurement monitoring system.

Table 4-14: Reform Actions to Sustain Improved Public Procurement Practice

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• **Expand e-GP to all ministries/ agencies** • **Further roll out of the procurement monitoring system** • Detailed study on internal audit options • SAEs (including CGDF and Railway) integrated into IBAS++ and BACS • Expand e-GP to all ministries/ agencies beyond the four key sectoral agencies • Further roll out of the procurement monitoring system PROMIS and its electronic platform e-PMIS, including further training and capacity development in improving procurement performance • Link e-GP system with IBAS++ and implement on a pilot basis for one procuring agency • Ensure adherence to the PPA and PPRs by further training and review

	• Revise financial delegation to bring more efficiency in the procurement process delegating more approval authority consistent with deepening of e-GP and the capacity of the procuring agency • Make the contract management module of e-GP fully functional • Make open contracting data available in public domain. • Making CPTU a regulatory authority and transforming e-GP operation to a business service provider model
Medium Term	

Objective 3.3 Improve accounting and reporting to international public sector accounting standards (IPSAS)

Improve decision making and transparency

103. *Current performance and challenges:* As part of the CGA's responsibility for financial reporting, CGA prepares the consolidated appropriation accounts and finance accounts (annual financial statements) which go to the President and then Parliament with certification from the Auditor General. The priority issue that remains is with respect to the timeliness of reporting; that is the delayed production of these documents which eventually go to PAC after lapse of 2 years or so; and the fact that they are not made available to the public. This is due at least in part to the lateness of information being supplied by the self-accounting entities such as Defense and Railways which delays the preparation of a consolidated financial statement. It would be appropriate for the CGA to develop a strategy to improve this timeliness.

104. *Reforms undertaken and underway*: Self-accounting entities (SAEs) together constitute an important segment of the whole PFM system in Bangladesh. They include Bangladesh Railway, Defense, Roads and Highways Department (RHD), Public Works Department (PWD), Forest Department, Postal Department, Public Health Engineering (PHE) Department and Telecom Department. Much of their expenditure is on engineering works. While they are part of the national budgeting process and have direct access to Treasury to make their own payments, their accounting systems are entirely different from normal civil accounts of the government and from each other and are guided by separate codes, manuals and guidelines. SAEs report their financial transactions to Controller General of Accounts (CGA) for eventual incorporation in both monthly central accounts and annual finance accounts. However much of the delay in the production of these accounts is due to the delayed reporting of their transactions to CGA. In addition, the quality of their financial data is compromised by the limitations of their separate accounting systems and adversely affects the overall quality of financial reporting by CGA and the ability of MOF to monitor budget implementation.

105. *The actions to be taken under PFM Reforms 2016-21:* The main issue is the time it takes to prepare an audit statement and the lack of information in the public domain. Apart from the timeliness of production, the Finance Accounts in particular is too voluminous having a number of unnecessary schedules and information overload. Both in terms of style and contents, it does not conform to IPSAS. Also, carrying out bank reconciliation is an integral part of CGA work but this is not done.

Table 4-15: Reform Actions to Improve Decision Making and Transparency

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• **SAEs (including CGDF and railway) integrated into iBAS++ and BACS** • **Improve the timeliness of in-year management reports and completion of the annual finance accounts and its presentation and contents**. • Improve bank reconciliation • Improve the quality of SAE financial management systems so as to improve the quality of their internal financial management, the timeliness and reliability of the information provided to CGA for the preparation of central accounts • Timely clearance of advance/ suspense accounts • Use Online Analytical Processing (OLAP) technology to organize data from the various sources to support business intelligence and production of Executive Dashboards through a data warehouse and publicize fiscal datasets (revenue and expenditure) in accessible formats (i.e., soft copy). • Training on proper coding of Reimbursable Project Aid (RPA) transactions at DDO level • DPA information recorded on a monthly bases based on specified format by CGA
Medium Term	• Implement IPSAS cash-based accounting standards covering general government • Improve comprehensiveness of financial reporting by consolidating SAEs (Bangladesh Railway, Defense, Roads and Highways Department (RHD), Public Works Department (PWD), Forest Department, Postal Department, and Public Health Engineering (PHE) Department) • Finalize Comprehensive operating procedures manual (COPM) -covering policies, procedures and detailed operational steps), consistent with new classification and iBAS++, both for CGA and SAEs is finalized

Objective 3.4 Modernize the Internal Audit Function

: Strengthen the management assurance framework

106. *Current performance and challenges:* Section 19 (a) of the Public Moneys and Financial Management (PMFM) Act 2009 states that one of the duties and responsibilities of the Principal Accounting Officer shall be *"To ensure efficient and transparent financial management and internal control processes at the relevant Ministry or Division or Other Institution"*. The rest of Section 19 sets out specific responsibilities such as ensuring appropriate and effective utilization of resources, compliance with legislation, ensuring bone fides of expenditure, collection of obtainable revenues, ensuring the budget has been prepared in accordance with directions and allocations are based on priorities to achieve the strategic objectives of the GoB, and implementation of decisions of the Standing Committee on Public Accounts.

107. Internal audit activities consist primarily of ex-post reviews focused on financial compliance, though plans exist to upgrade these activities to a full IA function according to International Standards. IA Manual was prepared under SPEMP in 2012 but not implemented. The Manual comprises three parts: Part 1 sets out guidelines on legal basis, principles and concepts of Internal Audit; Part 2 explains the internal audit process, tools

and techniques that are useful in the conduct of IA activities; and Part 3 contains the Appendices and further guidance on the audit process and examples of documents that may be useful in the conduct of IA activities.

108. Internal audit is an essential component of a well-functioning internal control system. Internal controls and internal audit remain an area of substantial weakness across the PFM system. Notwithstanding progress that has been made since the last PEFA internal audit does not play a very substantial role within the overall controlling framework for Bangladesh. There are pockets of internal audit in certain ministries but the reports produced are not used by the OCAG, nor do they carry any great weight within the administrative structure.

109. *Reforms undertaken and underway*: In July 2005 the Finance Division of the Ministry of Finance issued an Internal Control Manual. The manual provides guidance for implementing internal control. In the Foreword to the Internal Control Manual the then Minister for Finance \ directed Ministries and Departments to establish independent internal audit functions as a key part of the internal control structure[23]. *Internal Audit should assume responsibility for periodically evaluating internal control operations to identify weaknesses and recommend corrective measures".*

110. *The actions to be taken under PFM Reforms 2016-21:* Internal audit should play an important monitoring role in evaluating the effectiveness of the control systems within the Government's operations in meeting the strategic objectives in the FYP. To discharge its functions effectively, the GoB internal audit function lacks the key twin attributes of (i) professionalism - audit practice should be in accordance with *International Standards for the Professional Practice in Internal Audit (ISPPIA)* issued by The Institute of Internal Auditors (IIA); and (ii) independence - not involved in maintaining the controls it is supposed to evaluate. For these to be in place a suitable legal framework adjusted to meet not just current demands and expectations, but to also empower an Internal Audit function that could be relied on by OCAG. There is a need to develop a strategy to transform/modernize the ICU to a proper internal audit function and adopt risk-based audit methods concentrating on systemic issues with the objectives[24] of ensuring (i) conformity to the Government's strategy; (ii) effectiveness and efficiency of operations; (iii) reliability of financial reporting; and (iv) compliance with applicable laws and regulations.

Table 4-16: Reform Actions to Strengthen the Management Assurance Framework

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• Detailed study on internal audit options • Work out a plan for implementation of the strategy for strengthening internal audit already developed • Prepare a comprehensive program for building capacity to use the internal audit manuals already in place.

[23] This general mandate for the establishment of internal audit was communicated through more specific instructions from the Finance Division's memo No. MF\FD\B-1\budget (04) \2005\1803 dated 22\08\05, the terms of reference of the "Budget Management Committee" for MTBF ministries.

Medium Term	• Risk based internal audit conducted for pilot ministries and local bodies • Implement the training program on internal audit • Implement internal audit in phases

4.4 Goal 4: Promote Accountability Through External Scrutiny and Transparency of the Budget

Objective 4.1: To raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness to provide adequate assurance that the public funds are used efficiently and effectively

Ensure there is adequate external audit and informed opinion on financial statements

111. *Current performance and challenges:* The CAG's independence, tenure of office, access to information, authority to determine the manner of audit and his reporting responsibility have been laid down in the Constitution. His operational independence is guaranteed by the Constitution. While he has access to all information required for conducting audit, he is mandated to decide the manner in which audit to be conducted.

112. There are several features of Bangladesh's external audit arrangements which are not consistent with modern audit arrangements. OCAG generally audits 10-12 percent of total expenditure of central government, though risk assessment may deepen and widen the audit of relevant entities. OCAG has a workforce of approximately 5,000 and it can field roughly 1,200 teams of 3 auditors, which is insufficient to cover the large network of over 22,000 auditable units. Majority of auditors do not have sufficient exposure to modern audit technique and methodology. Audit coverage is less than 30 percent of central GoB entities due to resource limitations. However as per PEFA 2015, this is an improvement over other years which covered a maximum of 10 percent.

113. OCAG's audit approach follows compliance auditing. Other auditing (risk and performance) is on a demand basis given the limited resources the organization has. The demand for Performance audit has been growing. In several reports, PAC laid emphasis on conducting performance audit to evaluate the outcome of public expenditure rather than focusing on individual transactions. During recent times though OCAG has taken up several performance audits, they are not sufficient to meet the growing demand of such audits focusing on results.

114. Currently, nine Audit Directorates are carrying out mainly compliance audits as well as some follow up audits on departments, projects and statutory bodies. The audit scrutinize transactions which are several years old. For example, in the 2014 CAG Annual Report the most recent transactions commented on relate to transactions which occurred during 2010/11.

115. The external audit of Government financial statements has never been completed in a timely manner and audit reports are now 2 years behind. Article 132 of the Constitution requires the President to cause the financial reports to be submitted to Parliament and this is normally done by the Minister for Finance. According to PEFA 2015, no reports for the review period have been submitted to parliament. Only the FY2011/12 report has been submitted to OCAG and audited. FY2012/13 and FY2013/14 were still outstanding at the time of the PEFA assessment. The effectiveness of audit is undermined due to persistent delay in timeliness of annual audit of public accounts.

Table 4-17: Life Cycle of the 2011/12 Annual Appropriation Accounts

Submitted by CGA	Certified by OCAG	Submitted to the President by OCAG	Submitted to the Parliament
Annual Appropriation Accounts finalized on 22nd April 2014. *22 months from year-end.*	Annual Appropriation Account certified on 26th October 2014. *6 months from receipt from CGA.*	Annual Appropriation Account submitted to President on 19th April 2015. *6 months later*	Not yet submitted
Annual Financial Account prepared 10th July 2014. *25 months from year-end.*	Annual Finance Account certified on 29th September 2014. *3 months from receipt from CGA.*	Annual Finance Account submitted on 19th April 2015. *7 months later.*	Not yet submitted

116. A further concern in the audit process is slow response of the executive to audit observations. The coordination between the OCAG and the line ministries on follow up of audit observations does not follow structured policy and procedures. There is no departmental audit committee in the line ministries to timely review "draft audit paragraphs" within the official timeline of 45 days. There is a total of 90 days' time limit to finalize audit paragraph to be included in the final audit report of the OCAG. There is no accountability mechanism in place that can hold the line ministries responsible to timely resolve audit queries.

117. The 2014 CAG Annual Report indicates that the CAG also carries out pre-audit of payments, with assistance from CGA and the separate finance units of some other finance units (Defense, Railways) and these organizations also form part of and report to the CAG, although they also have reporting responsibilities to their parent organizations. All these staff are members of the Audit and Accounts cadre and are subject to overall management (transfers, training etc.) of the CAG. This arrangement runs counter to the spirit of separation of accounts from audit to avoid any possible conflict of interest. The responsibility of preparation of the accounts for the purpose of financial reporting lies with CGA, who is part of the OCAG. This arrangement is inconsistent with modern external audit arrangements and should be reviewed.

