Government of Bangladesh

Public Financial Management Performance Report

Public Expenditure and Financial Accountability (PEFA) Assessment

December 2010

SPEMP
Strengthening Public Expenditure Management Program
MAKING PUBLIC MONEY COUNT

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Acknowledgements

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Abbreviations and Acronyms

AAO	Audit and Accounts Officer
ADP	Annual Development Plan
AGAs	Autonomous Government Agencies
BB	Bangladesh Bank
BCC1	First Budget Call Circular
BCC2	Second Budget Call Circular
CAO	Chief Accounts Officer
CC	City Corporations
C&AG	Comptroller and Auditor General
CFA	Central Finance Agencies
CGA	Controller General of Accounts
COFOG	Classification of the Functions of Government
CORBEC	Committee on Reforms in Budgeting and Expenditure Control
CPTU	Central Procurement Technical Unit
DDO	Drawing and Disbursing Officers
DPA	Direct Project Aid
DSA	Debt Sustainability Analysis
ERD	Economic Relations Division
FD	Finance Division
FIMA	Financial Management Academy
GFR	General Financial Rules
iBAS	Integrated Budget and Accounting System
IMED	Implementation Monitoring and Evaluation Division
IPSAS	International Public Sector Accounting Standards Board
LM	Line Ministries
LGD	Local Government Division
MC	Municipality
MBF	Ministry Budget Frameworks
MDTF	Multi-Donor Trust Fund
MEW	Macro Economic Analysis Wing
MOF	Ministry of Finance
MOHFW	Ministry of Health and Family Welfare
MOPME	Ministry of Primary and Mass Education
MTBF	Medium Term Budgeting Framework
NBR	National Board of Revenue
NCC	National Coordination Committee
NEC	National Economic Council
NSAPR	National Strategy for Accelerated Poverty Reduction
NSD	National Savings Directorate
OCAG	Office of the C&AG
PC	Planning Commission
PAC	Public Accounts Committee
PFM	Public Financial Management
PM&BM	Public Money & Budget Management Act, 2009
PPA-2006	Public Procurement Act 2006
PPR-2003	Public Procurement Regulations 2003
PPR-2008	Public Procurement Rules 2008
RHD	Roads and Highways Department
RFQ	Request for Quotation Method
RIBEC	Reforms in Budgeting and Expenditure Control
SOE	State Owned Enterprises
SPEMP	Strengthening Public Expenditure Management Program
TDMW	Treasury and Debt Management Wing
TIN	Tax Payer Identification Number
TSA	Treasury Single Account
UP	Union Parishads
UZP	Upazila Parishads
VAT	Value Added Tax
ZP	Zila Parishads

Financial Year July to June

1 Bangladesh Taka = USD 74

1. Introduction and Summary Assessment

Bangladesh has a parliamentary form of government with the prime minister as its chief executive and the president as the head of state. The prime minister heads the cabinet that is collectively responsible to the national parliament. The ministries fulfil policy-making and clearinghouse functions at the national level, while the district level administration provides law and order, land administration, service delivery and program implementation. The Constitution provides for an independent judiciary headed by the Supreme Court. The public sector comprises state owned enterprises and commercial banks, Development Financial Institutions and the Bangladesh Bank.

Public Financial Management (PFM) reform in Bangladesh has gone through many years of implementation, through different governments and leadership in the Ministry of Finance. During this period, PFM reform has maintained its drive and focus, and, combined with continuous support from development partners, has managed to improve Bangladesh's PFM system in a tangible manner. Medium-term expenditure framework, basic information system for budgeting and accounting and a rule-based budget execution system are products of these reform efforts.

However, it is also recognized that these changes are reversible if current donor support fades away and no significant changes in the civil service system and resources commitment are made available. There is also a sign of reform fatigue coming from fifteen years of drive for change. Therefore, it is critically important to urgently introduce measures to institutionalize these changes into the system.

In so doing, several priority areas of reform have emerged: rolling out PFM reform into sectoral ministries and local government levels; strengthening efficiency and accountability in public investment management; empowering institutions of accountability such as the Office of Comptroller and Auditor General and parliamentary committees on estimates and public accounts. Making meaningful progress in these areas is expected to bring Bangladesh's PFM system up to par with those of developing countries where efficient, effective, and transparent use of public resources contributes directly to overall development.

The PEFA Framework is an integrated monitoring framework that would provide reliable information on the performance of PFM systems, processes and institutions over time. A set of high level indicators for the PEFA Framework is drawn from the HIPC expenditure tracking benchmarks, the IMF Fiscal Transparency Code and other international standards. Critical dimensions of performance measured include: (i) Credibility of the Budget; (ii) Comprehensiveness and transparency; (iii) Policy-based budgeting; (iv) Predictability and control in budget execution; (v) Accounting, recording and reporting; and (iv) External scrutiny and audit. The PEFA Framework does not cover issues such as quality of expenditure or expenditure priorities but is meant to provide a comparable assessment of the performance of the PFM system. The PEFA assessment does not recommend priorities for reform and is meant to serve as a basis for dialogue with Government to arrive at an action plan to improve PFM system performance and thereby PEFA scores.

The assessment took place in November 2010 and was carried out by World Bank and IMF staff and consultants jointly with the Government and development partners. Although recognising the ongoing reforms, the scores reflect the existing situation and therefore act as a basis against which ongoing reforms can be monitored. The findings are based on a review of a wide range of internal and external documentation, a launch workshop, and meetings with a large number of stakeholders. The overall results of the analysis are set out in the table below with more detailed justification and information sources provided in Annex 4.

All Results							
	PFM Performance Indicator	**Scoring Method**	**Dimension Ratings** i.	ii.	iii.	iv.	**Overall Rating**
	A. Credibility of the budget						
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	B				**B**
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D	A			**D+**
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				**B**
PI-4	Stock and monitoring of expenditure payment arrears	M1	NS	D			**NS**
	B. Comprehensiveness and Transparency						
PI-5	Classification of the budget	M1	B				**B**
PI-6	Comprehensiveness of information included in budget documentation	M1	B				**B**
PI-7	Extent of unreported government operations	M1	B	B			**B**
PI-8	Transparency of inter-governmental fiscal relations	M2	D	D	D		**D**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	D			**D+**
PI-10	Public access to key fiscal information	M1	B				**B**
	C. Policy Based Budgeting						
PI-11	Orderliness and participation in the annual budget process	M2	B	C	A		**B**
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	A	B	C	C	**B**
	D. Predictability and Control in Budget Execution						
PI-13	Transparency of taxpayer obligations and liabilities	M2	D	B	C		**C**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	C	C	C		**C**
PI-15	Effectiveness in collection of tax payments	M1	D	B	D		**D+**
PI-16	Predictability in the availability of funds for commitment of expenditures	M1	A	B	C		**C+**
PI-17	Recording and management of cash balances, debt and guarantees	M2	C	B	C		**C+**
PI-18	Effectiveness of payroll controls	M1	D	B	C	D	**D+**
PI-19	Competition, value for money and controls in procurement	M2	B	B	C	B	**B**
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	D	C	D		**D+**
PI-21	Effectiveness of internal audit	M1	D	D	D		**D**
	E. Accounting, Recording and Reporting						
PI-22	Timeliness and regularity of accounts reconciliation	M2	B	B			**B**
PI-23	Availability of information on resources received by service delivery units	M1	D				**D**
PI-24	Quality and timeliness of in-year budget reports	M1	C	B	C		**C+**
PI-25	Quality and timeliness of annual financial statements	M1	C	D	D		**D+**
	F. External Scrutiny and Audit						
PI-26	Scope, nature and follow-up of external audit	M1	C	D	C		**D+**
PI-27	Legislative scrutiny of the annual budget law	M1	C	B	D	C	**D+**
PI-28	Legislative scrutiny of external audit reports	M1	D	A	D		**D+**
	G. Donor Practices						
D-1	Predictability of Direct Budget Support	M1	C	D			**D+**
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	B	B			**B**

All Results							
	PFM Performance Indicator	Scoring Method	Dimension Ratings				Overall Rating
			i.	ii.	iii.	iv.	
D-3	Proportion of aid that is managed by use of national procedures	M1	D				**D**

1.1.Overall assessment and comparison

1.1.1. Summary

There has been modest but mixed improvement in the performance of the Public Financial Management System (PFM) in recent years. The impact of reform is more apparent in upstream PFM processes. The Budget reflects a multiyear perspective. The use of multi-year perspective in fiscal planning and expenditure policy is gradually getting institutionalized across government after five years of gradual but persistent introduction of medium term budget framework in all ministries. The Budget has become a more credible tool and has contributed significantly to providing macro-fiscal stability. This has been made possible by improved budgeting at an aggregate level. There is greater fiscal transparency and more information is available publicly on the budget and its execution. These are areas where the PEFA indicator scores have improved compared with 2006 when the last assessment was conducted. However, weaknesses continue to exist in budget execution, oversight and downstream PFM processes. The PEFA scores for downstream PFM processes show either marginal improvement or no change relative to 2006. A comparison of the scores achieved in 2006 and 2010 is provided in Annex 2 but warrants a caution for comparison due to lack of comparable data in many areas. For a comprehensive assessment of progress, comparison with 2006 is used, but complemented with additional information about reforms and systems development in recent years.

1.1.2. Credibility of the budget

The Budget has become a more credible instrument of fiscal policy and management at the aggregate level reflecting Government's determination to maintain aggregate fiscal discipline. However, budget credibility is constrained by changes in expenditure composition affected by in-year adjustments and the absence of an accurate revenue projection mechanism. Improvement in fiscal management has been supported by the adoption of the Financial Management Reform Strategy and Action Plan in 2006 and bolstered by the introduction of the Medium Term Budgetary Framework (MTBF) with its supporting Ministry Budget Frameworks (MBF). The Medium-Term Macro-economic Framework (under the MTBF) has become an integral part of the budget planning phase. However, the integration under the MTBF (with its single expenditure ceiling) of the traditionally separate process for the preparation of the non-development and development budgets has not been achieved yet.

The budget is actively monitored centrally for poor fund utilization by Line Ministries and funds reallocated, potentially undermining any strategic expenditure allocation decisions made at the beginning of the year. Improved allocative efficiencies will depend on the efficient implementation of the MTBF. Reforms therefore focus on: (i) improving resource allocation in the Budget using policy as basis and strengthening the capacity of Line Ministries and Divisions to implement the MBF and, (ii) developing the capacity of the Finance Division to review budget submissions and monitor and evaluate budget implementation. The pace of budget implementation is not uniform and expenditure peaks in the last quarter of the year (April-June). The rush of expenditure has the attendant risk of attracting inferior quality. As a consequence, a large number of checks are issued for expenditure either not occurred or payments not yet claimed by third parties.