118. The audit reports do not generate public discussion, despite the work of the Public Accounts Committee for quality audit report and prompt resolution of audit findings. Public disclosure of audit reports are limited to press conference after submission of audit report to the president. However OCAG produces an annual report each year available on its website.

119. *Reforms undertaken and underway*: The Audit Bill finalized after long deliberations is yet to be presented before Parliament. While the Constitution specify independence of the OCAG it does not report directly to the Legislature and its budget is not separate from the government budget process.

120. Over the past two decades, OCAG has benefitted from several reform interventions supported by DFID, UNDP and CIDA. Currently it is receiving technical assistance from SPEMP-B- a multi-donor trust fund project being administered by the World Bank. With the support of the project, OCAG has adopted ISSAI[25]-compliant audit and piloted 20 audits which marks a significant shift from traditional compliance-based audit to bring quality in the audit. There is also a welcoming move from the OCAG towards entity-wide audit replacing the current unit- based audit approach. The projects also supported a twinning arrangement with the Comptroller and Auditor-General of India and received technical support to conduct audit in specialized areas. In addition, large number of auditors have undergone globally accredited CIPFA professional courses. The project also supported, the first of its kind compared to past TAs, a strategy paper and a road map to improve executive response to audit.

121. The OCAG also benefited from a standalone CIDA supported SCOPE project. However the support could not be sustained in the area of IT based audit software (AMMS) due to sudden closure of the project, and lack of planning and resources to maintain the AMMS after project closure.

122. *The actions to be taken under PFM Reforms 2016-21*: Summarized below the main priority actions are to improve the timeliness and the public availability of the audited financial statements as well as to adopt the new Budget and Accounts Classification.

Table 4-18: Reform Actions to Ensure Adequate External Audit

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• **Improve timeliness and public availability of audited financial statements (Appropriation Accounts and Finance Accounts)** • **Adopt BACS** • Enhance training and professional capacity to conduct more ISSAI-compliant audit Organizational restructuring of OCAG • Strengthen LM responses and audit committees • Strengthen capacity for OCAG support to PAC • Roll out ISSAI compliant entity wide audit (financial, compliance, performance and special audits) to replace the existing unit based audit approach • Implement OCAG organizational restructuring plan to support ISSAI compliant audit • Strengthen organizational and professional capacity of OCAG to support PAC • Improve timeliness of audit reports and make them publicly available • Upgrade and sustain IT infrastructure of OCAG and audit management and monitoring system (AMMS) • Support OCAG 's ongoing professional accreditation program • Improve responsiveness of the executives on audit and PAC recommendations
Medium Term	• Review and build consensus on an Audit Law, and its implementation

[25]International Standard of Supreme Audit Institution

Objective 4.2: To enhance the capacity and commitment of the relevant financial committees of Parliament and their respective secretariats

Strengthening Parliamentary oversight of public expenditure

123. *Current performance and challenges:* The following three financial committees in Bangladesh Parliament are mainly responsible for exercising parliamentary oversight of public expenditure:

- ✓ Standing Committee on Public Accounts (PAC)
- ✓ Standing Committee on Public Undertakings (PUC)
- ✓ Standing Committee on Estimates (EC)

124. The functions of these committees have been laid down in the Rules of Procedure of Parliament (ROP). Of these committees, PAC has the specific responsibilities to examine the annual accounts of the Government (Annual Finance Accounts and Annual Appropriation Accounts) certified by the Comptroller and Auditor General (CAG) together with the audit reports and recommend actions to be taken by the spending agencies. On the other hand, the spring board of PUC is the annual reports of the public undertakings as included in Schedule IV of ROP based on which the committee evaluate their performance. However, the committee may also consult the audit reports of CAG, if necessary before making any recommendation. EC's functional jurisdiction is basically confined to the estimates to be presented before Parliament. Broadly, the committee is 'to report what economies, improvements in organization, efficiency or administrative reform, consistent with policy underlying the estimates may be effected'26.

125. PAC, before delivering any recommendations, sits with the spending agencies represented by the Principal Accounting Officers (PAOs) of the ministries/divisions and gives them the opportunities to make submissions to defend their position. Whatever recommendations emerge from the deliberations in the meetings are binding on the executive. A follow-up mechanism is in place to monitor the implementation progress of recommendations by the PAC Secretariat assisted by an outfit of CAG attached to the Parliament Secretariat. However, as reflected in several PAC reports, the pace of executive response to the committee recommendations is generally slow. The PAC of the Ninth Parliament noted in its first and third reports 27 that the concerned ministries/divisions resort to procrastination in implementing the committee recommendations adopted in various meetings held to discuss the audit reports of CAG. Due to persistent endeavors of the Committee, the situation improved during its tenure in Ninth Parliament which is corroborated by the fourth report of the committee where it noted that as of 19 September, 2013 it had reviewed a total of 6740 audit observations involving an amount of Tk. 15,096 crore (Tk.150960 million) captured in 931 audit reports of CAG against which 4113 observations could be resolved.28.Another important observation raised in the same report29 reflects that the results of audit reported to PAC highlighting major financial irregularities only represent 10% audit coverage of the total

[26]Rule 235 of the Rules of Procedure of Parliament (2007).

[27]Page 14 of the First Report and Page 15 of the Third Report of PAC of Ninth Parliament highlighting the recommendations.

[28] Page 7 of the Fourth Report of PAC

[29] Page 16 of the Fourth Report of PAC

public expenditure. This suggests that more irregularities could be detected had there been wider coverage of audit.

126. The PAC has been quite active in clearing the backlog in its review of CAG reports. Despite this, PAC's work will continue to be hampered by lack of timeliness of the annual financial statements and of the observations made in CAG reports. The PAC will still be dealing with audit observations that relate to transactions occurred several years ago. This clearly limits the accountability of public officials as well as undermines public and media interest.

127. Compared to PAC, the other two committees appear to be less active. Each appears to meet up to 10 times a year compared with over 30 meetings of the PAC. Effective parliamentary oversight of public expenditure is key to enhanced transparency and accountability. Recognizing this, the Parliament Secretariat implemented a reform project called Strengthening Parliamentary Oversight (SPO), between July 2010-December 2015, with the following key components: improving capacity of parliamentary oversight functions, enhancing public access to information about Parliamentary Oversight Committees, modernizing business process, proceedings and automated record management and development of MIS for financial oversight committees. Following this intervention, the committee reports are now being published regularly in its website as part of enhancing public access to information about parliamentary oversight, an MIS assisted business process in Bangladesh Parliament Secretariat has been rolled out and several overseas study tours were organized to gather insights from the parliamentary practice of other countries. While the project development objectives have been largely met through the active engagement of PMCU and close supervision of task team, there is still room for further improvements.

128. *Reforms undertaken and underway*: Parliamentary oversight of public expenditure is constrained due to lack of adequate support to the committees both in terms of logistics and manpower. Added to this is the lack of professional exposure of most of the committee members to deal with the technical nuances of the tasks they are to handle. The Chairman of PAC while reflecting on the Committee's role in improving the country's public finance system laid emphasis on an institutional structure to provide relevant research services to the committee to arrive at informed decision[30].

129. *The actions to be taken under PFM Reforms 2016-21:* As shown in the Table below the main priorities are to support the timely response of the line Ministries to the PAC recommendations and to support the staff of the committees.

Table 4-19: Reform Actions to Strengthen Parliamentary Oversight

•	• **Reform Actions Including Priorities in Bold**
• Intermediate-Short term	• **Adopt mechanisms to ensure timely responses to PAC recommendations, and provide easily accessible and comprehendible data for the public** • **Strengthen capacity of staff and technical support to committees** • Provide adequate professional resources to the financial oversight committees to operate effectively. • Provide content-based training to the relevant committee secretariat staff

Bangladesh Parliament.(2010). *First PAC Report of the Ninth Parliament*. Dhaka: Bangladesh Parliament

	to work out the agenda for the committee meetings as they do not have sufficient exposure on the topic they are dealing with • Ensure sustainability of the MIS already developed Medium-term (Tentative) • Extend strong research support to the committees • Make Bangladesh Institute of Parliamentary Studies(BIPS) operational to organize continuous professional development training for the recruited staff

Objective 4.3: Enable civil society and other citizen groups to engage on budget formulation, budget execution and oversight

Enhance fiscal transparency and support use of the data

130. *Current performance and challenges:* Since 2012, the Government of Bangladesh has increased the availability of budget information by publishing the Year-End Report and Citizens Budget. However there are still several areas where fiscal transparency could be enhanced:

- Producing a publicly available Pre-Budget Statement.
- Producing a publicly available, timely annual Audit Report and increasing the comprehensiveness of the end of year financial report.
- Increasing public participation in budget processes. The Open Budget Survey assesses the degree to which the government provides opportunities for the public to engage in budget processes, the score of 23 out of 100 is close to the global average score of 25, but could be improved.

131. *Reforms undertaken and underway:* The Ministry of Finance has made great efforts to disclose budget documents once the budget is approved. There have also been efforts made to increase the timeliness of the audit report, but the time to consolidate accounts leads to delays.

132. *The actions to be taken under PFM Reforms 2016-21:* Actions are summarized in Table 4-20 below.

Table 4-20: Reform Actions to Enhance Fiscal Transparency

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• **Improve the timeliness of the audit reports availability in the public domain.** • **Publish all recent audit reports in user friendly and accessible format** • **Publish Budget Booklet immediately after budget speech** • Publish the Citizen's budget immediately after budget speech • Ensure greater transparency of public finance data in user-friendly and editable formats through an Open Data Portal • Disclose the fiscal risk statement proposed in Objective 1.3 SOE Governance • Improve transparency and accountability associated with procurements
Medium Term	• Provide briefing and guidance on analysis of fiscal information for civil society

4.5 Goal 5: Enhance the Enabling Environment for Improved PFM Outcomes

Objective 5.1: Put in place a comprehensive and a clear legal framework

Ensure the legal framework and rules clarifies roles and responsibilities, incentives and behaviors consistent with sound PFM practices.

133. *Current performance and challenges:* While the existing PFM legal framework is comprehensive, some of the legal instruments are out of date following the implementation of PFM reforms in. The business processes have changed with the introduction of information technology and budget reforms.

Box 4.2 Legal Framework Review

A 2015 review of the PFM legal framework found[31]: ***Relevance: The legal framework is relevant, but with some outdated references:*** • Outdated procedural, control and reporting requirements that may have been affected by changes in operational systems and processes, through the implementation of systems such as iBAS – for example the approximate 252 clauses in separate pieces of the core legislative framework that apply to payment processes.
Clarity: There are some serious shortcomings on clarity: • Use of terms such as "Competent Authority", "Administrative Authority", "Subordinate Authority" in cases when the actual responsible officials could easily be referenced • References to "specified procedures", which may well be embedded in numerous and non-accessible instructions and memorandums • General use of the term "Government "in the assignment of authorities or establishment of rules and processes • Potential confusion on the accountability of different role players – e.g. Head of Department, Principal Accounting Officer, Controlling Officer; Disbursing Officer, as well as the further use of Delegation of Financial Powers beyond the arrangements laid out in the Constitution, the Public Moneys and Budget Act and the Government Financial Rules (GFRs). • Confusion on the accounting role of the CAG and its independence, in terms of modern day International Standards for Supreme Audit Institutions
Simplicity. There are several factors reducing understanding and simplicity • Numerous definitions and arrangements are duplicated in different legal documents • References to other orders, instructions and "specified procedures" that are not publically accessible and for which the current authority are undetermined • The matters affecting relevance, clarity, coherence and consistency also impede simplicity
Coherence and Consistency: There is a significant degree of fragmentation, overlap and disconnect, leading for example to • Use of different terms for similar objects, or similar terms for different objects - e.g. "Public Accounts" and "Public Account" and "Government Account" • Conflicting definitions and requirements for financial reporting in Public Moneys and Budget Act 17:4, GFR 2:xvii, GFR 302, CAG Act 7

[31] The review carried out by a team from the World Bank in 2015.

Completeness: There are some gaps in the framework, including lack of:
• Arrangements for the fiduciary responsibilities of <u>local government bodies</u> and the rules and arrangements for fiscal transfers • Specific requirement to <u>reconcile cash movements</u> between the CGA, BB and NBR • Arrangements for accounting, reporting and monitoring of <u>investments, and physical assets</u> • Explicit fiduciary duties for line ministries in terms <u>of asset, liability and risk management</u>: • Currently, rules and regulations for <u>internal audit</u> • Arrangements for incorporating <u>donor funds</u> into the budget framework and budget execution systems • Clarification of accountability relationships with <u>State-owned Enterprises</u> and their fiduciary responsibilities • Arrangements for budget and risk oversight over <u>sub-national spheres of government</u> • Arrangements for <u>enforcement and sanctions</u> when the legal framework is not followed • Clarity on several aspects of <u>timeliness and fiscal transparency</u>

134. *Reforms undertaken and underway.* There are no reforms already underway, the first steps are to appoint a Commission to review and update the framework and to review the outdated and overlapping legal documents and treasury rules.

Table 4-21: Reform Actions to Update the Legal Framework

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• Appoint a commission to review and update the PFM legal and regulatory framework with a 1 year tenure • Commission to review and recommend and make required changes in the PFM legal and regulatory framework as policy reform priority with particular focus on the following: • PFM rules for local government bodies • Fiscal transparency • Enforcement mechanism • External audit • Internal control • SoE governance and oversight • Implement recommendations of the commission

Objective 5.2: Put in place the policies, processes and skills to manage and deliver a comprehensive training and capacity development program

Change management and capacity development

135. *Current performance and challenges:* Although institutional arrangements like the budget management committees (BMC), budget working groups (BWG) and budget management departments are set up with a clear terms of reference, there is a serious lack of capacity in terms of manpower and logistics in budget making and execution process. In several areas such as preparation of the Sector Strategy papers (SSPs), Annual Performance Agreements (APAs), Annual Performance Reports (APR), Medium Term Strategy and Business Plans (MTSBP), Forward Baseline Estimates (FBEs), the relevant

staff members lack basic skills to prepare these documents. Even the preparation of MBF which, by now, has become a routine annual function of the ministry needs mentoring from staff of the Finance Division. Moreover, whatever reforms have taken place at the line ministry level has not been cascaded down to departments/directorates responsible for implementation of ministry policy at the field level.[32]

136. Budget management outfits, in particular, are not well-resourced to function according to their terms of reference as well as to sustain the outputs being delivered through various reform interventions. The BMCs at the ministry level only routinely meet to endorse submission of MBF to Finance Division which fulfils part of its wider terms of reference. At the departmental level, BMCs are virtually non-functional. For example, in the case of MOHFW, although the Directorate General Health Services (DGHS) consume large part of the total allocation of the ministry, the BMC of this Directorate is not functioning.

137. In addition, a significant issue in PFM staffing is the split between staff of planning wings of line ministries who form part of the economic cadre and those of budget wings of line ministries who form part of the much broader administrative cadre. No transfer between positions in each cadre is possible meaning that developing a unified system of planning, monitoring and evaluation is difficult. Further given the broader nature of the administrative cadre the budget wing staff may be transferred to non PFM work and members of the cadre without sufficient PFM exposure may be transferred to budget wings – as regularly occurs.

138. This cadre division is thus based on an inappropriate distinction between planning and budgeting which should be reviewed. It would be appropriate to consider the establishment of a new PFM cadre which would clearly identify the significance of PFM and ensure that these staff is managed as an integrated resource. In developing this cadre, consideration could be given to clear specification of required technical skills and certification through IPF and other training programs – as has been done for procurement staff who have a system of professional certification.

139. Furthermore, despite the extensive number of government officials undergoing training, the overall impact of training is not being assessed. For example, the hoped-for benefits of producing Masters Graduates have not materialized since individual officers are posted at the discretion of the MoPA and not to match the competencies required for the job.

140. *Reforms undertaken and underway*: Training and capacity development activities on PFM are currently channeled through two institutions, namely, Institute of Public Finance (IPF) and Financial Management Academy (FIMA). IPF has been established at the initiative of Finance Division to cater to the emerging needs of meeting the gap between demand and supply of PFM trained officials within the government in the wake

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[32] This assessment draws upon the inception report of the Strengthening Budget Preparation in Bangladesh Project (SBPB) being executed by the World Bank (WB) under SPEMP which assessed capacity to plan, prepare budgets, monitor and report on budget execution and performance, and capacity to introduce reforms or changes in the Ministry of Health and Family Welfare (MOHFW), Ministry of Education (MOE), Ministry of Primary and Mass Education (MOPME) and Power Division.

of reforms. It is an autonomous organization being governed by a General Council and a Governing Council with representations from relevant ministries/divisions/agencies, academia and professional institutions. FIMA, on the other hand, is the training wing of the Supreme Audit Institution (SAI) of Bangladesh. The Academy is utilized as a platform for enhancing professionalism of the officers and staff of Audit and Accounts Department. With support from SEMP –B, FIMA signed an MOU with the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide advanced professional training to the officials of the department. Currently, the training programs of the institutes comprise the courses shown in Table 4-22.

Table 4-22: Training Courses Offered by IPF and FIMA

Institute of Public Finance (IPF)	Financial Management Academy (FIMA)
10-week course on Fiscal Economics and Economic Management (FEEM) Course	2-week course on Training on Budgeting and Accounting System (TIBAS)
3-week course on Budget Management Specialist(BMS) Course	15-month Departmental Foundation Course for the cadre officers at the entry level
1-week course on Budget Management Cycle	10-week course (SAS) for the departmental officials
1-week course on Medium Term Debt Strategy	Auditor Orientation Course (10-30 days' duration)
3-week course on Training Specialist Course	
5-day course on Building Essential Skills in Training	
Orientation Workshop on Budget Circular-1 and Budget Circular- 2	
3- day FEEM Refreshers' course	

141. In addition, both the institutes conduct requested courses on PFM for the officials of different public sector agencies and NGOs. The objectives and scope of the regular training programs are wide and present a significant management challenge. In the case of IPF, the management structure has not yet been established with a regular Director General and the Senior Fellows and support staff though the Governing Council approved its organogram in June 2015.Although FIMA in its current location is capable of providing IT facilities, modern classrooms and full residential facilities, its current management structure is not commensurate with growing training needs. Efforts are underway within the Planning Commission to create a BCS Economics Cadre Training Academy which will offer courses on planning and public investment management-related topics.

142. *The actions to be taken under PFM Reforms 2016-21:* The priority is to develop a PFM skills strategy, based on a needs assessment and then to prepare an action plan.

Table 4-23: Reform Actions to Change Management and Capacity Development

	Reform Actions
Intermediate-	• PFM skills strategy, including a needs assessment, and prepare action plan

Short term	in consultation with relevant stakeholders • Commit funds for professionalization of PFM skills • IPF needs a strategic plan, a financing strategy and a roll out of the existing training programs. • Creating a pool of officers trained in PFM and assigning them to PFM related work • Continuous professional development including peer learning on the job training etc. • Strengthening institutions related to PFM capacity development • Change management

Objective 5.3: Leverage iBAS++/BACS, e-procurement and other financial management information systems as enablers to improve PFM

PFM Functional processes for full-fledged iBAS++ rollout

143. *Current performance and challenges:* An effective FMIS is important to achieving key PFM objectives. Reliable and timely financial information is required for aggregate fiscal control, for efficient budget implementation to deliver services and for accountability to Parliament and the public. FD is leading the development and implementation of the new FMIS (iBAS++) which is a web-based solution running on Oracle Database with modules for General Ledger, budget preparation, execution, accounting and reporting, payroll and employee pension payments.

144. iBAS++ was commenced under the previous donor funded SPEMP A project. Following the closure of that project in 2014, FD has taken over this initiative under a program called Public Expenditure Management Strengthening Program (PEMSP). The system is intended to provide an enhanced financial control framework and support financial decision making at all levels of government. For example, the current IBAS does not provide budgetary control as expenditure transactions are not able to be checked against available funds. It will support both the cash and accrual bases of accounting. The system should provide electronically for budget submission and review, for electronic submission of bills by drawing and disbursing officers as well as self-drawing officers, for communication of allocations to and within line ministries, for any requirement and reallocations, for the production of financial reports for all levels of management and for the production of annual financial statements based on IPSAS and GFS. The centralized data base will be able to produce real time reports and financial statements at any level of organization, fund or economic classification.

145. iBAS++ does not cover Defense and Railways which, have their own accounting systems nor other self-accounting entities – Public Works, Roads and Highways Department and others. These organizations will retain their separate systems but interfaces will need be developed with iBAS++ and opportunities to extend the IBAS++ platform to these entities should be considered.

146. *Reforms undertaken and underway*: A recent IMF review of progress on iBAS++ comments favorably on its design and implementation progress and recommends a five year implementation program, including the addition of cash and commitment control modules and a fixed asset management module. Also, a recent World Bank Policy Note

reviews key issues for the successful implementation of iBAS++. It notes the importance of iBAS++ being capable of use by donor funded projects including sector wide approaches (SWAps), of fully communicating the system's benefits to future users and ensuring an adequate ICT cadre for the sustainable maintenance and ongoing support of iBAS++. It considers that the project management office is not sufficiently resourced to drive implementation and roll-out and recommends the adoption of the COBIT IT Governance Framework for system implementation. It also notes the need for a comprehensive change management, communication and training program covering all stakeholders.

147. The system is now about 90 percent developed - the budget preparation module is complete and is now being used by all line ministries/divisions for preparing the budget for FY2016-17. The budget execution module has been completed and being piloted in directorate. The central government version (functionality required accounting offices and drawing and disbursing officers) of accounting module has been completed and now operational in a Chief Accounting Office in Dhaka. It is proposed to roll this system out in during the current fiscal year and in 2016/17 first on a pilot basis, using the existing classification system and COA. It will be rolled out progressively to all accounting offices and to all drawing and disbursement offices.

148. *The actions to be taken under PFM Reforms 2016-21:* It is important to ensure that the institutional and change management aspects of iBAS++ are addressed and that line ministries are made well aware of how the new system will meet their reporting needs. These aspects have been addressed in the forthcoming World Bank Policy Note. At the end of the five year period, given Bangladesh's high IT capacities the system should operate so that all budget holders (including the foreign-aided projects) are able to use a fully automated system.

Table 4-24: Reform Actions to Full-Fledged IBAS++ Rollout

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• **Improve coordination of budgeting and planning functions** • **Consider delegating responsibility for processing/approving development projects to the line ministries** • **Strengthen PFM capacity of line ministries** • Adopt an implementation plan for full implementation of iBAS ++ to all ministries/divisions, directorates, DDOs up to Upazila level and SAEs • Identify and implement system interface and integration opportunities with the Bangladesh Bank, Sonali Bank, tax, VAT and customs systems, debt management systems, e-procurement (e-GP) and other related applications in the broader public sector. • Address the implementation issues of iBAS++ covering change management, communication and training and other measures necessary for sustainable implementation. • Ensure institutional and capacity development of CGA and line ministries together with adequate human resources for operation of iBAS++ • Server hosting and connectivity at of tier-3 National ICT Centre (NICTC) at Bangladesh Computer Council (BCC) for Infrastructure as a Service (IaaS). • Update Business Continuity Management (BCM) Plan and undertake periodic disaster recovery tests

	• Secure data transfer with appropriate encryption protocol by obtaining SSL certificates from the Controller of Certifying Authority (CCA) • Ensure that all budget holders use iBAS++ to submit their budget estimates and receive budget allocation electronically, and submit bills and generate budget control reports • Ensure that all accounting offices including SAEs, CGDF, Railway use iBAS++ for all types of transaction • Interface iBAS++ with NBR to provide a comprehensive picture of revenue receipts of the government • Implement government receipt portal Conduct a feasibility study for introduction of iBAS++ in local bodies. • Rollout EFT to divisional offices in other major centers. • Further review the payroll and pension system to identify the systemic flaws and recommend actions to improve the business process
Medium Term	• Asset Register and Inventory management module implemented • Complete all required system interface/integration • Use iBAS++ for all projects and programs to capture transactions and generate reports accordingly • Disaster recovery test reports submitted to management

Box 4.3 Payroll and pension systems

Current performance and challenges: While there have been reform interventions in a range of areas of PFM over the past two decades, the system of payroll and pension management remained outside the ambit of the agenda of those interventions. This is despite the fact that the loopholes in the system have the potential of draining out huge public resources through unfair practices. It was only included in the agenda of reforms under DMTBF project and a study was commissioned to assess the current status of capturing information and data of employees and pensioners and suggest a way forward.