The revenue effort and the efficiency of revenue mobilization have improved. Composition of revenue has changed, with increasing reliance on domestic taxes. Revenue as percent of GDP has increased with a tendency to underperform projections. Revenue projections are the result of a combination of forecasting techniques using macro parameters and subjective assessments together with an element of targeting. Moreover, there is a tendency to have an upward bias in these projections. In essence, the budget has become more credible but needs to improve in terms of accuracy, allocative efficiency and flexibility.

1.1.3. Comprehensiveness and transparency

More attention needs to be paid to improve public access to key fiscal information, monitoring of fiscal risks and reporting of national government oversight of public sector enterprises and autonomous agencies. Budget documents provide fiscal details of on-budget revenue and expenditure including the fiscal deficit and its financing and prior years' outturn in a comparable fashion. A description of budgetary implication of new policies is, however, not available. Macroeconomic assumptions underlying the budget are included in the MTBF. Details such as the composition of debt or financial assets are not available publicly. There is no central monitoring over autonomous agencies' financial flows or liabilities. There are also various extra-budgetary *funds* such as the Prime Minister's Relief Fund, Climate Change Fund etc. that are not included in central government accounts. As mainstream accounting systems are deficient in capturing direct project aid by donors, not all information is included in the fiscal reports.

1.1.4. Policy-based budgeting

Government of Bangladesh's (GOB) reform effort is to develop a policy-focused budget planning process. In practice public expenditure allocations do not always reflect sector policies nor are budgetary resources allocated optimally within the sectors. Despite its efforts to reform budgeting practices through the introduction of the MTBF, Bangladesh in practice has two parallel processes for the preparation of the non-development and development budgets. Within the MBFs, incremental budgeting and the practice of adding new activities while continuing with existing projects/programs, stretches scarce resources to cover new activities at the expense of inadequate provision for existing programs. Bangladesh is seeking to move towards a unified budget system that will present a choice between investment and recurrent spending rather than between development and non-development spending. With a unified Budget it is expected that government expenditures are developed, considered and decided together as part of the budget preparation process. The strengthening of the policy content of the budget, and the links between planning, expenditure and policy requires a widening and deepening of budgetary reforms. At the national level, the Medium Term Budget Framework and the associated improvements in the budget preparation process, when they are implemented, should ensure that the final allocations of the fiscal space are made to achieve the Government's strategic priorities, regardless of the nature of the expenditures (capital, or recurrent or a mix of both).

1.1.5. Predictability and control in budget execution

The predictability and control systems in budget execution is assessed by performance of tax administration, predictability in the availability of funds, management of debt and cash balances, effectiveness of controls over expenditure, institutional framework for procurement and internal audit.

The performance of the tax system can be improved by strengthening administration and incorporating policy changes. The legal framework for the tax system is comprehensive but complicated with several amendments and exemptions and tax administration suffers from a lot of discretion. The system suffers from a narrow tax base that is further constrained by exemptions and tax holidays. Compliance is largely voluntary. The system involves excessive contact with taxpayers and there are a significant number of potential taxpayers who do not file returns. Tax demands are not accurately consolidated across the country. There is a case for strengthening the risk based audit system, improving the efficiency of the tax appeals system and keeping tax accounts up to date to give effect to tax liabilities.

The treasury cash and debt management systems are functional with established procedures but there is a need for reform and improvement. While no cash release constraints are imposed on the non-development budget, quarterly releases are made on the development budget. Most cash balances are calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement. A priority reform would be the introduction of computerized cash forecasting and cash flow monitoring system. The central government's contracting of loans and guarantees are approved by a single entity but are not decided on the basis of clear guidelines or within overall ceilings. Debt data records management needs to improve to fully reconcile some external debt and national savings certificates.

Budgets are not operated at a level where effective budgetary control is exercised. The basic budget and accounting information systems are not fully integrated and little use is made of budget information in the accounting system and most of fund availability checking is done manually. There is no system for monitoring expenditure commitment. There are no automated budget checks before payment is processed, thus still relying on manual checking. Integrity of the payroll is significantly undermined by lack of regular reconciliation of personnel records with payroll data. Internal audit function is largely absent and there are no internal audit reports of the government while it is assessed to have a functional internal control system. Compliance with financial rules should be improved and often no action follows when officers are found guilty of irregularities. The legal and regulatory procurement framework makes open competitive procurement the default method of procurement. However, there is a need to improve the flow of procurement related information to the public in a reliable manner.

1.1.6. Accounting, recording and reporting

There has been some improvement in the speed of production of accounting information due to computerization through the integrated Budget and Accounting System (iBAS). However, final accounts are still produced with significant delay. Preliminary data for each month is available within 25 days from the close of each month. However, there is slippage of 4 to 6 weeks in the issuance of monthly reports. The line ministries are responsible for maintaining accounts and for reconciling their records with the Controller General of Accounts (CGA) who is responsible for preparing government accounts. Neither the overall accounting nor management information system within ministries supports tracking of resources provided to front line delivery units.

A consolidated financial statement for the government is prepared annually. However information on revenue, expenditure and bank account balances are not always complete and timely. Government accounts are kept on a modified cash basis. They do not comply with the international standard (IPSAS cash-basis, mandatory disclosures). Reconciliation of banking accounts with the Bangladesh Bank (Central Bank) and fiscal records is undertaken on a monthly basis. Following reconciliation, the final accounts should be submitted to the Comptroller and Auditor General (C&AG) within six months of the year end. This target is not met. The accounts for 2008/09 were outstanding at 31 July 2010, i.e. more than 12 months after the year end. Accounts are not published until they are audited and tabled along with the audit report in Parliament. As of November 2010, the latest published Finance and Appropriation Accounts are for the year 2005/06, which were tabled in April 2010.

1.1.7. External scrutiny and audit

The National Parliament has about three weeks to conclude its review of the Budget Estimates which is insufficient for a meaningful debate. A Committee on Estimates is expected to examine such of the Estimates as it thinks fit or specifically referred to it by the House. However, in reality, the Estimates Committee examines selected issues and makes recommendations on ways of improving the efficiency of public expenditure.

The Comptroller &Auditor General (C&AG) has the constitutional mandate to audit the accounts of Government and its agencies and to report to Parliament. But a weakness has been timely preparation of the annual audit reports. C&AG carries out financial, compliance, regularity and performance audits. Audit standards are set out in an Audit Manual based on INTOSAI and ASOSAI standards. The annual audit plan covers all large units and a proportion of the smaller units that are audited over a cycle of three to five years. Regularity audits do not focus on systems, and recommendations are made on individual transactions. In general, audit reports are submitted to the legislature more than 12 months from the end of the period covered and for financial statements from the date of receipt of the statements.

Public debate of audit reports is few and far between. Follow up of audit recommendations is generally weak. The slow process and long delays together with minimal enforcement undermines the value of the process. According to the Office of Comptroller and Auditor General (OCAG), on average 22 percent of recommendations are implemented such as, for example, recovery of public money. There are significant backlogs in the scrutiny of audit reports by the Public Accounts Committee (PAC) of National Parliament. As of January 2009, there were some 490 audit reports that had been received by the Parliament but not scrutinized by the PAC and a further 78 audit reports that had been completed during the period when Parliament was suspended. The most recent reports of the C&AG presented to Parliament and reviewed are in respect of the 2005/06 fiscal year. PAC had not made a report to Parliament in the last three years at the time of preparation of this report.[1] The PAC Chair anticipates that the backlog of audit reports will be eliminated during the term of the current Parliament.

1.1.8. Donor practices

Donor practices scores were low on predictability of budget support. Donor practices also score poorly on use of national procedures to manage aid. There is considerable variation between amounts budgeted and received through direct budget support. Donor practices score better on financial information provided for budgeting and reporting of aid. However, quarterly disbursement plans are not indicated. There is a clear need for setting up improved coordination mechanisms between donors and official agencies for reporting direct project aid.

[1] After this report was written, the PAC in 2011 has published one report and is finalizing a second report.

1.1.9. Assessment of the current strengths and weaknesses and their impact on PFM

There is evidence that the PFM institutional framework in Bangladesh is under transition, and a number of improvements have being made or are being attempted. Notable achievements in improving the PFM framework include: (i) the consolidation and amendment of the regulatory framework; (ii) the computerization of the budget process and introduction of a new budget classification system; (iii) introduction of the Public Money and Budget Management Act 2009 to ensure the accountability of public resources to Parliament; (iv) introduction of Public Procurement Act 2006 and Public Procurement Rules 2008; (v) introduction of e-Procurement on a pilot basis in select agencies; and (vi) the development and piloting of strengthened expenditure management through the MTBF.

However, PFM outcomes present a mixed picture. Aggregate fiscal discipline has been maintained despite pressures placed on public resources by various shocks (external and natural) and development needs. The dominant role that central finance agencies, in particular Ministry of Finance (MOF), play in budget management has contributed to Bangladesh's strong record of fiscal discipline. Management of public resources within sectors and programs, however, needs to improve significantly to raise the level of development and service delivery outcomes.

Strengthening domestic revenue mobilization and improving efficiency of the use of available public resources should be at the core of the medium-term strategy to improve budget policy and institutional performance in the context of the MTBF approach. Introducing a simple, coherent and effective tax policy along with improving the efficiency and transparency of tax collection should be top priority, especially for domestic taxes such as VAT and income tax, which are likely to be the future mainstay of Bangladesh's tax system.

The budget preparation process is separated not only centrally at the national level, but also within line ministries. For several decades, Bangladesh's budget operated through two separate and unrelated components, prepared independently–the non-development budget by the MOF and the Development Budget (DB) by the Planning Commission (PC). Recognizing the limitations of an annual, input-oriented and fragmented budget exercise, the government introduced a three-year MTBF in FY05-06. The MTBF is eventually expected to provide the link between development strategy objectives and resource allocation. The introduction of the MTBF approach (and the MBF) has made the introduction of unified budget ceilings (for DB and NDB) possible. However, the quality of the budgetary preparation in Line Ministries (LM) requires improvement. At present old budgeting practices continue to be in force and an incremental approach is used to develop LM budgetary ceilings. Older policy priorities remain entrenched even at the expense of newer priorities. The proper preparation of the MTBF has been hampered by data limitations. The MBFs should in due course facilitate a properly unified LM budgeting process through the integrating influence of the Budget Management Committee in the LMs.

The introduction of the MTBF will have to be complemented by financial management strengthening in the Line Ministries to improve budget execution. There is a need to reform budget execution. Although the Budget Management Committee is in charge of managing and overseeing the budget in the line ministries it appears more pre-occupied with resource allocation at the expense of financial and operational budget monitoring and reporting. Procurement practices, data limitations, centralized control over minor reallocations between budget lines and inconsistencies between the procurement cycle and the budget cycle hamper the proper preparation and implementation of the MTBF. Addressing complementary reforms in the fund release process, budget classification structure, treasury and accounting computerization and integration of procurement and budgeting processes will be important to improve budget execution.