The study noted that: "Over the last two decades, expenditure on salaries and pensions has emerged as the single largest expenditure head for Government. In the absence of any updated information and data on the number, demography and entitlements of government employees and pensioners, the Government has been unable to accurately compute or project the salary and pension expenditures across the country. The lack of reliable data on employees and pensioners has also limited the ability of the Government to undertake sound fiscal planning, estimate the impact of Pay Revisions or plan their development expenditure."[33]

Reforms undertaken and underway: Given the importance of this segment of PFM, the Government has included the agenda in the ongoing Public Expenditure Management Strengthening Project (PEMSP) Finance Division. While the project is making remarkable progress in creating a reliable database for employees which will have a huge positive impact in preparing credible budget estimate for the salaries and pension of government employees, further systemic changes are required in the management of payroll and pension. The payroll management regime, in particular, is in need of re-haul to improve the current business process to upgrade it to a modern system. This will largely reduce the known and possible risks in this area and also ensure a good control environment.

[33] DMTBF Project, Finance Division. (2012). Report on "Development and Creation of Employees and Pensioners Database"

Objective 5.4 Implement BACS covering the whole of general government accounts and to provide an enhanced budgetary control framework and to support financial decision-making at different levels in the government

149. *Current performance and challenges:* A new Budget and Account Classification System (BACS) with roll-ups and side tables has been developed in iBAS++ that better meets the current and future demands of the public financial management system of Bangladesh. In line with the Article 131 of the Constitution of the People's Republic of Bangladesh 1972, the new BACS was submitted to the Comptroller and Auditor General on December 9, 2015 to approve the "*form and manner of keeping public accounts".* The new BACS is a nine segment hierarchical classification structure divided into "Posted" and "Derived" segments. Posted segments are explicitly coded for each transaction and are maintained in the general ledger of iBAS++. Derived segments are not determined by the users rather these are produced using mapping tables or other coding mechanisms within the iBAS++ and used mainly for reporting purposes. The posted segments of the new BACS comprise of the Organization (11 digits), Program (9 digits), Fund (8 digits) and Economic (7 digit). There are also additional posted segments which include the Mode of Payment(1 digit) and the Location(8 digits) The derived segments include Authorization(1 digit), Function(4 digits) and Budget Sector(4 digits).

150. *Reforms undertaken and underway*: The new classification system has been designed to accommodate both existing needs and those arising from the on-going PFM reforms. The modern software features in iBAS++ will support users in using the expanded coding structure whilst simultaneously making substantially simpler the recording of transactions. This will provide, among others, the following benefits:

- facilitating more accurate financial transaction recording
- providing complete information for forecasting, appraising and valuing resources and expenditures, developing and executing the budget and making available financial information to the relevant agencies
- enhancing transparency through more detailed and meaningful reporting
- building controls in the budget execution process
- facilitating GFS and IPSAS compliant external reporting
- expanding the scope of the government accounting and financial information system to the entire central government and potentially over the entire general government

151. *The actions to be taken under PFM Reforms 2016-21:* The first priority is to fully adopt the new classification system and to train all users in how to apply the new classifications.

Table 4-25: Reform Actions to Implement the New Classification System

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• **Develop and implement a change management program for BACS implementation, including awareness building, user training and communications** • **Review, design and development of existing and new reports; improvements in the presentation of the budget; updating and approval of the legal framework (e.g. the new formats of the annual financial statements)**

	• Develop the structure of budget release process, re-appropriation and virulent controls according to the new BACS • Migrate the historical data; mapping for aggregation of data for additional analysis and reporting e.g. Sustainable Development Goals (SDGs), Five Year Plans (FYP), gender and child budgeting • Introduce mechanism for controlling changes to the BACS • Update and finalize the Account Code (accounting policy document) based on the application of existing accounting policies under the BACS • Develop an accounting manual (covering procedures and detail operational steps) consistent with the BACS and iBAS++
Medium Term	• Build stronger awareness and understanding of the new BACS among all stakeholders • Implement the total BACS in conjunction with iBAS++ • Improve the quality and format of financial reports (e.g. prepare financial statements based on IPSAS cash accounting standards) • Engage with donors to transition to accounting for their projects using iBAS++ and BACS • Enhance the quality of accounts, with introduction of accounting system for receivable (for non-tax revenues), etc. • Enhance the coverage of accounts to general-government and consolidation of aggregated accounts of general government for fiscal reporting

Objective 5.5 Develop Organizational Change Agility to Enhance Implementation of PFM Strategy

152. *Current performance and challenges:* As part of the iBAS++ training/awareness plan, stakeholder meetings and workshops are periodically conducted; video tutorial are uploaded in YouTube and FD website; training of line ministries and departments has started and user manuals are available on FD Website; and Booklets are planned to be made available to ministries. FD can build on this by ensuring ***strategic communication*** with stakeholders about benefits and contributions of the overall PFM reform including exactly what will change; when; and how through Information, Education and Communication (IEC) campaigns that will target key stakeholders (inform, consult, involve, collaborate or empower).

Table 4-26: Reform Actions for Change Management

	Reform Actions Including Priorities in Bold
Intermediate-Short term	• Prepare and conduct Awareness workshops on Change Leadership for Secretary to First Assistant levels • Prepare and conduct Awareness workshops on Change Management for Officials • Conduct Immersion Workshops on Change Leadership for those who will be leading changes under PFM • Conduct Immersion Workshops on Change Management for those who will be implementing changes under PFM • Incorporate Change Leadership and Change Management activities during the planning stages of any change • Integrate Change Leadership and Change Management activities with the specific project plans for implementing the changes
Medium Term	• PFM professionalization • Continuous professional development including peer learning, on the job training etc. • Integrate Change Leadership and Change Management activities with the specific project plans for implementing the changes

Chapter 5 Change Management, Risks, Challenges, and Opportunities

5.1 Change Management

153. **While the strategy designed is technically very sound, experience from previous reform efforts have shown that this is insufficient in itself to lead to successful PFM reform**. Experience from implementation of the 2007-12 Strategy demonstrated the need for high level commitment and greater technical capacity in order to systematically adopt and roll-out the initiatives that were successful under that strategy e.g. MTSBPs, APRs. A common challenge is also an under-appreciation of the complexity, time requirements, and capacity needed to instill sustainable changes in individuals and institutions.

154. **Dimensions of leadership and change management support are therefore considered necessary in the 2016–21 Strategy**, and will be introduced to strengthen implementation, improve institutional behaviors and enhance stakeholder engagement and communication processes, and outcomes. It will also enable adaptive implementation based on learning from implementation throughout the months and years of the upcoming reform process as it unfolds, and support processes of 'course correction' to continually direct and re-direct efforts towards objectives. A recent World Bank study of change management for PFM systems reforms draws from the change management literature and review of reform experience to identify lessons, summarized in Box 5.1. A change management plan for the 2016-21 PFM Reform Strategy is under development and includes four key elements that are outlined below.

155. **First, the process of development of the 2016-21 PFM Reform Strategy has combined two key features that contribute to managing change from the outset**, namely: (i) involvement of actors across key central government agencies, significantly beyond the Finance Division, and (ii) within the comprehensive set of objectives and actions, identification of a smaller set of priorities that will be the focus of the first two years of the implementation plan.

156. **Second, moving into implementation and building upon these two foundations, the change management plan will include (i) capacity strengthening for reform leaders at various levels across GoB; and (ii) utilization of techniques such as the rapid results approach to accelerate implementation** (see Box 5.1). Strengthening capacity of high-level leaders and working with them through processes that help them prioritize, make timely and informed decisions and provide an authorizing environment that helps technical staff continue implementing will boost progress on achieving reform goals. Techniques to develop individual capacities at the technical staff level, particularly in line ministries, to better fulfill their functions within government agencies will be necessary to make some of the changes needed within institutions that have not happened previously (e.g. rolling out IBAS++ and procurement monitoring, introducing more efficient internal controls and auditing). In addition, and of critical important given the transversal nature of PFM reforms, processes for supporting collaboration across agencies will be need to be set up.

157. **Third, effective communication with the stakeholders both internal and external will be a critical component of the change management plan.** Training (both hands-on and orientation), seminars, workshops, dissemination programs on output, publicity campaign, distribution of pamphlets and booklets, and regular meetings with the end-users are some the means which may ensure effective communication. A detailed plan will be prepared bearing in mind the reform objectives and actions and how they will affect the stakeholders, including those within the government (line ministries) and external stakeholders such as citizens and private sector. These actors are particularly important on the 'demand side' in order to ensure they are informed of progress (or lack thereof), and are better able to maintain interest and a measure of accountability through social scrutiny of progress on PFM reforms.

158. **Fourth, an effective change management plan for implementation of the PFM reforms includes consideration of the following dimensions of stakeholder ownership and participation**:

- ***Developing ownership among relevant stakeholders*** for the PFM reform strategy will be important, reinforcing and building on the substantial engagement and ownership across multiple agencies that has been achieved in the development of the PFM reform strategy to date. This will include:
  - *Broadening the base of ownership*, identifying who needs to be involved and when, and designing targeted engagements with the different audiences. Key groups include the line ministries without whom implementation of many of the reforms will not be possible, and who are at the front-line of delivering better outcomes from public spending. It will be important to build consensus on the strategy with the broader group.
  - *Deepening ownership of the stakeholders involved to date*, building on the momentum achieved and addressing any challenges or dynamics that hinder their progress together.
- ***Assessing readiness, capacity and commitment to act amongst stakeholders*** – A process is required to understand the readiness and capacity of different groups of stakeholders to take action. A process for focusing in on what they are willing, capable and ready to do will increase chances they will successfully do what is expected. Once agreement has been reached on the part different stakeholders can contribute to, ensuring there is a credible commitment to action is important for future accountability to a steering committee.

159. **Fifth, managing the changes proposed in the Strategy require effective governance and coordination arrangements**. The arrangements are still be to finalized, and consideration will be given to (i) a national steering committee (or similar) to oversee how successfully the strategy is being implemented, provide strategic guidance, and facilitate coordination and participation among key agencies across GoB, and (ii) the most appropriate arrangements to monitor the program, identify any implementation snags and take appropriate steps for resolution, including whether a full-time unit based in Finance Division with specific terms of reference will be required.

Box 5.1 Change Management Lessons

Managing Change in PFM Systems Reforms – a Guide for Practitioners, Dener C and S Kostenbaum, World Bank June 2015, provides valuable lessons from literature and experience of change management for PFM systems reforms.

Definition. **"**Change management is broadly defined as the process of helping people understand the need for change and to motivate them to take actions, which result in sustained changes in behavior. Organizational change management does not only refer to a set of basic tools or structures intended to keep any change effort under control. More importantly, it is about adaptive leadership (or change leadership[34]) for addressing non-technical challenges, by evaluating and managing risks, empowering a group of leaders, and mobilizing a large number of people with a shared vision to introduce sustainable changes in social and organizational culture." (p.3)

Key findings. The lessons indicate that effective change management needs to focus on the following:

- **"High level political support** (continuity of strong interest and commitment to reforms)
- **Developing adaptive leadership skills** (sharpening problem-solving skills of reform teams)
- **Stakeholder mapping** to identify key actors (commitments) and support/resistance (constraints)
- **Development of a shared vision** (direction) to clarify what will be achieved and when
- **Communication strategy** (alignment) to coordinate and integrate different components
- **Readiness of reform teams and project leader** (and ultimately, the whole organization)
- **Well-defined deployment plan** (specific milestones, and incremental achievements)
- **Capacity building plan and appropriate institutional framework**
- **System integration and transition capacity** (capacity building and knowledge transfer)
- **Managing resistance** (active engagement, empowerment, building trust)
- **Assessing risks** (integrating risk management into governance framework)
- **Taking into account the political context** (finding a "window of opportunity" for reforms in between political cycles)" (p. 41).

A change management method indicated in the study is the Rapid Results Initiative, which supports implementation, building reform momentum and leadership, and delivering concrete milestones and results in a short period of time. "Rapid Results Initiatives (RRI) provide a structured process that mobilizes teams to achieve results in 100 days or less, learning along the way." (p.11). In Turkey, for example, Rapid Result Initiative helped deliver early results that generated confidence and forward momentum.

5.2 Risks and Challenges

160. The experience over the past two decades amply illustrates that implementing PFM reform strategy is not a smooth sailing venture and is replete with many risks and challenges. However, these are not unique to Bangladesh. Many countries faced these risks while implementing similar strategy. The risks listed below are not exhaustive and basically meant for stimulating discussion among the key stakeholders. The risks are

[34] Kotter, J. "Change Management vs. Change Leadership -- What's the Difference?", Forbes Online, July 12, 2011.

categorized external and internal to identify the risks outside the direct influence of the strategy (external) and the risks internal to the strategy itself.

5.2.1 External Risks

161. A preliminary assessment identifies the following risks which continue to exist and impact on reform endeavors:

- Lack of widely-based political engagement in PFM and wider governance reforms
- Absence of institutional reforms to embed and sustain the results of process reforms
- Delays and disruptions to the flow of funds from the development partners because of the stringent funding framework
- Excessive delays in enacting new legislation required to support a well-functioning PFM system
- Insufficient access to information and/or capacity of civil society and private sector to scrutinize progress (or insufficient lack thereof) on reforms

5.2.2 Internal Risks

162. These are known risks and continue to have direct impact on reforms:

- Lack of full buy-in and capacity to internalize reforms by the line ministries
- Counter or competing interests and/or priorities between different ministries or government agencies
- Challenges of coordination across institutions to ensure effective implementation and 'lesson learning' across agencies of PFM reforms
- Capacity constraint in the relevant outfits of line ministries requiring constant mentoring from FD, such as submission of MBF in response to BCC-1
- Rotation of trained staff responsible for implementing reforms in key areas such as macro modeling and iBAS++ implementation
- Senior managers' commitment to line management roles reduces the scope of providing effective leadership in taking forward reforms
- Insufficient attention paid to skills transfer undermining sustainability; Insufficient number of experienced staff to take over responsibility from the consultants
- Failure to agree an exit strategy resulting in continuing dependence on external inputs
- Insufficient trained staff in permanent set-up of the Government to absorb the technical solutions such as iBAS++ and DMFAS.

5.3 Risk Mitigation Plan

163. A risk management plan has been worked out to mitigate the risks listed above. The table below presents plan:

Table 0-1: Risk Management Plan		
Risks	**Risk Mitigation Actions**	**Indicators**
External		
Lack of widely based political engagement in PFM and wider governance reforms	Involve the Cabinet while deciding the agenda of PFM reforms to seek their agreement	Agreed PFM reforms strategy is in place

Table 0-1: Risk Management Plan		
Risks	**Risk Mitigation Actions**	**Indicators**
Absence of institutional reforms to embed and sustain the results of process reforms	Draw political support for concomitant institutional reforms	New institutions to embed the results of process reforms are in place
Delays and disruptions to the flow of funds from the development partners because of the stringent fund disbursement framework	Initiate dialog with the development partners to liberalize their fund disbursement regime	Funds are disbursed on time
Excessive delays in enacting new legislations required to support a well-functioning PFM system	Identify the barriers, draw up a timeframe and persuade the relevant channels to act upon	Relevant legislations are enacted within a reasonable time frame
Internal		
Lack of full buy-in reforms by the line ministries	Involve the top management of line ministries and seek their agreement on the proposed reform agenda.	Reforms internalized and sustained
Capacity constraint in the relevant outfits of line ministries requiring constant mentoring from FD, such as submission of MBF in response to BCC-1	Create a critical mass of skilled staff to perform the assigned task	The assigned tasks are performed with professional competence
Rotation of trained staff responsible for implementing reforms in key areas such as macro modeling and iBAS++ implementation	Take on board MOPA for retention of trained and skilled staff	Trained and skilled staff are retained
Senior managers' commitment to line management roles reduces the scope of providing effective leadership in taking forward reforms	Free up senior managers to provide effective leadership in taking forward reforms	Effective leadership is provided by senior managers
Insufficient attention paid to skills transfer undermining sustainability; Insufficient number of experienced staff to take over responsibility from the consultants	Work out an effective plan to transfer skills Make available sufficient number of experienced staff to take over responsibility from the consultants	Reform outputs sustained
Failure to agree an exit strategy resulting in continuing dependence on external inputs	Work out an agreed exit strategy well in advance	A well-laid out strategy is in place
Insufficient trained staff in permanent set-up of the Government to absorb the technical solutions such as iBAS++ and DMFAS.	Wok out proposals for required number staff in the permanent se-up well in advance	Systems operate as planned and technical glitches are fixed immediately.

5.4 Opportunities

164. While the risks that might threaten the implementation of the strategy are quite formidable, there are opportunities as well on the horizon emerging from the changes in the landscape of governance.

165. The present Government has been implementing wide ranging reforms to ensure good governance in keeping with the demands for improved service delivery. This commitment is part of the process of achieving the goals set out in Vision 2021 and the Perspective Plan. Reforms, therefore, have been high on the agenda of both Sixth and Seventh Five Year Plans instrumental to implement the Perspective Plan.

166. Apart from the ongoing reforms in public expenditure management, revenue administration and procurement management, a set of complementary reforms are underway to scale up the efficiency in public sector. Notable among them are: (i) a number of laws have been enacted to strengthen the regulatory framework to bring discipline in the operation of certain key institutions or sectors (such as Securities and Exchange Commission, insurance sector), (ii) widespread digitization covering the lowest tier of local government is underway to reduce corruption and enhance efficiency in service delivery, (iii) the National Integrity Strategy adopted by the Government is well into implementation, and (iv) as part of the process of strengthening local government a plan is afoot to work out a strategy paper outlining revenue administration formula, procedure of decentralization of power to the local government institutions and areas of administrative reforms.

167. The confidence that these complementary reforms together is instilling among the change agents should be seized as an opportunity while implementing the reforms strategy both in medium and long term.

5.5 Coordination of Funding Sources

168. Depending on the character and contents of reform interventions, the funding sources should be decided. It may be both from government's own sources and the external sources. The development partners may opt to join the programs under the strategy with their funding support where they find it suitable for them to participate. Parallel funding support from both sources is intended to address the eventuality of losing momentum in taking forward reforms. However, strong coordination should be in place to avoid overcrowding of interventions at any point of time that would be difficult to manage and also to make sure that the interventions do not place in isolation. The strong coordination mechanisms put in place to coordinate external donor support under the umbrella trust fund (SPEMP) have minimized the risks of overlapping support through bilateral approaches and have minimized transaction costs for donors and government.

Conclusion

169. PFM reforms thus far implemented in Bangladesh through RIBEC, FMRP and SPEMP had been apolitical and exclusively concerned with management improvements within the government system. As the positive political engagement has been generally lacking, the impact of reforms has been low despite considerable investment of time and resources. Outputs delivered through process reforms fell into disuse as concomitant institutional reforms did not come by in the absence of strong political support. As a consequence, the visibility of changes in the systems and processes remained dismally poor.

170. The document has identified issues and problems that the reform champions have been encountering for many years. Strong political support and motivation of the change agents will be critical to take forward the proposed reforms to achieve the ultimate objective of this strategy.

Annex A: Priority Action Matrix -- PFM Reform Strategy 2016-21

Objectives	**Priority Actions**
Goal 1: Maintain aggregate fiscal discipline compatible with macro-economic stability and pro-poor growth	
1.1: Enhance tax revenues to create fiscal space for key public investments and priority social expenditure.	• Launch the VAT law July 2017 • Ensure harmonization and taxpayer data sharing across the NBR • Review and refine new direct tax law (Medium Term)
1.2: Improve the role of the macro model to determine resource parameters and maintain fiscal discipline	• Strengthen and operationalize the macroeconomic model and database • Build capacity and produce fiscal risk matrix for presentation to Coordination Council
1.3: Improve the management of fiscal risks, debt and cash to maintain fiscal discipline	• Develop new harmonized financial reporting framework and formats for SOEs • Prepare SOE law and regulations manual and consider developing comprehensive legal framework • Develop an operational strategy based on the medium term debt strategy
Goal 2: Allocate resources consistent with Government priorities as reflected in National Plan	
2.1 Improve the link between the budget and government policies and priorities	• Strengthen policy to budget links: • Adopt forward baseline estimates and determine fiscal space for reorienting expenditures to priorities in few ministries • Harmonize budget timetables for the development and revenue budgets by having a joint Planning Commission-Finance Division budget circular • Capture recurrent cost implications of projects in project appraisal and the budget
2.2 Strengthen the management of public investments	• Review the stock of development projects and IMED's list of low-performing projects and take actions • Establish PIM Unit in Programming Division • Strengthen project design, appraisal and approval processes to ensure high quality, affordable projects • Introduce multi-year PIP and roll out sector strategy papers
2.3 Strengthen the financial and performance management capacity within line ministries	• Ensure that APAs are aligned based on the Sector Strategies, MTSBP, National Plan and Sustainable Development Goals • Training and retention of PFM staff for PFM functions (in central and line ministries) • Integrate and strengthen the planning and budgeting wings in all line ministries
2.4 Strengthen PFM capacity of local government	• Conduct an assessment of local government PFM systems and identify the areas for strengthening and reform
Goal 3: Promote the efficient use of public resources and delivery of services through better budget execution	
3.1 Improve business processes, strengthen internal controls for service delivery	• Roll-out commitment control for improved cash and budgetary management

3.2 Adopt International Standards of Procurement Practice	• Expand e-GP to all ministries/ agencies • Further roll out of the procurement monitoring system
3.3 Improve accounting and reporting to international standards	• Improve the timeliness of in-year management reports and completion of the annual finance accounts and its presentation and contents
3.4 Modernize internal audit	• Undertake a detailed study on internal audit options
Goal 4: Promote accountability through external scrutiny and transparency of the budget	
4.1 Raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness to provide adequate assurance that the public funds are used efficiently & effectively	• Improve timeliness and public availability of audited financial statements (Appropriation Accounts and Finance Accounts) • Enhance training and professional capacity to conduct more ISSAI-compliant audit, and roll out ISSAI compliant audits • Organizational restructuring of OCAG • Upgrade and sustain IT infrastructure • Strengthen LM responses and audit committees • Strengthen capacity for OCAG support to PAC
4.2 Enhance the capacity and commitment of the relevant financial committees of Parliament and their respective secretariats	• Adopt mechanisms to ensure timely responses to PAC recommendations, and provide easily accessible and comprehendible data for the public • Strengthen capacity of staff and technical support to committees
4.3 Enable civil society, and other citizen groups to engage on budget formulation, budget execution and oversight	• Publish all recent audit reports in user friendly and accessible format • Publish Budget Booklet immediately after budget speech • Public finance portal
Goal 5: Enhance the enabling environment for improved PFM outcomes	
5.1 Put in place a comprehensive and clear legal framework	• Appoint a Commission to review and update the PFM legal and regulatory framework with a 1 year tenure.
5.2 Put in place the policies, processes and skills to manage and deliver a comprehensive training and capacity development program	• PFM skills strategy, including a needs assessment, and prepare action plan in consultation with relevant stakeholders • Commit funds for professionalization of PFM skills • IPF needs a strategic plan, a financing strategy and a roll out of the existing training programs. • Creating a pool of officers trained in PFM and assigning them to PFM related work
5.3 Leverage iBAS++/BACS, e-procurement as enablers to improve PFM	• Adopt and implement plan for full implementation of iBAS ++ to all ministries/divisions, directorates, DDOs up to Upazila level and SAEs • Integrate the employee and pension databases with IBAS++ , ensure timely payment of beneficiaries
5.4: Implement BACS covering the whole of general government	• Adopt and implement the new budget and accounts code
5.3 Develop organizational change agility	• Develop a change management plan