The iBAS budgeting and accounting systems are not fully integrated and little use is made of budget information in the accounting system. Despite the operation of iBAS, there are delays in the production of the annual accounts by the CGA and in the subsequent audit of these accounts by the C&AG. Production of accounts in a timely manner will serve to improve budget management and accountability.

Debt management in Bangladesh has seen improved in-house capacity within the Ministry of Finance, including implementation of debt management information system (DMFAS) and preparation of medium-term debt management strategy. However, the fragmented nature of debt management responsibilities limits the capacity of these entities to produce and consolidate accurate debt data in a timely fashion.

External audit is being modernized by adopting a systems based approach complemented by performance/value for money audits. However, the coverage of the audit work remains constrained by the limited number of qualified audit staff available. Audit reports are not yet timely and not published. Public debate of C&AG reports is few and far between and official response is weak. The performance of the PAC has improved over recent years not the least in terms of the frequency of its meetings. However, delays in examining audit reports remain significant.

On balance the assessment shows the overall direction of reform is positive but the thrust is more apparent in upstream PFM processes. The most significant improvements have been in upstream budgeting reflecting the emphasis and ownership of the reform process by the MOF. The multi-year perspective in budgeting is gradually getting institutionalized across government. There is greater fiscal transparency and more information is available publicly on budgetary performance. However, there is a need to strengthen downstream controls and PFM processes for better budget execution and oversight and improving the performance of the PFM system overall. While PFM reforms have concentrated on core government there is a requirement to extend the breadth of reforms to encompass the public sector in the reform process. Also there is need for improving public oversight and voice to this most important policy instrument.

1.1.10. Prospects for reform planning and implementation

GOB remains committed to continue efforts to improve functioning of the PFM system in Bangladesh as articulated in its home-grown PFM reform strategy in 2006. Supporting this commitment, a number of development partners have established a five year multi-donor trust fund for PFM reform ‘Strengthening Public Expenditure Management Program (SPEMP)’ comprising three projects. The SPEMP is built around three key priority areas: (i) budget preparation and execution; (ii) internal and external auditing; and (iii) legislative and public oversight.The SPEMP seeks to strengthen and build capacities for improved effectiveness, efficiency and transparency of the public resource management process. Additionally, SPEMP focuses on engagement with Parliament and C&AG to achieve a much broader constituency for PFM transformation. SPEMP also seeks to annually provide a series of practical, just-in-time analytical and technical assistance to complement the three engagements. This is expected to strengthen the PFM system’s performance in areas identified by this assessment. In addition to SPEMP, a number of reform activities are underway; mainly aiming to improve efficiency and transparency of revenue administration and public investment. They are supported jointly by SPEMP and other development partners including IFC, DFID and ADB. In particular, on-going revenue administration and policy reform has produced significant results in revenue generation and service orientation.

Despite strong commitment by leadership for PFM reform and a number of meaningful achievements, the PFM reform performance to date has faced a number of challenges. It reflects current capacity constraints in the bureaucracy and inefficiencies in the civil service system, emerging sense of reform fatigue, as well as long term and complicated nature of institutional reforms like the PFM system. Moving forward, sequencing and phasing of reforms will be critical when processes are intertwined. For instance, progress in strengthening the budget processes will depend on reforms in other components e.g. the budget classification structure, the accounting processes and the future role of the Planning Commission in Budgeting. Conversely, any change to the classification structure implies significant changes to financial management processes, including the automated accounting/budget system and internal procedures. As Bangladesh has a unitary budget, a new classification system will impact all administrative processes from the national to the regional and district/local levels. Finally, the overall success of PFM reform will be closely tied to the progress on overall public administration reform.

Introduction

1.2. Objective

The overall objective of the report is to provide all stakeholders with an updated assessment of Public Financial Management in Bangladesh using the Public Expenditure and Financial Accountability (PEFA) methodology. This methodology allows measurement of country PFM performance over time and is an important element of the strengthened approach to PFM, which recognises the need for strong government ownership. It assesses the status of current systems and procedures and does not assess policy, capacity or expenditure quality issues. Although recognising the ongoing reforms, the scores reflect the situation at the time of the assessment and therefore act as a basis against which the impact of these reforms can be monitored. A PEFA assessment allows us to identify those parts of the PFM system most in need of reform and to develop a practical sequence of reform and capacity-building activities.

The previous PFM assessment using a modified PEFA methodology was carried out in 2005 by an external consultant and covered only the indicators relating to government performance without scoring individual dimensions of indicators. This was reported in 2006. The Government decided that a key objective of this new assessment would be to obtain greater understanding of the methodology and initially decided to carry out a self-assessment for ownership of the outcomes. In the event, the self-assessment was not made before the external assessment team arrived, and the Government requested that the external assessment proceed with government inputs made at two points: at a wrap-up meeting with the Finance Secretary at the end of the field mission, and on receipt of the draft assessment.

1.3. Process of preparing the PFM-PR

1.3.1. Methodology

A complete list of persons attending the workshop and interviewed is included as Annex 3. Donors were invited to send representatives to the workshop and interviews and some were able to do so.

In addition to the interviews, the team reviewed various laws, regulations, internal documents and external reports. A list of the documents consulted is attached at Annex 4. The team would like to express their sincere appreciation to everyone who has participated in the assessment for their unstinted assistance and hospitality.

1.3.2. Scope of the assessment

This assessment covers central government revenue and expenditure. The government’s oversight of fiscal risk with respect to public bodies is covered in performance indicator PI-9. Central government expenditure includes statutory expenditure (administration, debt servicing and miscellaneous), non-development and development expenditure. Revenue includes both tax and non-tax revenues.

For 2009/10, the total public expenditure (revised estimate) was Taka 1837 billion not including non-commercial statutory bodies and local government. The assessment therefore covers most of total public sector expenditure.

Country Background Information

1.4. Description of country economic situation

1.4.1. Country context

For the past decade, Bangladesh has experienced sustained economic growth. Driven largely by exports and remittances, real GDP grew at an average rate of 5.8 percent, up by a percentage point compared to the decade earlier. Despite recurrent shocks, growth was stable with a low standard deviation of 0.7 during this period. Much of the growth came from industry and services sectors, with agriculture performing less well in comparison. Growth in this decade accelerated mainly because of factor accumulation (both labor and capital), with total factor productivity making a much smaller contribution. The growth in real GDP was underpinned by sustained macroeconomic stabilization measures resulting in lower inflation and sound internal/external balances. On the structural side, the economy became market-oriented because of reforms easing trade and exchange restrictions, relaxations over private investment, reforms of state-owned banks, and deepening of agriculture reforms.

Table 1: Bangladesh Key Macroeconomic Indicators

	FY01	FY02	FY03	FY04	FY05	FY06	FY07	FY08	FY09	FY10	FY11
Output and Prices						*annual percent change*					
Real GDP Growth	5.3	4.4	5.3	6.3	6.0	6.6	6.4	6.2	5.7	6.1	6.7
Investment (% of GDP)	23.1	23.1	23.4	24.0	24.5	24.7	24.5	24.2	24.4	24.4	24.7
CPI Inflation (average)	1.9	2.8	4.4	5.8	6.5	7.2	7.2	9.9	6.7	7.3	8.8
External Performance											
Exports (f.o.b.) ($ billion)	6.5	5.9	6.5	7.5	8.6	10.4	12.1	14.2	15.6	16.2	23.0
Annual % change	12.6	-8.5	9.5	15.9	14.0	21.6	15.8	17.4	10.1	4.2	41.7
Imports (c.i.f.) ($ billion)	9.3	7.7	8.7	9.8	11.9	14.7	15.5	19.5	20.3	21.4	30.3
Annual % change	11.5	-17.8	13.1	13.0	20.6	12.2	16.3	25.6	4.2	5.4	41.8
Remittances ($ billion)	1.9	2.5	3.1	3.4	3.8	4.8	6.0	7.9	9.7	11.0	11.7
Annual % change	-3.4	32.9	22.4	10.0	14.2	24.8	24.5	32.4	22.4	13.4	6.0
Current account balance (% of GDP)	-2.2	0.3	0.3	0.3	-0.9	1.3	1.4	0.9	2.7	3.7	0.9
Foreign Direct Investment ($ million)	166	391	376	276	800	743	793	748	961	818	768
Gross official reserves ($ billion)	1.3	1.6	2.5	2.7	2.9	3.5	5.1	6.2	7.5	10.8	10.9
In months of GNFS imports	1.7	2.1	2.9	2.8	2.5	2.7	3.3	3.4	3.7	5.1	3.9
Public Finance						*percent of GDP*					
Total Revenue	9.0	10.1	10.3	10.2	10.5	10.7	10.4	11.4	10.4	10.9	11.6
Total Expenditures	14.0	14.8	13.7	13.3	13.8	14.1	13.5	15.0	14.3	14.6	15.9
Overall budget deficit (excl. grants)	5.0	4.7	3.4	3.1	3.3	3.4	3.1	3.6	3.9	3.7	4.3
of which, budget support to 4 SOEs	---	---	---	---	---	0.0	0.0	1.7	0.7	0.9	0.5
Off-budget financing of 4 SOEs	---	---	---	---	---	0.9	0.9	0.6	0.0	0.0	1.1
Budget deficit (incl. off-budget support to SOEs)	---	---	---	---	---	4.3	4.0	4.2	3.9	3.7	5.4
Domestic financing	3.0	2.5	1.2	1.8	1.7	2.2	2.0	2.0	3.1	2.2	3.4
Public debt	50.8	52.7	51.1	49.1	47.5	46.9	46.8	46.8	45.4	41.4	42.9
Money and Credit						*end of year; percent change*					
Private sector credit	16.9	14.4	24.4	14.1	16.8	18.1	15.0	24.9	14.6	24.2	25.8
Broad money (M2)	16.6	13.1	15.6	13.8	16.7	19.3	17.1	17.6	19.2	22.4	21.3

Source: Government of Bangladesh and IMF-World Bank Joint Debt Sustainability Analysis

More recently, real GDP has continued to grow at a healthy rate with the global economic crisis doing little to dampen growth. Real GDP grew by over 6 percent in the past two years (Table 1), after a slight deceleration from the pace recorded in recent years (6.3 percent from FY04-08). The limited impact of the global economic crisis reflects Bangladesh's low integration with the global economy, the nature of its garments export that remained resilient to the downturn, and the robust remittance inflow that boosted consumption levels. However, near stagnation in overall investment rate driven by feeble growth in private investment and declining public investment is a concern.

Inflation rose to 8.8 percent in FY11, up from 7.3 percent in FY10. Rise in international commodity prices can partially explain rising inflation in Bangladesh. Food price inflation in Bangladesh has exceeded the increases in international food prices and pass through of international oil price increases, through adjustment of domestic administered prices, have been low as well as delayed. Expansionary monetary and fiscal policies appear to have played a critical role in fuelling inflation in Bangladesh in recent times.

Growth in money and credit remained high in the recent past. Broad money increased by 21.3 percent and reserve money increased by 21.1 percent in FY11, compared with 22.4 percent and 16 percent respectively in the previous year. The increase in broad money growth was driven largely by 25.8 percent growth in credit to the private sector, due to increased disbursement of agricultural and SME credit.

The overall fiscal deficit increased to 4.3 percent of GDP in FY11 compared to 3.7 percent in FY10. The revenue/GDP ratio has increased from 10.9 percent in FY10 to 11.6 percent in FY11, driven by increase in the tax/GDP ratio from 9 percent to 10.1 percent. The gains in tax revenue mainly reflected tax buoyancy and better implementation of administrative reforms in the areas of automation, registration, and enforcement. Meanwhile, expenditure rose from 14.6 percent in FY10 to 15.9 percent in FY11. Domestic sources accounted for the bulk (over 78 percent) of the deficit financing. Foreign financing in FY11 is estimated at 0.9 percent of GDP, compared with 1.3 percent the previous year while domestic financing increased from 2.4 percent of GDP in FY10 to 3.4 percent in FY11.

The current account surplus has narrowed due to rapid import growth and modest remittance growth. Both exports and imports rose in FY11 while remittance growth slowed down considerably. Exports recovered strongly in FY11 from the depressed base of FY10. In dollar terms, exports rose by 41.7 percent in FY11, compared to just 4.2 percent in the year before, based on an impressive performance by the dominant garments sector. Imports rose by 41.8 percent in FY11, well above the 5.4 percent growth recorded in FY10. In real terms, imports grew by over 32 percent in FY11. Rising food and oil imports, combined with higher international prices of oil and food, have intensified the pressures on the external account. In addition, remittances grew at a sluggish 6 percent in FY11, with inflows of $11.7 billion.

Foreign exchange reserves came under pressure, with the import cover declining from 5.1 months in FY10 to 3.9 months in FY11. The pressure came from a decline in the current account surplus from 3.7 percent of GDP (US$3.7 billion) in the last fiscal year to 0.9 percent (US$1.0 billion) in FY11 while the financial account balance ended in a deficit of US$1.5 billion in FY11, compared with US$ 0.7 billion deficit in FY10. The overall balance of payments deficit of US$635 million in FY11 has contributed to reserve losses and weakening of the taka against the US dollar. The taka depreciated by 6.6 percent in FY11 versus the US dollar despite Bangladesh Bank's US$925 million sales. The exchange rate premium in the curb market increased in FY11 to 3.3 percent on average, compared with 1.8 percent in FY10.

The medium-term macroeconomic outlook for Bangladesh is positive if several challenges are addressed. The prospects for continuing robust GDP growth in Bangladesh over the next decade are good given its inherent strengths – a vibrant private sector as well as a large and growing pool of inexpensive labour. However, achieving faster growth and even maintaining growth at recent levels will require addressing several pressing challenges, in addition to coping with contagion effects of another recession in the Euro zone as well as the US. A higher growth path would require a sustained increase in public investment, especially in infrastructure. For this, the challenge lies in strengthening implementation of public investment projects and improving tax policy and administration that would generate revenue to allow much higher public investment in infrastructure. It is worth noting that not only the quantity but also the quality of public investment is important. As such, the quality and execution of public investment (and expenditure in general) will need to improve significantly through improvements in public financial management so that scarce public resources can be spent well. For faster and sustained growth, it is also important to stimulate private investment through improvements in the investment climate. As part of this, energy shortages would have to be addressed urgently using both short-and-long-term measures to improve the operational and financial viability of the energy sector. Not only will this help the private sector, it will also reduce strain on the budget. Finally, it is important to improve public sector accountability to ensure that services are delivered efficiently.

1.5. Description of budgetary outcomes

Fiscal policy in Bangladesh has remained consistent with macroeconomic stability and debt sustainability in recent years. Overall fiscal deficit has been in the range of 3 to 4 percent of GDP in the last half of the past decade. The government has been able to contain the deficit despite undershooting revenue targets and expenditure pressures arising from successive natural disasters, political developments, and global food and financial crises. Table 2 provides detailed fiscal information for a more recent period.

The primary deficit has remained at or below 1.6 percent of GDP during FY08-FY10 but increased to 2.4 percent of GDP in FY11 (Table 2). External financing has declined from 1.6 percent of GDP in FY08 to 0.9 percent in FY11. Domestic financing of deficit has been over 2 percent of GDP in this period. Also, the composition of domestic borrowing is shifting towards more expensive sources (savings instruments), raising the total cost of borrowing significantly. While the cost of government borrowing both as a share of total debt and as a share of GDP is low compared to many other countries, interest costs as a share of total expenditure are much greater due to the relatively low levels of total revenue and spending.

The revenue effort and the efficiency of revenue mobilization have improved. Revenue as percent of GDP has increased from 10.5 in FY05 to 11.6 in FY11. Composition of revenue has changed, with increasing reliance on domestic taxes. Share of import based tax in National Board of Revenue (NBR)[2] revenue declined from 50.4 percent in FY05 to 35.4 percent in FY11, while share of domestic taxes increased from 29.9 percent to 35.4 percent during this time. Share of income tax has increased considerably from 18.9 percent to 28.7 percent.

Public expenditure as percent of GDP increased from 13.8 in FY05 to 15.9 in FY11. During this period, current expenditure as percent of GDP increased from 8.4 to 9.7 while Annual Development Plan (ADP) expenditure declined from 5 percent to 4.2 percent of GDP. Share of interest payment in total expenditure increased from 12.6 percent to 17.2 percent in FY09, before declining to 12.2 percent in FY11. Since FY08, the provision for support to four loss-making non-financial State-Owned Enterprises (SOE) has been explicitly made in the budget. Expenditure on subsidies in FY11 increased to 2.1 percent of GDP, compared with 1.2 percent in FY10.

[2] Revenue collected by National Board of Revenue comprises 77 percent of total revenue.

Table 2 Financial Operations of the Central Government

in Billion Taka (and as % of GDP)

	FY08	FY09	FY10	FY11	FY12
	Actual	Actual	Actual	Estimate	Budget
Total Revenue	**620.0**	**641.0**	**759.1**	**912.0**	**1183.9**
Total Revenue (Excluding BTTB revenue)[1/]	601.2	641.0	759.1	912.0	1183.9
Tax Revenue	494.8	528.7	624.9	795.0	957.9
NBR Taxes	474.4	502.2	597.4	763.0	918.7
Non-NBR Taxes	20.4	26.5	27.4	32.0	39.2
Non-Tax Revenue	125.3	112.3	134.2	117.0	226
Non-Tax Revenue (Excluding BTTB revenue)[1/]	106.5	112.3	134.2	117.0	226
Total Expenditure	**819.0**	**880.6**	**1016.1**	**1253.3**	**1635.9**
Total Expenditure (Excluding BTTB expenditure)[1/]	798.1	880.6	1016.1	1253.3	1635.9
Current Expenditure	520.5	611.0	670.1	763.0	878.5
Pay and allowances	136.6	135.0	160.5	197.0	216.4
Goods and services	80.2	80.2	88.5	98.0	117.7
Interest payments	119.7	151.8	148.7	153.0	180.0
Subsidies [2/]	59.3	70.9	75.1	94.1	92.9
Transfers [3/]	134.0	171.3	194.6	216.9	253.6
Block allocations	4.5	1.8	2.8	4.0	18.0
Food account surplus(-)/deficit(+)	8.1	0.6	-8.5	0.0	6.3
Annual Development Program	185.2	193.7	255.5	328.3	460.0
Non-ADP Capital and Net Lending [5/]	88.2	74.1	96.5	148.0	291.1
Extraordinary Expenditures	17.0	1.2	2.4	14.0	0.0
Overall balance (excl. Grants)	**-199.0**	**-239.6**	**-257.0**	**-341.3**	**-452.0**
	(3.6)	(3.9)	(3.7)	(4.3)	(4.9)
Primary Balance	**-79.3**	**-87.8**	**-108.3**	**-188.3**	**-272.1**
	(1.5)	(1.4)	-(1.6)	(2.4)	(3.0)
Net Financing of Reported Deficit (II)	**199.0**	**239.6**	**257.0**	**341.3**	**452.0**
External	89.0	47.0	107	74.0	180
Domestic	110.0	192.6	150	267.3	272.1
Bank	85.0	137.9	-20.9	203.9	189.6
Non-Bank	25.0	54.7	170.9	63.4	82.5
Cashfloat and Discrepancy					
Gross Domestic Product (Billion Taka)	5458	6148	6943	7875	9207

Source: Ministry of Finance & World Bank & IMF

Notes: 1/ BTTB has been corporatized and its revenue and expenditure is out of FY09 government budget. For the purpose of comparison FY08 budget numbers have been calculated without BTTB revenue and expenditure.

2/ Subsidies under current expenditure includes price subsidies only. Also food (consumption) subsidy is covered under Transfers, not Subsidies.

3/ Transfers include Grants in Aid, Contribution to International Organizations, Write-off of Loans and Advances, and Pensions and Gratuities.

5/ Non-ADP Capital and Net Lending includes Non-Development Capital Expenditure, Programs financed from Non-Development Budget, Loans, Projects outside ADP, and FFW expenditure.

Expenditures on social sectors particularly in education and health continue to receive priority, followed by agriculture, rural development, transportation infrastructure, and targeted poverty reduction programs, including social safety nets for the poor. As per the established tradition, education receives the largest share of total expenditure. Allocation for social security and welfare increased, and provision for different under-privileged sections of the population have been made.

Spending on social safety nets has increased from 2.1 percent of GDP in FY08 to 2.5 percent of GDP in FY11.

While expenditure is a poor proxy for performance, it should be pointed out that in the early 2000's, actual expenditure under the ADP was around 90 per cent of the revised ADP. In the three years 2006/07 to 2008/09, where actual expenditure data is available, the fund utilization rates were between 82 to 85 per cent of the revised ADP. As the revised budget often involved a re-allocation from the ADP to the Non-development Budget, fund utilization ratios based on the original ADP would have been lower still.

Bangladesh's current and projected levels of public debt remain sustainable, although interest rates are on the rise. Notwithstanding the rise in deficit, total outstanding public debt has been declining in recent years and this is projected to continue. External debt accounts for 49 percent of total debt, down from 63 percent in FY05. There has been a significant increase in the share of domestic debt in total debt, from 37 percent in FY05 to 51 percent in FY11. Total public debt declined from 47.5 percent of GDP in FY05 to 42.9 percent in FY11; external debt declined from 29.6 percent of GDP to 21 percent, while domestic debt increased from 17.9 percent of GDP to 21.9 percent. Robust economic growth and an appreciating real exchange rate explain the decline in the overall debt/GDP ratio.