PFM Reform Strategy 2016-21 Matrix

PFM reform objective/ PFM strategy component	**Approach: *Build on What Has been Done, Get the Basics Right***	**Immediate-Short Term Actions FY16/17-FY18/19**	**Medium-Term Actions**	**Objectives/ Indicators of achievement**
GOAL 1: MAINTAIN AGGREGATE FISCAL DISCIPLINE COMPATIBLE WITH MACROECONOMIC STABILITY AND PRO-POOR GROWTH.				
Objective 1.1: Enhancing tax revenues to create fiscal space for key public investments				
A. Augment revenues through comprehensive tax modernization program	Review the Tax Modernization Plan 2011-16, simplify and sequence the reforms. Focus on domestic revenue mobilization. Complete VAT and Income tax projects: VAT and IT automation, reorganization and	1. Launch the new VAT Law from July 2017 2. Review and refine new direct tax law 3. Build taxpayer awareness on new VAT system (IVAS) to promote more voluntary compliance. 4. Introduce filing of online tax return from Jul 2016 5. Introduce registration and filing of online VAT return from July 2016. 6. Reorganize the VAT Wing along functional lines 7. Ensure harmonization and taxpayer data sharing across the NBR 8. Launch on-line payment system for VAT, Income Tax and Customs together an interface with iBAS++ 9. Carry out systemic risk assessment in VAT, Customs and Income	Extend registered taxpayers Reorganize Income Tax Wing on functional lines Develop tax expenditures statements to be annexed to the budget Integrate LTUs of income tax and VAT Ensure automation for full disclosure of arrears with their aging	Number of registered income tax and VAT taxpayers Tax: GDP VAT:GDP IT:GDP

PFM reform objective/ PFM strategy component	Approach: ***Build on What Has been Done, Get the Basics Right***	Immediate-Short Term Actions FY16/17-FY18/19	Medium-Term Actions	Objectives/ Indicators of achievement
	harmonization.	Tax Wings before planning audit and establish systematic approach to risk management and risk-based audit. Also automate the process of selection of audit 10. Strengthen capacity to carry out risk assessment 11. Introduce new arrangements (legal, institutional, procedural and others) for strengthening withholding of VAT and income tax. 12. Strengthen the capacity of intelligence, the research and statistics, and the budget outfits. 13. Build capacity to estimate tax expenditure 14. Ensure effective coordination with Securities and Exchange Commission, Registrar of Joint Stock Companies and Firms, Institute of Chartered Accountants of Bangladesh (ICAB) and other relevant agencies.		
B. Improve the macroeconomic forecasting	Use robust economic indicators to determine	15. Finalize the macroeconomic database and make it operational 16. Build capacity to operationalize the macroeconomic model	Produce fiscal risk matrix for presentation to Coordination Council.	Ensure more reliable forecasts. Aggregate Revenue

PFM reform objective/ PFM strategy component	Approach: ***Build on What Has been Done, Get the Basics Right***	Immediate-Short Term Actions FY16/17-FY18/19	Medium-Term Actions	Objectives/ Indicators of achievement
	revenue and expenditure forecasts. Ensure coordination between central agencies and set clear roles and responsibilities.	17. Improve the quality of MTMPS 18. Improve the contents of monthly fiscal reporting. 19. Develop scenarios for optimistic and risky outlooks along with the base case, to drive any mid-term budgetary revisions as required. 20. Build capacity to carry out the quantification of risks to revenue and expenditure. 21. Retain trained technical staff during the next 5 years to sustain capacity.	Monitor performance of the FD in terms of aggregate revenue and expenditure forecast and outturn; and ensure credibility of forecasting	budget: outturn Aggregate expenditure budget: outturn Fiscal deficit budget: outturn
C. Improve Governance and performance of SOEs	Inform policy makers on fiscal risks, contingent liabilities. Improve availability of information in the public domain	22. Develop new harmonized financial reporting framework and formats for SOEs and EBFs. 23. Revamp the role of SOE Monitoring Cell to make it more compre-hensive and to focus on overall performance management rather than approval of SOE budgets 24. Build capacity in FD to monitor fiscal risks and publish a comprehensive statement of fiscal risks as part of the annual budget papers, consistent with the objective of fiscal transparency	Generate annual fiscal report on extra-budgetary funds, and require all EBF to report. Improve financial reporting of SOEs and public disclosure. Review the regulatory framework for each of the entities as some of the entities no longer exist, and some render unnecessary confusion	Develop SOE Wing under FD to fully monitor and provide oversight of standard financial reporting and corporate governance.

PFM reform objective/ PFM strategy component	**Approach: *Build on What Has been Done, Get the Basics Right***	**Immediate-Short Term Actions FY16/17-FY18/19**	**Medium-Term Actions**	**Objectives/ Indicators of achievement**
		25. Ensure that SOE budget setting is in alignment with financial performance and fiscal risks and the government budget function is better informed on SOEs. 26. Review the existing legal framework and formulate a government ownership and dividend policy 27. Review oversight arrangements with a view to streamlining and ensuring appropriate incentives and empowering stakeholders (e.g. SOE boards). 28. Improve fiscal transparency of SOEs	for the entity. Consider case for comprehensive law/umbrella legislation for public enterprises governance.	
D. Improve debt and cash management	Undertake debt sustainability analysis and develop and implement debt management strategies	29. Update MTDS annually. 30. Enhance debt data quality, timeliness and reliability 31. Review and update the current legal framework for debt management 32. Develop the securities market for treasury securities 33. Enhance and sustain the technical capacity of front, middle and back offices of the Debt Management Units 34. Carry out debt sustainability	Structural reorganization of NSD Put in place an expanded TSA which includes Special Accounts and EBFs Improve preparedness for issuance of sovereign debt	

PFM reform objective/ PFM strategy component	Approach: *Build on What Has been Done, Get the Basics Right*	Immediate-Short Term Actions FY16/17-FY18/19	Medium-Term Actions	Objectives/ Indicators of achievement
		analysis at regular intervals 35. Strengthen management of contingent liabilities arising from guarantees issued to various public sector entities 36. Automate the retail debt management 37. Operationalize the Debt Database (DMFAS) 38. Introduce regular publication of quarterly debt bulletin and annual debt portfolio report 39. Automate and refine cash management and cash forecasting 40. Create user-friendly database for debt service liability management and digital archiving of subsidiary loan agreements(SLAs)		
GOAL 2 ALLOCATE RESOURCES CONSISTENT WITH THE GOVERNMENT PRIORITIES AS REFLECTED IN THE NATIONAL PLAN DOCUMENTS				
Objective 2.1 Improve the link between the budget and government policies and priorities				
E. Develop a single harmonized budget and improve	Integrate budgets with consistent	41. Adopt new chart of accounts and budget classification. 42. Develop an analysis on the	Implement Medium –Term Strategy and	

credibility of the annual budget.	classification Minimize in year budget revisions	transfer of all non-capital expenditure to the revenue budget 43. Harmonizing budget timetables for ADP and NDB by having a combined budget circular 44. Require the ongoing recurrent costs of all agreed development projects to be clearly identified and included in the budget. 45. Ensure that future recurrent cost of projects are fully disclosed at the point of project preparation, appraisal and approval. 46. Support the Planning Commission to strengthen the Project Evaluation Committee (PEC). 47. Diagnose the effectiveness of BMC and BWG and bring necessary changes	Business Plan (MTSBP) for the strategic ministries Implement Forward Baseline Estimates (FBE) across all line ministries and divisions.		
Objective 2.2 Strengthen the management of public investments					
F. Implement PIM roadmap	Strengthen quality and performance of the public investment portfolio	48. Review the stock of development projects and IMED's list of low-performing projects (those off-track with the timing and the spending profile) 49. Roll out the sector strategic plans (under the 5-year plan, and above the MTSBPs). 50. As part of the MTBF, introduce a multi-year public investment program (PIP) 51. Review the existing business	Single Budget and Performance, Planning and Development outfit established in each Line Ministry.	Improve quality of projects going to PEC to reduce total number of projects in	

		processes and management information systems, databases and introduce automation in the planning process. 52. Introduce a handbooks for ministries for preparation of project proposals and a manual for PC for carrying out project appraisal 53. Establish PIM Unit in Programming Division tasked with implementing PIM reforms within PC. 54. Carry out exercise to ensure that out-year ceilings indicate space for capital and recurrent expenditures.	Specify the roles and responsibilities for a restructured Planning, Development and Budget Wing. Work out a capacity improvement program for PC staff on project appraisal.	the portfolio Reduce time taken to appraise and approve a project [90 to 70 days from date of first submission to the PC]	
Objective 2.3 Strengthen the budget and performance management capacity within line ministries in order to establish greater accountability for resource use and enhance service delivery					
G. Develop a government wide planning, monitoring and evaluation system	Use policy and performance indicators to inform resource allocation decisions and monitor and evaluate outputs	55. Use policy and performance indicators routinely collected by FD and CD to inform budget decisions at the tripartite meetings. 56. Ensure that APAs are aligned with the sector strategy, MTSBP/MBF National Plan and Sustainable Development Goals. 57. Reconstitute and revise the ToR	Identify additional performance indicators for line ministries for inclusion in Annual		

	and outcomes/impacts	for the Budget Management Committee. 58. Ensure that the Annual Report of all line ministries/divisions incorporates financial and non-financial performance to fulfil the requirements of the Public Moneys and Budget Management Act, 2009.	Performance Agreements Delineate the clear roles and responsibilities across FD, CD and PC		
H. Enhance PFM skills capacity in line ministries.		59. Work out a plan for institutional strengthening of line ministries to take over the full financial management functions 60. Enhance the skills of PFM Staff in line ministries to tackle the new and emerging tasks 61. Move away from the current fragmentation of planning and budgeting and integrating these two functions			
Objective 2.4 Strengthen PFM Capacity of local government					
I. Enhance public financial management of local government		62. Conduct a subnational PEFA to assess the local government PFM system and identify the areas of reforms			
GOAL 3: PROMOTE THE EFFICIENT USE OF PUBLIC RESOURCES AND DELIVERY OF SERVICES THROUGH BETTER BUDGET EXECUTION					
Objective 3.1: To improve business processes and strengthen internal controls for service delivery					

J. Improve business processes and treasury management practices		63. Automate fund release, distribution and re-appropriation 64. Strengthen the Budget Implementation Plan (BIP) process in monthly basis for more robust cash forecasting and cash management 65. Rolling out commitment control for improved cash and budgetary management 66. Improve re-appropriation process in line with the legal provisions 67. Strengthen and consolidate Treasury Single Account (TSA) 68. Strengthen internal control system (*preventative; detective; or corrective*) covering financial controls, personnel controls and procurement procedures 69. Improve budget monitoring (recurrent, capital and performance) mechanism		Variance between cash plan and actual release Variance between approved budget and actual expenditure (functional or program and category)	
K. Develop integrated payroll and pension system		70. Further review the payroll and pension system to identify the systemic flaws and recommend actions to improve the business processes. 71. Pay and pension fixation database upgraded with facilities for recording increment, transfer, posting, promotion etc. developed and implemented 72. Provision for submission of employee Pay Bill in iBAS++ developed	Make operational a full-fledged HR/payroll module of iBAS++for all employees of the government Pay Slips, Last Pay Certificate (Service Book) produced from iBAS++		