Since external debt is mostly concessional, it has a relatively lower impact on debt servicing. Amortization and interest payments on external debt declined from 6.3 percent of exports of goods and services in FY05 to 5.3 percent in FY07 to 3.7 percent in FY11. The effective interest rate on external debt declined from 1.2 percent in FY05 to 0.8 percent in FY11, and interest on domestic debt declined from 8.7 percent in FY05 to 8.3 percent in FY11. Overall the effective interest rate on total debt increased from 4 percent in FY05 to 4.3 percent in FY11 due to a 10 percentage point increase in share of more expensive domestic debt in total debt.

1.6. Description of the legal and institutional framework for PFM

1.6.1. The Legal and Institutional Framework for Public Financial Management

The Constitution of the People's Republic of Bangladesh, 1972 and the Public Money & Budget Management Act, 2009 (PM&BM) form the primary financial management legislative instruments. These are supported by Executive Orders issued by the President[3] namely; the GFR; Treasury Rules and Subsidiary Rules; and the Account Code. Business among the different Ministries and Divisions is allocated under The Government Rules of Business (revised 2010). The Finance Division has also issued a Public Expenditure Manual.

The PM&BM Act serves the purpose of a 'Budget Systems Law' in Bangladesh. The PM&BM Act defines the core elements of the financial management legal framework. A review identifies the areas where the PM&BM Act could be strengthened by covering a number of areas.[4] The PM&BM Act does not specify the broad classification of expenditures to be used in the annual appropriation act. Currently only an aggregate appropriation is provided to each Line Ministry (separated into charged and other). The PM&BM Act also does not provide for a separate appropriation for Contingences.[5] These are currently subsumed in the Ministry of Finance's appropriations. On the accountability side,

[3] Under Article 85 of the Constitution the President may issue rules until regulated by Act of Parliament.
[4] Inception Note of Strengthening Public Expenditure Management Project, 2010.
[5] Article 92(1)(b) of the Bangladesh Constitution provides for making allocation to meet the unexpected expenditure. According to existing budget classification all appropriations are taken against a Ministry or Division and accordingly unexpected expenditure is shown under Finance Division.

the PM&BM does not mention the public authority with primary financial management responsibility (however, this is addressed through the Allocation of Business rules[6]), the authority for debt management, accountability for funds collected and used, the legal basis for formulation and execution of the Budget and the basis for internal control and internal audit. PM&BM Act also does not specify the basis of accounting to be used by budget entities.

1.6.2. Public Financial Management Vision

Bangladesh's efforts to improve PFM within a consistent framework over several years have been commendable.[7] The Financial Management Reform Strategy and Medium Term Rolling Action Plan, officially adopted in 2006, laid out the GOB's vision, main objectives and high level reform actions to be undertaken over the next five years. These included: a) maintaining aggregate fiscal discipline though a medium term macroeconomic and budget framework; b) allocating resources in accordance with Government priorities as reflected in National Strategy for Accelerated Poverty Reduction (NSAPR)[8] and five year plans; c) promoting efficient use of public resources through computerization and enhanced transparency and accountability; and d) strengthening the role and performance of the Comptroller and Auditor General (C&AG).

Notable achievements in improving the PFM framework include: (i) the consolidation and amendment of the PFM regulatory framework; (ii) the computerization of the budget process and introduction of a new budget classification system; (iii) introduction of the PM&BM Act 2009 to ensure the accountability of public resources to Parliament; (iv) introduction of Public Procurement Act 2006 and Public Procurement Rules 2008; (v) introduction of e-Procurement on a pilot basis in select agencies such as Bangladesh Water Development Board, Rural Electrification Board, Roads and Highways Department, and Local Government Engineering Department; (vi) the development and piloting of strengthened expenditure management through a MTBF and better integration of the capital and recurrent expenditure programs. The Government has also begun to develop capacity of key PFM staff through the establishment of the Financial Management Academy.

1.6.3. PFM Reform and Performance

Although tremendous institutional progress has been made on several fronts, PFM outcomes present a mixed picture. Aggregate fiscal discipline has been maintained despite pressures placed on public resources by various shocks (external and natural) and development needs. Management of public resources within sectors and programs, however, needs to be improved significantly to raise the level of development and service delivery outcomes.

The stewardship of public finances in Bangladesh is concentrated in the hands of two key central finance agencies (CFAs), the Ministry of Finance (MOF) and the Planning Commission (PC). These institutions have the delegated responsibility within the executive to play the leading role in planning, allocating, managing and monitoring of public finances. This institutional structure has served the country well for the purposes of maintaining aggregate fiscal discipline and allocating resources to broad strategic priorities. Limited flexibility and autonomy provided to the line ministries and spending agencies in the face of weak administrative and personnel management practices, have served to inhibit operational efficiency.

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[6]According to the Allocation of Business, the primary financial management responsibility, the authority for debt management and formulation of budget lies with the Finance Division. However, accountability for funds collected and used and basis for internal control are included under "Duties and responsibilities of the Principal Accounting Officer" (Clause 19 of the PM&BM Act).

[7] Reforms in Budgeting and Expenditure Control (RIBEC) from 1992-2002, Financial Management Reform Program from 2002-2007, MTBF 2007 onwards. The catalyst for the start of the program was the recommendations of the Committee on Reforms in Budgeting and Expenditure Control (CORBEC) report. Since CORBEC there had been no been vision and strategy published until May 2006 when Finance Division produced its 'Vision and Medium Term Action Plan, 2007-2011'.

[8] National Strategy for Poverty Reduction.

Recognizing the limitations of an annual, input-oriented and fragmented budget exercise, the government introduced a three-year MTBF with the FY05-06 budget in four pilot line ministries.[9] The MTBF now covers 33 line ministries. The MTBF is seen by both central and line ministries as an integral element of the budget planning cycle. The MTBF process has been built around five main elements. They include: (i) a macroeconomic framework; (ii) an analysis of key budget strategies and choices informing allocation of budgetary resources; (iii) ministry-level budget frameworks and operational spending plans; (iv) resource ceilings that allow ministries to prioritize their budget plans; and (v) streamlined procedures for timely and efficient execution of ministry budgets. The introduction under the MTBF of a strategic phase to budget preparation is beginning to create a policy-driven approach to budget planning. The MTBF is eventually expected to provide the link between the NSAPR, sixth Five Year Plans and other policy documents and line ministries' objectives, policies and resource allocations.

The Finance Division (FD) is responsible for developing the macroeconomic forecasts but currently does not have its own forecasting model. The arrangements established in Bangladesh reflect good practice, with the FD responsible for the development of the macro-fiscal framework and processes in place for consultation with other stakeholders. The main challenges are: (i) to build the professional capacities in FD for macro-fiscal analysis and forecasting; and (ii) for the PC to develop its own policy analysis and forecasting capacities to support its long-term strategic policy management role.

1.6.4. Annual Budget Preparation

Under the MTBF initiative ministries prepare spending strategies, referred to as MBFs that include a set of output targets alongside budget estimates. The MBFs are prepared during the first part of the fiscal year and submitted to the FD prior to preparation of the detailed budget proposals. An edited version of the MBF is then included in the MTBF document. However, there has been considerable variation in the quality of the MBF submissions, particularly in relation to the strategy, policy priorities and completeness of budgetary information. As the practice of two parallel budget preparation processes for non-development and development budgets continues, the MBFs have not reached their potential of linking LM policy with the budget requirements. The practice of adding new activities while continuing with all existing projects/programs has tended to stretch scarce resources to cover new activities while making inadequate provision for existing programs.

Establishment of three-year resource ceilings has been one of the most important achievements of the MTBF approach towards improving fiscal discipline and better integration of the Non Development Budget and Development Budget. Budget ceilings are set at ministry level and are not disaggregated from broader sectoral ceilings. Resource ceilings are applied only to the ministries preparing MBF submissions and are issued twice during the budget preparation cycle. Preliminary indicative resource ceilings are provided to ministries as part of the First Budget Call Circular (BCC1) covering the preparation of MBFs. These are based on the revised budgets for line ministries in the previous FY, adjusted by FD using their judgment in the light of actual expenditures available in the current FY, plus a growth factor (usually GDP real growth rate). Indicative resource ceilings are provided to ministries in the Second Budget Call Circular (BCC2) that requests the preparation of detailed annual budget proposals. These ceilings take into account the updated macroeconomic and fiscal framework and the conclusions from the evaluation of the MBF submissions. The introduction of the MTBF approach has been well received by line ministries and it has made possible the introduction of unified budget ceilings (for Development Budget and Non Development Budget) at the strategic phase.

[9] The first pilot covered the Ministry of Agriculture, Ministry of Education, Ministry of Social Welfare and Ministry of Women Affairs.

The introduction of a more strategic and performance-oriented approach to budgeting though the MTBF has improved the demand side for better budgeting within the executive by: (i) engaging higher-level officials in the budgeting exercise; (ii) motivating LMs to prepare better budget submissions; and (iii) highlighting the need for better budget execution and procurement systems.

However, in practice, problems remain. Older policy priorities remain entrenched at the expense of newer priorities. An incremental approach is used to develop LM budgetary ceilings. The disadvantage of incremental budgeting is that it spreads scarce national resources too thinly across sectors and ministries, rather than enabling the Government to consider options to expand its fiscal space and to allocate the fiscal space top down to its strategic priorities. The ceilings are disaggregated in a non-systematic way by LMs into their non-development and development budget components. The proper preparation of the MTBF has been hampered by data limitations. Evidence points to under-provisioned expenditure causing delay in program implementation.[10] The PC continually processes a large number of new projects which require resource commitment at a multiple of the fiscal space. The pressure to spread resources thinly results in long delays in project completion and under-spending of investment programs.[11]

The budget release process does not provide enough flexibility in the implementation of programs. More importantly, the introduction of the MTBF has highlighted the ineffectiveness of the financial management functions in the LMs, because of the poor exercise of authority[12] to manage and oversee the budget. Furthermore, for a proper implementation of the MTBF, the budget and procurement cycles will need to be much better integrated. Under the Public Procurement Act and Public Procurement Rules 2008, ministries, departments and agencies are required to submit an Annual Procurement Plan, and updated cost estimates, to the Central Procurement Technical Unit early in the financial year in support of their approved projects. Current practices often hamper the finalization and implementation of the procurement contracts that usually extend beyond the annual budget. The realities of the procurement cycle and the influence of seasonality will need to be factored in while preparing procurement plans. Consideration should be given to some changes at the start of the fiscal year, or issue regulations that allow the government to begin advanced procurement steps before the beginning of the fiscal year. LMs also emphasize the importance of complementary reforms to budget execution processes - decentralizing control over even minor reallocations between budget lines and the length of time taken when approval has to be sought from the FD and PC.