			Position control and Manpower planning linked to budget module Seamless transition from payroll to pension payment system		
Objective 3.2 To adopt international standards of procurement practice to facilitate service delivery and achieve value for money					
L. Roll out improved public procurement practices	Complete current procurement reform project Roll out successful e-GP reforms. Roll-out capacity development model Initiate civic engagement for possible third party monitoring	73. Expand e-GP to all ministries/ agencies beyond the four key sectoral agencies 74. Further roll out of the procurement monitoring system PROMIS and its electronic platform e-PMIS, including further training and capacity development in improving procurement performance 75. Link e-GP system with IBAS++ and implement on a pilot basis for one procuring agency 76. Ensure adherence to the PPA and PPRs by further training and review 77. Revise financial delegation to bring more efficiency in the procurement process delegating more approval authority consistent with deepening of e-GP and the capacity of the procuring agency			Number of ministries using eGP Number of ministries using PROMIS

		78. Make the contract management module of e-GP fully functional 79. Make open contracting data available in public domain. 80. Making CPTU a regulatory authority and transforming e-GP operation to a business service provider model			
Objective 3.3 Improve accounting and reporting to international public sector accounting standards(IPSAS)					
M. Improve decision making and transparency	Design IUFR for donor-funded projects and conduct re-training • PEDP3 • Health SWAP	81. Improve the timeliness of in-year management reports and completion of the annual finance accounts and its presentation and contents. 82. Improve bank reconciliation 83. Improve the quality of SAE financial management systems so as to improve • the quality of their internal financial management • the timeliness and reliability of the information provided to CGA for the preparation of central accounts 84. Timely clearance of advance/ suspense accounts 85. Use Online Analytical Processing (OLAP) technology to organize data from the various sources to support business intelligence and production of Executive Dashboards through a data warehouse and publicize fiscal datasets (revenue and expenditure) in accessible formats	Implement IPSAS cash-based accounting standards covering general government Improve comprehensiveness of financial reporting by consolidating SAEs (Bangladesh Railway, Defense, Roads and Highways Department (RHD), Public Works Department (PWD), Forest Department, Postal Department, Public Health Engineering (PHE) Department and)	Monthly or quarterly in-year budget out-turn reports Time from end of reporting period, to publication date. IPSAS compliant Annual Financial Statements submitted to OC&AG	

		(i.e., soft copy. 86. Training on proper coding of Reimbursable Project Aid (RPA) transactions at DDO level. 87. Direct Project Aid (DPA) information recorded on a monthly basis based on specified format by CGA.	Finalize ***Comprehensive operating procedures manual (COPM)*** - covering policies, procedures and detailed operational steps), consistent with new classification and iBAS++, both for CGA and SAEs is finalized	within three months of year-end	
Objective 3.4 Modernize the internal audit function					
N. Strengthen the management assurance framework		88. Work out a plan for implementation of the strategy for strengthening internal audit already developed 89. Prepare a comprehensive program for building capacity to use the internal audit manuals already in place.	Risk based internal audit conducted for pilot ministries and local bodies Implement the training program on internal audit Implement internal audit in phases	Number of internal audit reports	
GOAL 4: PROMOTE ACCOUNTABILIITY THROUGH EXTERNAL SCRUTINY AND TRANSPARENCY OF THE BUDGET					
Objective 4.1 To raise the profile of external auditing practices to international standards in terms of quality, coverage and timeliness to provide adequate assurance that the public funds are used efficiently and effectively					

O. Ensure there is adequate external audit and informed opinion on financial statements		90. Roll out ISSAI compliant entity wide audit (financial, compliance, performance and special audits) to replace the existing unit based audit approach 91. Implement OCAG organizational restructuring plan to support ISSAI compliant audit 92. Strengthen organizational and professional capacity of OCAG 93. Improve timeliness of audit reports and make them publicly available 94. Upgrade and sustain IT infrastructure of OCAG and audit management and monitoring system (AMMS) 95. Support OCAG 's ongoing professional accreditation program 96. Improve responsiveness of the executives on audit and PAC recommendations	Review and build consensus on an Audit Law, and its implementation		
Objective 4.2 To enhance the capacity and commitment of the relevant financial committees of Parliament and their respective secretariats					
P. Strengthening Parliamentary oversight of public expenditure		71. Provide adequate professional resources to the financial oversight committees to operate effectively 72. Adopt mechanisms to ensure timely responses to recommendations from the Public Accounts Committee, and provide easily accessible and comprehendible data for the public 73. Provide content-based training to			

		the relevant committee secretariat staff to work out the agenda for the committee meetings as they do not have sufficient exposure on the topic they are dealing with 74. Ensure sustainability of the MIS already developed 75. Extend strong research support to the committees 76. Make Bangladesh Institute of Parliamentary Studies operational to organize continuous professional development training for recruited staff			
Objective 4.3 To enable civil society and other citizen groups to engage on budget formulation, budget execution and oversight					
Q. Enhance fiscal transparency and support use of the data		77. Publish the Citizen's budget immediately after budget speech 78. Ensure greater transparency of public finance data in user-friendly and editable formats through an Open Data Portal 79. Disclose the fiscal risk statement proposed in Objective 1.3 SOE Governance 80. Make all recent audit reports public on website in a user friendly and accessible format, follow up and holding the officials accountable. Give emphasis to achieving and publishing timely audit reports 81. Improve transparency and accountability associated with procurements	Provide briefing and guidance on analysis of fiscal information for civil society		OBI and PEFA transparency scores

GOAL 5 TO ENHANCE THE ENABLING ENCIRONMENT FOR IMPROVED PFM OUTCOMES					
Objective 5.1 To put in place the comprehensive and clear legal framework					
R. Ensure the legal framework and rules clarifies roles and responsibilities, incentives and behaviors consistent with sound PFM practices.		97. Appoint a Commission to review and recommend changes required in the PFM legal and regulatory framework as policy reform priority with particular focus on the following: • PFM rules for local government bodies • Fiscal transparency • Enforcement mechanism • External audit • Internal control • SoE governance and oversight 98. Implement recommendations of the commission			
Objective 5.2 To put in place the policies, processes and skills to manage and deliver a comprehensive training and capacity development program					
S. Change management and capacity development		99. Training Needs Assessment and PFM capacity development strategy 100. Continuous professional development including peer learning, on the job training etc. 101. Strengthening institutions related to PFM capacity development 102. Change management			

Objective 5.3Leverage on iBAS++/BACS*, *e-procurement and other financial management information systems as enablers to improve PFM					
T. PFM Functional processes for full-fledged iBAS++ rollout	Strengthening of the Oversight and Program Management Structure (OPMS) comprising the CGA as the main champion, senior level staff from different ministries, BCC and SAEs with clear roles, responsibilities and authority to approve and monitor a Project Charter is critical for the success of iBAS++ implementation Implement COBIT IT Governance	103. Adopt an implementation plan for full implementation of iBAS ++ to all ministries/divisions, directorates, DDOs up to Upazila level and SAEs 104. Identify and implement system interface and integration opportunities with the Bangladesh Bank, Sonali Bank, tax, VAT and customs systems, debt management systems, e-procurement (e-GP) and other related applications in the broader public sector. 105. Address the implementation issues of iBAS++ covering change management, communication and training and other measures necessary for sustainable implementation. 106. Ensure institutional and capacity development of CGA and line ministries together with adequate human resources for operation of iBAS++ 107. Server hosting and connectivity at of tier-3 National ICT Centre (NICTC) at Bangladesh Computer Council (BCC) for	Asset Register and Inventory management module implemented Complete all required system interface/integration Use iBAS++ for all projects and programs to capture transactions and generate reports accordingly Disaster recovery test reports submitted to management	Rating by QAR	Independent Quality Assurance Review (QAR) Report to be conducted in 2017

	Framework Budget preparation module used for 2016/17 budget on old BACS Pilot accounting and execution modules with improved budget and commitment controls by issuing Purchase Orders from the system	Infrastructure as a Service (IaaS). 108. Update Business Continuity Management (BCM) Plan and undertake periodic disaster recovery tests 109. Secure data transfer with appropriate encryption protocol by obtaining SSL certificates from the Controller of Certifying Authority (CCA) 110. Ensure that all budget holders use iBAS++ to submit their budget estimates and receive budget allocation electronically, and submit bills and generate budget control reports 111. Ensure that all accounting offices including SAEs, CGDF, Railway use iBAS++ for all types of transaction 112. Interface iBAS++ with NBR to provide a comprehensive picture of revenue receipts of the government 113. Implement government receipt portal Conduct a feasibility study for introduction of iBAS++ in local bodies. 114. Rollout EFT to divisional offices in other major centers.			
U. PFM Functional processes for	Strengthening of the Oversight and	115. Adopt an implementation plan for full implementation of iBAS	Asset Register and Inventory	Rating by QAR	Independent Quality

full-fledged iBAS++ rollout	Program Management Structure (OPMS) comprising the CGA as the main champion, senior level staff from different ministries, BCC and SAEs with clear roles, responsibilities and authority to approve and monitor a Project Charter is critical for the success of iBAS++ implementation Implement COBIT IT Governance Framework Budget preparation module used for 2016/17 budget	++ to all ministries/divisions, directorates, DDOs up to Upazila level and SAEs 116. Identify and implement system interface and integration opportunities with the Bangladesh Bank, Sonali Bank, tax, VAT and customs systems, debt management systems, e-procurement (e-GP) and other related applications in the broader public sector. 117. Address the implementation issues of iBAS++ covering change management, communication and training and other measures necessary for sustainable implementation. 118. Ensure institutional and capacity development of CGA and line ministries together with adequate human resources for operation of iBAS++ 119. Server hosting and connectivity at of tier-3 National ICT Centre (NICTC) at Bangladesh Computer Council (BCC) for Infrastructure as a Service (IaaS). 120. Update Business Continuity Management (BCM) Plan and undertake periodic disaster recovery tests	management module implemented Complete all required system interface/integration Use iBAS++ for all projects and programs to capture transactions and generate reports accordingly Disaster recovery test reports submitted to management		Assurance Review (QAR) Report to be conducted in 2017

	on old BACS Pilot accounting and execution modules with improved budget and commitment controls by issuing Purchase Orders from the system	121. Secure data transfer with appropriate encryption protocol by obtaining SSL certificates from the Controller of Certifying Authority 122. Ensure that all budget holders use iBAS++ to submit their budget estimates and receive budget allocation electronically, and submit bills and generate budget control reports 123. Ensure that all accounting offices including SAEs, CGDF, Railway use iBAS++ for all types of transaction 124. Interface iBAS++ with NBR to provide a comprehensive picture of revenue receipts of the government 125. Implement government receipt portal 126. Conduct a feasibility study for introduction of iBAS++ in local bodies. 127. Rollout EFT to divisional offices in other major centers.			