For several decades, Bangladesh’s budget has operated through two separate and unrelated components, prepared independently by two separate central agencies–the Revenue Budget (non-development budget) by the MOF and the Development Budget by the PC. This fragmentation constrained the effectiveness of public spending. The introduction of the MTBF and MBF, however, has opened a new window of opportunity to gradually address the fragmentation by providing a

[10] *Bangladesh: Public Expenditure and Institutional Review- Towards A Better Quality of Public Expenditure, June 2010.*

[11] A review of the investment projects/programs in the ADP (excluding technical assistance projects/programs) for FY03-07 reveals that, on average, only about one-third (34 percent) of their cost was covered by the development budget. Consequently, the ADP each year has carried over a significant backlog of incomplete projects/programs. New projects/programs entering the portfolio grew by 2.7 percent per year, while the development budget grew by 3.5 percent. On average, for instance, Roads and Highways Department (RHD) projects take six years (and the range is from one year to 21 years). In the highway sector, the RHD had an average completion time of seven years compared to an average of two years for international practice. While the degree to which different subsectors are able to spend these resources varies, the overall trend is one of under spending, which points to serious institutional capacity weaknesses in implementing projects.

[12] The Public Moneys and Budget Management Act, 2009, places the responsibility for compliance to the requirements of relevant acts, rules and regulations on the Principal Accounting Officers (Secretaries of Ministries/Divisions) and Executive Authority. As part of the MTBF, Line Ministries are required to establish a Budget Management Committee (chaired by the Principal Accounting Officers), which is responsible for overseeing and managing the budget.

unifying framework for the preparation of the budget within LMs. However, to benefit fully from the new framework, Departments/agencies within LMs should carry out strategic and operational planning in their ministries. This will help identify what needs to be done (activities, programs, and projects) that would deliver goods and services more efficiently and effectively instead of developing two budgets. The MBF also establishes performance indicators and measurements (targets) for intermediate outputs produced by the administrative units and for the outputs (goods and services delivery) at the ministry level.The most urgent issues to facilitate budget preparation and implementation relate to eliminating the duplication of procedures that currently occurs in the planning and implementation of the DB. This applies to the preparation stage where the MTBF ministries make separate DB and ADP submissions, even though for government-funded projects these should be one and the same. It also applies to the presentation of the budget where there are differences in the economic categorization of expenditure used for the NDB and the DB. During implementation of the budget, requirements for 'double approval' of re-appropriations and authorization of expenditures that exceed financial limits are time consuming.

An MTBF is usually complemented by procedures for capital investment management that provide an interface between the MTBF/budget cycle and the project cycle. An important aim of these capital investment management procedures is to ensure that the initial screening and subsequent approval of investment projects are based on technical and economic appraisal criteria and expenditure on the projects is protected by their inclusion in the MTBF. An initial step was taken in March 2007 when the Planning Commission issued new guidelines on project preparation, processing and approval-within the context of national and sector priorities- emphasizing assessment of the sustainability of proposed investments and their downstream recurrent costs. Under the MTBF reforms, Bangladesh is proposing a move towards a unified budget. With a unified Budget it is expected that government expenditures, whether they are for investment or recurrent, are developed together and considered together by the Government as part of the budget preparation process. The MBF will be the mechanism to achieve this by LMs. The choice will then be between investment and recurrent spending rather than between development and non-development spending. The budget process for both capital and recurrent spending should be overseen by the FD unlike the case now where the ADP is the responsibility of the PC. This means that the budget preparation aspects of the ADP will become redundant and will be replaced by improved procedures for capital investment management focusing on the identification, screening, preparation, appraisal, selection, approval and monitoring of capital investment projects. Capital investment projects, once approved, must be fully financed, before new projects are considered for inclusion in the budget.

1.6.5. Control over the Budget

The basic system through which the FD exercises control over the Budget is the Integrated Budget and Accounting System (iBAS) introduced in 2006. The iBAS budgeting and accounting modules are separate systems and designed to be complementary. However, they are not fully integrated and little use is made of budget information in the accounting system. There is no 'availability of funds' checking within the systems, and budgets are not operated at a level where effective budgetary control is exercised. Despite the operation of iBAS, there are delays in the production of the annual accounts by the CGA and in the subsequent audit of these accounts by the C&AG. Production of accounts in a timely manner will need to be addressed, say within three months of the close of the financial year. Additionally, there is need to adopt international best practices in public expenditure management, adhere to international standards in classification and reporting as defined in Government Finance Statistics (GFS), Classification of the Functions of Government (COFOG) and International Public Sector Accounting Standards Board (IPSAS). The current budget code structure of 13 digit and 4 level structures, was adopted in 1998. It is based on an organizational budget and expenditure classification system with roots in the GFS 1986 convention. Since it does not conform to COFOG or

GFS 2001, reports are prepared using crossover tables to conform to international standard formats. The accounts classification code is embedded in iBAS and is fixed. Since its adoption the budget code structure has undergone modification to meet new information needs and this has been introduced innovatively into iBAS by modifying unused functionalities and definitional codes.[13]

The dominant role that CFAs, in particular MOF, play in budget management and ex-ante agreements on the overall budget envelope and deficit limits, has contributed to Bangladesh's strong record of fiscal discipline. The PFM administration at the LM level is a collection of de-concentrated units of the CFAs, MOF and PC. In addition to being inefficient, these vertical reporting/loyalty lines outside the LM structures divert responsibility and undermine the system of checks and balances that can be established to minimize waste and corruption in public funds. Both MTBF and improved external audit practices place a renewed emphasis on Departmental Secretaries taking their responsibilities as Pay and Accounts Officer[14] more seriously. Formal responsibilities exist, but in practice they are not applied, monitored or enforced.

1.6.6. Accounting, Audit and Accountability Institutions

There have been some improvements in accounting, with respect to the speed of their production, owing to the progressive computerization of the process for data gathering. The availability of in-year accounts is now optimistically put at five to six weeks. While a lot of progress has been made, a lot more is needed to make the C&AG the key institution of accountability. Audit reporting is improving both in terms of content and relevance. The external audit approach is being modernized in terms of adopting systems based approach to ministry wide audits which are complemented by performance/value for money audits. Audit staff is trained in the new techniques, using standard manuals and documentation. Increasingly the audit work is being assisted by the use of computers. However, the coverage of the audit work remains constrained by the limited number of qualified audit staff available. The C&AG has 22,000 auditable units to cover (including state owned enterprises) but only 3,500 staff.

Audit reports are not yet timely and not published. Audit reports are first sent to the government, which then sends them to parliament. Public debate of C&AG's reports is few and far between. In most countries with an effective accountability structure, the C&AG or its equivalent is independent of the executive and reports directly to the parliament. In Bangladesh, the C&AG, to a large extent, is still part of the executive. The C&AG is appointed by the President on the advice of the Prime Minister. However, the C&AG cannot hire qualified auditors, restructure or promote staff without the approval of the government. As a start, the institution should be allowed to decide its own staffing and budget, independent of the executive. The C&AG should gradually gain its full independent status. Public discussion requires to be organized around the issues raised in Audit reports. Audit and accounting cadre are not separate. Under the cadre transfer system, Accountants may be assigned to the C&AG and auditors may be transferred to the CGA. This gives rise to several issues, not least of which is conflict of interest, as accountants assigned to the C&AG may end up auditing their own agencies and their peers. Capacity constraints of the C&AG result in significant backlogs. More importantly, the issue of the separation of accounting and auditing cadres to avoid potential conflicts of interest should be at the top of the agenda.

The performance of the PAC has improved over recent years not least in terms of the frequency of its meetings. Its work has been aided by the reports of the C&AG which are more relevant. Reports to the PAC, and its deliberations, remain secret until after the PAC has reported to Parliament. Delays in examining audit reports remain significant.

[13] For example, project codes are recorded in the segment dedicated to the geographic code.
[14] Chief Accounting Officer of a Ministry.

No single entity is responsible for public sector debt management in Bangladesh. The demarcation of roles and responsibilities is mainly on the basis of the type of debt instrument issued or loans contracted. External debt is managed by the Economic Relations Division and Foreign Aid Budget Accounts Department. Domestic marketable debt is managed through the Treasury and Debt Management Wing of the Finance Division and Bangladesh Bank. The Internal Resource Division and its National Savings Directorate manage national savings schemes. The CGA is responsible for debt related payments, and for the accounting of the issuance, redemption and other servicing payments of these instruments. The fragmented nature of debt management responsibilities limits the capacity of these entities to produce and consolidate accurate debt data in a timely fashion.

Aspects of the accountability problem that have some bearing on aggregate fiscal discipline are: (i) inadequate and delayed external audit and the absence of ex-post reconciliation of the budget; (ii) lack of explicit sanctions in case of deviations; and (iii) limited information about the budget performance made available to interested parties, including the public. While a lot of progress has been made to improve and modernize the external audit function, there is still a long way to go to make it a key instrument of accountability. More recently, the government has made available fiscal information on the MOF website but, given the limited access the use and effectiveness of this information is somewhat limited. A major source of shortfall in fiscal reporting is the large off-budget expenditures that take place through public enterprises and their borrowing.

There is a need to reform budget preparation, execution and procurement practices. Strategic allocation of national resources in the budget planning phase, data limitations, the absence of program classification, delays in the budget release process, and inconsistencies between the procurement cycle and the budget cycle, hamper the proper preparation and implementation of the MTBF. Addressing complementary reforms to budget execution, in particular the funds release process, classification structure, computerization of the Treasury and accounting systems will also be important. In the longer term, FD should consider the scope for delegating additional financial powers to the line ministries that meet benchmark PFM standards with the aim of moving from ex-ante controls towards accountability backed up by strengthened ex-post inspection and audit.

Strengthening domestic revenue mobilization and enhancing operational efficiency to make better use of available public resources should be at the core of the medium-term strategy to improve budget policy and institutional performance in the context of the MTBF approach. This is particularly important in light of a constrained growth environment, the anticipated reduction in trade taxes and growing development expenditure needs. Raising domestic revenue levels and improving the efficiency of available resources are a high priority to create fiscal space and improve public expenditure outcomes.

Introducing a simple, coherent and effective tax policy should be a priority, especially for domestic taxes such as VAT and income tax, which are likely to be the future mainstay of Bangladesh's tax system, to reduce dependency on international trade taxes. Despite the adoption of numerous tax policy measures and tinkering at the margin by improving administrative practices, Bangladesh has been broadly unsuccessful in lifting the revenue-to-GDP ratio sufficiently to meet development resource needs. The current situation calls for a comprehensive reform agenda.

Assessment of the PFM systems, processes and institutions

A. PFM Out-turns - Budget Credibility

The indicators in this group assess to what extent the budget is realistic and implemented as intended, firstly by comparing the actual revenues and expenditures with original approved ones, and then by analysing the composition of expenditure out-turn. “Hidden” expenditure is also assessed by reviewing the stock and level of monitoring of expenditure arrears. The following paragraphs provide the detailed information to support the 2010 scores, to compare the changes since 2006 and to provide a brief overview of any ongoing reforms designed to address some of the identified weaknesses.

PI-1: Aggregate expenditure out-turn compared to original approved budget

PI-1 Dimension	2006	2010 Assessment
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).	C	**B.** In two of the last three financial years (2007/08 and 2009/10) the deviation between actual primary expenditure and original budget at an aggregate level has been less than 10% respectively. Only in 2008/09 did it exceed 10%.

Assessment 2010

The budget is the central mechanism for controlling expenditure in accordance with amounts appropriated by parliament. The ability to implement the budgeted expenditure is an important factor in supporting the government’s ability to deliver agreed public services as expressed in policy statements. This indicator measures how realistic the original budget was when compared with the outturn. During the previous three fiscal years, the difference between the original budget and the outturn was as given in Table 3.

The deviation for central government expenditure has been calculated based on the fiscal information provided. In the case of Bangladesh this comparison is slightly problematic because the final accounts for the previous three years have not yet been audited by the Auditor General and consequently have not been presented to the Parliament (at the time of this analysis). Hence this analysis is based on the uncertified data maintained by the Controller General of Accounts and the Ministry of Finance. The figure for total actual expenditure includes development and non-development expenditure. Debt service payments are excluded from the calculations, as in principle the government cannot alter these during the year, while they may change due to interest and exchange rate movements. Similarly, the government does not have full control over donor funded project expenditure, so these are excluded from the calculations.

In 2009-10 the difference between the original budget and outturn was (-) 9.3 percent, in 2008-09 it was (-) 10.1 percent and in 2007-08 it was 3.7 percent. It is important to notice that in 2009-10 and 2008-09 deviation was due to under spending of the original budget.[15] Only in 2007-08, the final outturn exceeded the original budget by 3.7 percent. Hence, it could be argued that from a macro perspective under spending the budget has helped contain debt levels and fiscal deficit, even though debt levels are currently not a problem in Bangladesh.

This would indicate rating of B since in two out of three immediately preceding years the deviation between original budget and outturn is less than ten percent.

[15] As shown in PI-4, expenditure payment arrears can arise but the precise level of arrears is not known. As the Government uses a modified cash basis for its accounts, payment delays may result in under recording of actual expenditure.

There are a number of factors that had an impact on the deviation between the original budget and the expenditure outturns. One of the big factors was the revision of salary and pay scales implemented in 2009 following the recommendations of the Pay Commission. Bangladesh revised pay scales in the government as per provisions of the 'Services (Reorganization and Conditions) Act, 1975, which prescribes that the "Government may revise existing grades of scales of pay as and when necessary". Since 1973 pay scales have been revised six times (in 1977, 1985, 1991, 1997, 2005 and 2009).

The pay scales revised in 2009 as a result of Pay Commission recommendations have been implemented in phases. Basic salary revision was implemented in 2009-10, and other allowances in the current fiscal year (2010-11). As a result, the outturn of pay and allowances in 2009-10 went up by 16 percent compared with 2008-09.

One factor could be that all the donor assistance did not materialize and thus some of the counterpart funds from the original budget remained unspent. Slow pace of implementing capital projects was another contributor to the outturn lagging behind. However, it was not possible to get estimates of how much these factors contributed to the deviations. A further factor is an acknowledged upwards and optimistic bias in the original budget considering the policy of the government to increase the pace of infrastructure spending. This also explains why in two out of three previous years the deviation was due to under spending rather than overspending.

Table 3: Summary of aggregate primary expenditure deviations

Expenditure	2007/08		2008/09		2009/10	
	Original budget Million Taka	Actual expenditure Million Taka	Original budget Million Taka	Actual expenditure Million Taka	Original budget Million Taka	Actual expenditure Million Taka
Total primary expenditure	66552	68983	75397	67755	85166	77276
Deviation (%)	3.7%		-10.1%		-9.3%	

It is useful to complement the overall picture with a view from the ministries other than Finance. Select reviews conducted of two key ministries, Ministry of Health and Family Welfare (MOHFW) and Ministry of Primary and Mass Education (MOPME) show different patterns. In the MOHFW the deviation ranged from -16.4 percent in 2007/08 to -11.7 percent in 2009/10 demonstrating persistent under spending whereas in the MOPME the deviation ranged from -15.3 percent in 2007/08 to10.6 percent in 2009/10. It appears that spending at the ministerial level is influenced more by specific factors such as financial, procurement and planning capacity etc. and the pattern is not uniform between ministries or between the ministries and the aggregate situation.

Comparison 2006 – 2010/ongoing reforms

In the 2006 assessment actual primary expenditures were more than 10% lower than the budgeted primary expenditure in all the three years examined (FY03-05). In the period examined for this assessment deviation exceeded 10% marginally in only one year (2008-09). This may be primarily ascribed to the impact of the Financial Management Reform Strategy and Medium Term Rolling Action Plan officially adopted in 2006 and improvements in budgeting through the MTBF and MBF that now covers 33 ministries/Divisions. Going forward, under SPEMP a key reform is to convert the MTBF process into a policy driven rather than planning exercise. The focus will be on: (i) achieving sustained improvement in resource allocation and related MTBF processes by linking strategies and priorities to allocation; (ii) developing capacity within FD to review Budget submissions to ensure resources are linked to priorities; and (iii) developing capacity to monitor and evaluate budget implementation.

PI-2: Composition of expenditure out-turn compared to original approved budget

PI-2 Dimension	2006	2010 Assessment
(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI- 1) during the last three years.	B	*New Methodology* Overall score: **D+** (using Method M1) Dimension (i): **D.** Variance in expenditure composition exceeded 15% in atleast two of the last three years (2007-08 and 2009-10) Dimension (ii): **A**. Actual expenditure to the contingency vote was on average nil in the last three years. *Old Methodology* **D**. Variance in expenditure composition exceeded overall deviation in primary expenditure by more than 10% in 2007-08 and 2009-10.

Assessment 2010

Where the composition of the budget varies considerably from the original budget, the budget will not be a useful indicator of intent. The second indicator assesses the extent to which there is a re-allocation of expenditure between administrative heads (ministries) above overall deviation in aggregate expenditure as defined in PI-1. As shown in Annex 5 at a disaggregated (ministry) level, ministerial variances are greater than overall variance by more than 15 percent in two of the three years.

This indicator measures the deviation of outturn from the original budget at the sub aggregate level by taking the case of the twenty largest ministries or functions that represent more than 75% of budgeted expenditure. In other words, it measures the robustness of original budget for the main spending ministries. A significant deviation of outturns from the original budget would indicate that the original budget did not reflect the true cost of current as well as new policies while allocating resources and would thus indicate allocation inefficiency. It therefore does not serve as a useful statement of policy intent in a given year.

The methodology to measure this indicator has been revised by the PEFA steering committee and is mandatory for Concept Notes/TORs after February 28, 2011. The old methodology used a method that relies on a sum of absolute deviation which did not measure compositional deviation correctly when all ministry deviations were in the same direction. This has been corrected in the new methodology. The new methodology has a second dimension which accounts for the impact of a specific budget line on ‘contingencies’ in the original budget and direct spending from this budget line.

In the discussions with the LMs, the PC and the MOF, many reasons were offered for these deviations. First, as mentioned the salary revisions in the last two fiscal years were not adequately included in the original budget and this resulted in midyear revisions. Hence the outturns went up for each ministry in direct proportion to their salary budget. A second reason was related to the investment budget. The execution of the budget was reflecting both a lack of implementation capacity as well as unrealized donor funds. Even though donor funds are not included in the PEFA assessment, these impact the budget since most of the donor funded projects include domestic financing as well and unrealized donor funds result in the local budgeted resources remaining unspent. A third, although a relatively minor, reason is that the MOF retains a part of the budget as ‘unallocated’ fund which is allocated to the line ministries later during the fiscal year. For example, environment funds totalling 700 million Taka were allocated during the year in 2009/10. There are other similar funds such as the housing fund which are centrally held and allocated during the year. Some deviations also arise due to contingencies such as natural disasters which necessitate reallocation of funds between the ministries as well as fresh allocations.

There is no 'contingency' reserve in the budget classification. However, resources are parked centrally for unanticipated circumstances in an 'Unexpected Allocation' head within the MOF. This money is distributed among different ministries as per special requirement throughout the year which is adjusted within their appropriation in the revised budget. It leaves a zero balance in that budget line ('Unexpected Allocation') at year end. The initial allocation under this head was (in Taka Million), 7980, 8000 and 9000 in 2007/08, 2008/09 and 2009/10 respectively, representing relatively minor amounts with respect to the size of the budget. What this indicates is that while the aggregate spending remains under control, budgeting in the line ministries can be improved. However, the size and allocation of unallocated central reserve is a 'policy' and not a 'process' issue.[16]

The Indicator has been assessed using two methodologies—old methodology and the new methodology. The scoring under the old methodology is a D. Under the new methodology Dimension (i) also scores a D. However, Dimension (ii) - which measures the impact of 'contingency' and direct spending from it - scores an A. Hence the overall rating using the two dimensions under the new methodology would be a D+.

Table 4: Deviations and Variations

Year	Total Expenditure Deviation (PI-1)	Expenditure Composition Variance (Old Methodology)	Variance in excess of total deviation (PI-2)	Expenditure Composition Variance (New Methodology)
2007/08	3.7%	19.7%	16%	19.3%
2008/09	10.1%	14.2%	4.1%	14.9%
2009/10	9.3%	26.4%	17.1%	30.6%

In the case of the two ministerial drill downs, the MOHFW showed a very small degree of compositional variance over and above aggregate variance for development budget relative to the national performance. However, data for the Department of Primary Education (DPE) within MOPME showed a surprisingly large compositional variance in excess of total deviation for non-development expenditure suggesting that there is a degree of unreliability in the extent to which the non-development budget could be delivered as planned. The Development Budget of the DPE, however, showed smaller compositional variance in excess of total deviation. On the face of it, this appears to suggest that budgets for development projects within DPE are reasonably reliable guides to the total level of GOB expenditure on those projects. A closer inspection of the data revealed that there is substantial variance in many of the smaller projects and the size of the large important projects outweigh the influence of the high variance in the smaller projects. From a wider perspective this does indicate underlying inherent weaknesses resulting in some of the detailed budgets not being delivered as planned.