Annex B List of Documents

Allen R, Challenges of Reforming Budgetary Institutions in Developing Countries (Chapter 14 of Public Financial Management and Its Emerging Architecture; Cangiano, Curristine and Lazare (Eds), International Monetary Fund 2012[1]

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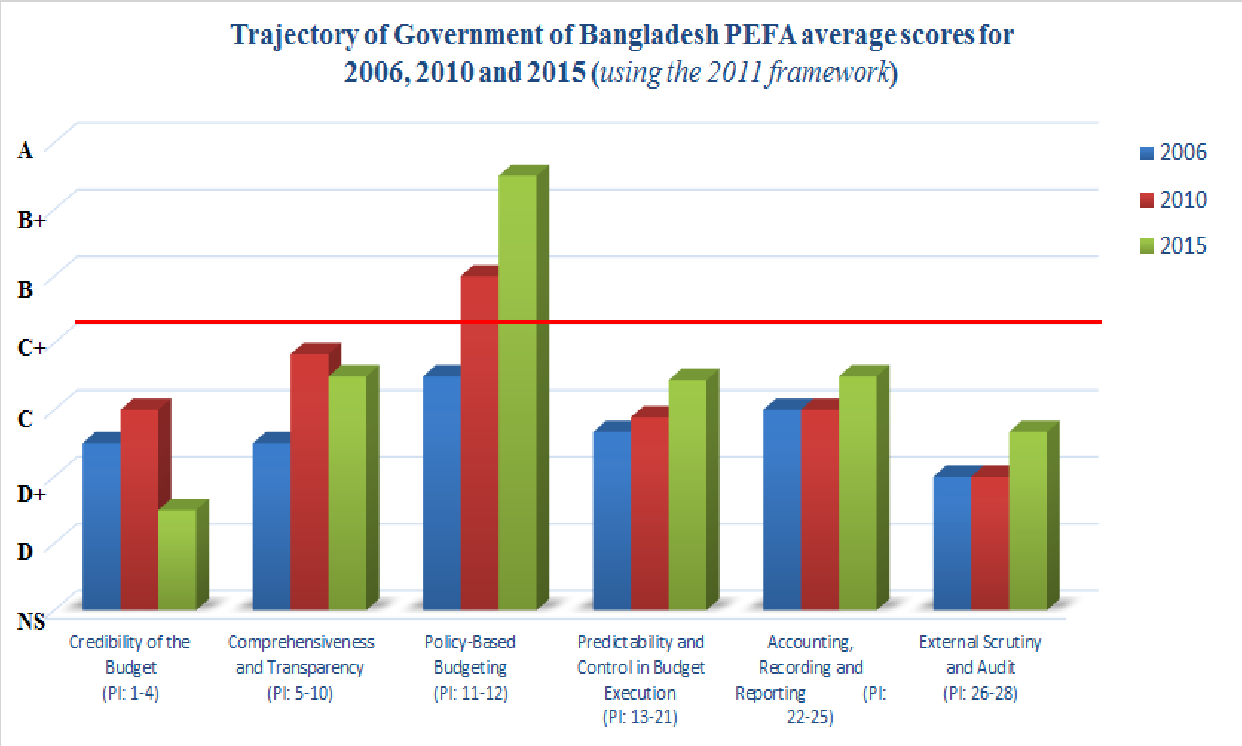
Annex C: Bangladesh PEFA 2015 Summary of Performance Indicators using 2016 Framework

Performance Indicator Summary

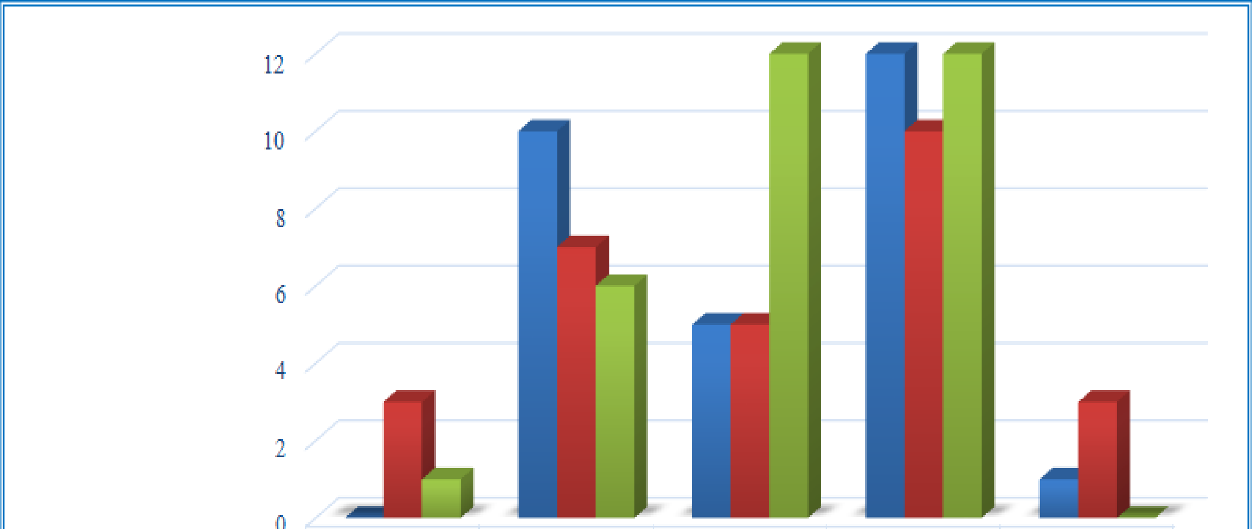
Summary Assessment							
PFM Performance Indicator		Scoring Method	Dimension Ratings				Rating 2015
			i.	ii.	iii.	iv.	
Pillar I. PFM-OUT-TURNS: Budget reliability							
PI-1	Aggregate expenditure outturn	M1	B				B
PI-2	Expenditure composition outturn	M1	D	C	A		D+
PI-3	Revenue outturn	M1	D	B			C
Pillar II-III. KEY CROSS-CUTTING ISSUES:							
	II. Transparency of public finances						
PI-4	Budget classification	M1	C				C
PI-5	Budget documentation	M1	B				B
PI-6	Central government operations outside financial reports	M2	D	D	D		D
PI-7	Transfers to subnational governments	M2	B	D			C
PI-8	Performance information for service delivery	M2	C	B	D	D	D+
PI-9	Public access to fiscal information	M1	D				D
	III. Management of Assets and Liabilities						
PI-10	Fiscal risk reporting	M2	D	D	C		D+
PI-11	Public investment management	M2	D	B	D	B	C
PI-12	Public asset management	M2	C	D	C		D+
PI-13	Debt management	M2	A	D	A		B
Pillars IV-VII. BUDGET CYCLE							
	IV. Policy-Based Fiscal Strategy and Budgeting						
PI-14	Macroeconomic and fiscal forecasting	M2	C	C	D		D+
PI-15	Fiscal strategy	M2	D	A	B		B
PI-16	Medium-term perspective in expenditure budgeting	M2	A	A	D	D	C+
PI-17	Budget preparation process	M2	A	B	D		B
PI-18	Legislative scrutiny of budgets	M2	A	D	A	A	D+
	V. Predictability and Control in Budget Execution						
PI-19	Revenue administration	M2	B	D	D	D	D+
PI-20	Accounting for revenue	M1	A	A	C		C+
PI-21	Predictability of in-year resource allocation	M2	C	A	B	A	B+
PI-22	Expenditure arrears	M1	A	N/A			A
PI-23	Payroll controls	M1	B	B	C	C	C+
PI-24	Procurement management	M2	C	D	B	A	C+
PI-25	Internal controls on non-salary expenditure	M2	A	D	D		C
PI-26	Internal audit	M1	D	C	D	D	D+
	VI. Accounting and Reporting						
PI-27	Financial data integrity	M2	D	A	D	A	C+
PI-28	In-year budget reports	M1	A	C	C		C+

Summary Assessment							
PFM Performance Indicator		**Scoring Method**	**Dimension Ratings**				**Rating 2015**
			i.	**ii.**	**iii.**	**iv.**	
PI-29	Annual financial reports	M1	D	D	C		D+
	VII. External Scrutiny and Audit						
PI-30	External audit	M1	D	D	C	B	D+
PI-31	Legislative scrutiny of audit reports	M1	C	A	A	B	C+

PEFA 2006, 2010, 2015 Comparison



Comparison of spread of number PEFA scores for 2010 and 2015



	A	B/B+	C/C+	D/D+	NS
2010	0	10	5	12	1
2015 (2011 framework)	3	7	5	10	3
2015 (2016 framework)	1	6	12	12	0

Annex D: PFM Workshop Participants February 2016

1. Abul Maal Abdul Muhith, Honorable Minister, Ministry of Finance
2. M. A. Mannan, Honorable State Minister, Ministry of Finance and Ministry of Planning
3. Mr. Masud Ahmed, Comptroller and Auditor General of Bangladesh
4. Mahbub Ahmed, Senior Secretary, Finance Division
5. Mohammed Mejbahuddin, Senior Secretary, Economic Relations Division
6. Mr. Nojibur Rahman, Secretary, Internal Resources Division & Chairman, NBR
7. Md. Sohorab Hossain, Secretary, Ministry of Education
8. Mr. Md. Nasiruzzaman, Additional Secretary, Ministry of Agriculture
9. Mr. Md. Zakir Hossain, Additional Secretary, Power Division
10. Mr. Bijoy Bhattachariya, Additional Secretary, Cabinet Division
11. Mr. Parvez Iqbal, Member (Income Tax Policy), National Board of Revenue
12. Barrister Jahangir Hossain, Member (VAT Policy), National Board of Revenue
13. Mr. Abul Foyez Md. Abid, Deputy C&AG
14. Ms. Farmeen Mowla, Director, FIMA
15. Mr. Bikash Chandra Mitra, Director (MIS), OCAG
16. Dr. Md. Akhtaruzzaman, Economic Advisor, Bangladesh Bank
17. Mr. Biru Paksha Paul, Chief Economist, Bangladesh Bank
18. Mr. Abul Kashem, Controller General of Accounts
19. Mr. Md. Kamrul Alam, Additional Controller General of Accounts
20. Mr. Saidul Hoque, Division Chief, Planning Commission
21. Mr. Prashanta Kumar Chakraborti, Joint Chief, Planning Commission
22. Mr. Mohammed Ashrafuzzaman, Deputy Chief, Planning Commission
23. Mr. Jalal Ahmed, Additional Secretary, Finance Division
24. Mr. Shahabuddin Ahmed, Additional Secretary, Finance Division
25. Mr. A R M Nazmus Sakib, Additional Secretary, Finance Division
26. Mr. Moinul Islam, Additional Secretary, Finance Division
27. Mr. Abdur Rouf Talukder, Additional Secretary and EPD, SEIP Project, Finance Division
28. Ms. Arfin Ara Begum, Joint Secretary, Finance Division
29. Mr. Mohammed Yousuf, Joint Secretary, Finance Division
30. Mr. Azizul Alam, Joint Secretary, Finance Division
31. Mr. Ramendra Nath Biswas, Joint Secretary, Finance Division
32. Mr. Md. Habibur Rahman, Joint Secretary, Finance Division
33. Mr. Sheikh Mohammad Salimullah, Joint Secretary, Finance Division
34. Mr. Md. Fazlul Bari, Joint Secretary and , Additional Program Director, PEMS Program
35. Mr. Md. Rafiqul Islam, Senior Finance Controller (Air)
36. Mr. Abdur Rahman Khan, Deputy Secretary, Finance Division
37. Mr. Saiful Islam, Deputy Secretary and Coordinator, PEMS Program
38. Mr. Mohammad Manzarul Mannan, Deputy Secretary, Finance Division
39. Mr. Shirajun Noor Chowdhury, Deputy Secretary, Finance Division

40. Mr. S M Zakaria Haque, Deputy Secretary, Finance Division
41. Mr. Mohammad Rashedul Amin, Deputy Secretary, Finance Division
42. Dr. Imtiaz Mahmud, Deputy Chief, Ministry of Primary and Mass Education
43. Mr. Md. Hakim Uddin, Additional DG, Monitoring Cell, Finance Division
44. Ms. Dilara Begum, Senior Assistant Secretary, Finance Division
45. Mr. Mahedi Masuduzzaman, Senior Assistant Secretary, Finance Division
46. Mr. Newaz Hossain Chowdhury, Senior Assistant Secretary, Finance Division
47. Mr. Abu Daiyan Mohammad Ahsanullah, Senior Assistant Secretary, Finance Division
48. Mr. Mohammad Saidul Islam, Senior Assistant Secretary, Finance Division
49. Mr. Joynal Abedin, IT Consultant, PEMS Program
50. Mr. Aminul Mohaimen, IT Consultant, PEMS Program
51. Dr. Ahsan Mansur, Executive Director, PRI Bangladesh
52. Dr. Sadiq Ahmed, Vice Chairman, PRI Bangladesh
53. Ms. Nicola Smithers, Global Lead, Public Finance, World Bank
54. Ms. Suraiya Zannath, Lead Financial Management Specialist, World Bank
55. Ms. Tracey M Lane, Senior Economist, World Bank
56. Mr. Jose Eduardo Ossio, Sr. Public Sector Specialist, World Bank
57. Mr. Sheikh Tanjeb Islam, Consultant, World Bank