Comparison 2006 – 2010/ongoing reforms

There has been deterioration in the score since 2006 primarily in Dimension (i) of the new scoring methodology. Whether it is an aberration is hard to tell. The budget is actively monitored in January–April of each fiscal year. This allows funds to be moved between Ministries and Division to address

[16] Block allocations are kept in the Finance Division's allocation (partly as a contingency measure to deal with urgent, unforeseen and unavoidable events, also partly to cater for poor budgeting preparation by LMs). In the Development Budget controlled by the Planning Commission, LMs are allowed to keep 5% of their development budget ceilings for 'unapproved" projects to cater for projects that may be approved after the budget approval by Parliament.

poor fund utilization by LMs. This may potentially undermine any strategic allocation decisions made at the beginning of the year. Reforms under SPEMP focus on improving resource allocation in the Budget on a policy basis besides developing the capacity of the FD to review budget submissions and monitor and evaluate budget implementation. This is being supplemented by: (i) training to strengthen the understanding of the wider public expenditure management reform process and the key role of the MTBF; (ii) forward estimates for base-line funding, sectoral allocations and determination of indicative ceilings in the budget Circular; (iii) output/ program budget framework to strengthen budget execution and accountability; and (iv) integration of the planning and budgeting process.

PI-3: Aggregate revenue out-turn compared to original approved budget

PI-3 Dimension	2006	2010 Assessment
(i) Actual domestic revenue collection compared to domestic revenue estimates in the original approved budget.	C	**B.** Actual domestic revenue collection was below 94% of budgeted revenue estimates only in 2008/09 in the last three years under the old methodology and between 94% and 112% in two of the last three years under the new methodology.

Assessment 2010

This indicator assesses the quality of revenue forecasting by comparing domestic revenue estimates in the original approved budget to actual domestic revenue collection based on tax and non tax revenues. Both old and new methodologies were used in the scoring exercise.

Revenues in Bangladesh have performed well. Table 5 below shows revenue performance in the last three years. It may be noticed that in two of three previous years revenue has under- performed by over 3 percent. In 2009-10 it underperformed relative to the Budget by 4 percent, in 2008-09 by 7 percent while in 2007-08 it has over-performed by 4 percent. The indicated score would therefore be a B under the old methodology. Even by the new methodology the rating would be a B as domestic revenue was between 94% and 112% of budgeted domestic revenue in 2007-08 and 2009-10.

There are many reasons for the deviation. The methodology for revenue forecasting initially follows macro parameters using which the ‘Resource Coordination Committee’ in the Government sets targets for each category of tax and non tax revenue. The ‘Resource Coordination Committee’ which has representatives from all main institutions—NBR, the Bangladesh Bank, the MOF— also receives inputs from the NBR through its membership of the committee. NBR prepares its own assessment and forecast of revenue for the coming year based on its discussions with the business community, historic trends, global environment and likely policy changes. The revenue departments discuss their own projections with the Resource Committee and finally the agreed revenue projection is fixed somewhere between the macro projections and the NBR’s numbers. Generally there is a tendency to have an upward bias in these projections.

The main contributors to revenues in the last three years were taxes on income and profit, VAT, and import duty. It is unclear from this data how much impact global economic downturn had on revenues. Actual receipts in the last three years are as follows.

Table 5: Comparison of Budgeted and Actual Revenues Received (Million Taka)

	2007/08			2008/09			2009/10		
	Budget	Actual	%	**Budget**	**Actual**	%	**Budget**	**Actual**	%
Tax Revenue	458380	481320	105	567890	528680	93	639550	624850	98
Non-Tax Revenue	114630	113380	99	125930	116990	93	155060	134200	87
Total Revenue	573010	594700	104	693820	645670	93	794610	759050	96

Source: Ministry of Finance, Government of Bangladesh.

Table 6: Main Tax Revenue Sources of National Board of Revenue*(Million Taka)

	2007/08	2008/09	2009/10
Taxes on Income and Profit	116690	134340	162350
VAT	169010	191190	230780
Import Duty	87680	84400	88660
Supplementary Duty	77580	85380	107980

*excludes Non-NBR portion of Revenue, Excise Duty and Other Taxes and Duties.

Comparison 2006 – 2010

There is an improvement in the score from C in 2006 to B. Actual revenue was consistently below 94% of budgeted domestic revenue when the last exercise was conducted. In the present assessment actual revenue was below 94% of budget only in 2008/09. Even by the new methodology the score would be a B as actual domestic revenue was between 94% and 112% in two of the three years examined.

PI-4: Stock and monitoring of expenditure payment arrears

PI-4 Dimensions	2006	2010 Assessment
Method M1	**D**	**NS**
(i) Stock of expenditure payment arrears (as a percentage of total expenditure for the corresponding fiscal year) and any recent change in stock	**NS**	Not Scored
(ii) Availability of data for monitoring the stock of expenditure payment arrears	**NS**	**D.** There is no reliable data on the stock of arrears for the last two years.

Assessment 2010

Dimension (i): Expenditure peaks in the last quarter of the year (April-June) and the usual practice has been to prepare bills for all work done and to process payments before 30 June, otherwise the unexpended budget lapses and payments have to be provided for in the following year's revised budget. The tendency remains to exhaust unspent budget by the close of the fiscal year and there is issuance of a large number of checks for expenditure either not occurred or payments not yet claimed by third parties. However these are estimated to be lower than 5% of total expenditure. There is no commitment control system (see PI-20 (i)). This poses a high risk of arrears arising where 'Drawing and Disbursing Officers (DDOs)' over-commit and bills cannot be fully paid in the year the goods or services were received. End-of-year arrears are usually defined as all bills registered as received during the year but not paid by June 30th. 'Paid' means that the cheque is dated on or before June 30, so is included in the recorded expenditure for the year (irrespective of whether the cheque is cashed within its validity period of 15 days). There is no summary of bills received or verified available in the Ministry of Finance, so total arrears at any date (unrecorded expenditure) cannot be tracked.[17] A random inspection in one ministry showed that the typical interval between preparation of the bill by the DDO and the date of issue of the cheque is 10 days. This does not include the interval between submission of the claim and preparation of the bill. The total arrears at any point of time are therefore likely to be significant.

[17] Arrears of bills due to public utilities for electricity, fuel, telephone and water services may be ascertainable through the respective public enterprise reports to the Monitoring Cell, but this is only part of the total, and is subject to offset agreements by which arrears are set against tax liabilities to the Government.

Salary arrears may arise from uncollected salaries (particularly from the June payroll), and salary revisions being back-dated. In the MOHFW there were some instances where salaries paid through the development budget may fall into arrears due to the delayed release of the first quarter funding. Pensions may also be in arrears. This is the difference between Pension Payment Orders issued by line Ministry Accounts Offices and actual payments of pensions up to 30 June, either directly by Accounts Offices or by reimbursements to banks used by pensioners. There is no summary data in the MOF on pensions outstanding. However, all debt service payments are made on the due dates: there are no arrears of debt service. In the absence of any summary data on the stock of expenditure arrears, this dimension cannot be scored.

Dimension (ii): There is no central data on the stock of arrears at June 2009 or June 2010. Arrears could only be ascertained by inspecting the Bill and Cheque Registers of all DDOs. MOHFW and MOPME also confirmed that there were no procedures in place for recording arrears. The concept of an arrear in this sense, however, does not appear to exist in Bangladesh.

Comparison 2006 – 2010/ongoing Reforms

In 2006, this indicator was rated D without rating the two dimensions separately, as there was no reliable data on the stock of arrears. The position on arrears has not changed. There does not appear to be any planned reform that would enable the Ministry of Finance to monitor the stock of arrears.

B. Key Cross-cutting issues - Comprehensiveness and transparency

The indicators in this group assess to what extent the budget and the fiscal risk oversight are comprehensive, as well as to what extent fiscal and budget information is accessible to the public. The following paragraphs provide the detailed information to support the 2010 scores, to compare the changes since 2006 and to provide a brief overview of any ongoing reforms designed to address some of the identified weaknesses.

PI-5: Classification of the budget

PI-5 Dimension	2006	2010 Assessment
(i) The classification system used for formulation, execution and reporting of the central government's budget.	**C**	**B.** Budget formulation and execution is based on administrative, economic and functional classification that can produce consistent documentation according to GFS and COFOG standards.

Assessment 2010

The budget classification for 2009/10 (the last completed financial year) is described in Table 7 below. This is authorised by the C&AG.

Budget formulation and execution is based on administrative classification (levels 2) functional classification and economic classification (level 4). Level 4 codes contain more detail than the IMF-GFS classification, but are also compatible with it. The 10 main classifications of functions under the UN-COFOG can be derived from level 2 as evident from statement II in Budget in Brief 2010/11.[18] Using level 2 and 3 codes, actual expenditure of budgetary central government is classified to COFOG main function (with some breakdown over sub-function) by a bridging table and reported

[18] There are, however, differences between MOF and PC on the definitions of sectors, and therefore functional classifications in development and non-development expenditure may not be wholly consistent (MTBF 2010/11, para. 4.9).

annually to IMF. Necessary modifications are routinely undertaken to provide documentation consistent with the required standard.

Table 7: Classification System

Budget Classification			
Level	**Digits**		
1	x	Legal (7 codes)	Receipts/payments, Consolidated Fund/Public Accounts, Development expenditure, Charged expenditure, Other expenditure.
2	xx	Ministry, Division or other agency (60 votes in 2009/10)	Accountable to Parliament for the grant (Vote)
	xx	Department/Group of activities/transfers to autonomous bodies	
3	xxxx	Operational unit/Development project	Together with level 2, can identify activities and projects.
4	xxxx	Economic detail	Economic and object classification of all receipts and payments.

Source: Public Expenditure Management Manual

Comparison 2006 – 2010/ongoing reforms

This was rated C in 2006 on the ground that the functional classification was not consistent with COFOG. It is not clear if there was at that time the ability to derive a COFOG classification. If not, there has been a real improvement in the development of the system to derive a COFOG classification.

The FD through its earlier project FMRP and on-going SPEMP has been progressively rolling out a performance-oriented MTBF presently used in 33 out of 59 ministries/divisions. The crucial step to base appropriation on a programmatic classification of expenditure has not been done. Budget codes are available at a departmental level while accounting codes are issued at a pay point level. At ministry level, the budget is aggregated against subordinate departments, while the departments further redistribute the allocations to the pay points. These are circulated outside the iBAS. This gap presents potential barriers to effective budget execution within MTBF framework and reporting of government activities in a transparent manner. The government has undertaken to unify recurrent and capital budgets into one single budget head.[19] Bangladesh will also be moving towards a unified budget. The change in budget and accounting procedures would be more significant under a program budget framework, which would unify the budget and budget reporting in the true sense of the term-all expenditures are developed and considered and reported together in the output framework. These reforms involve changes to the chart of accounts and identical codes for budgeting and accounting procedures.

PI-6: Comprehensiveness of information included in budget documentation

PI-6 Dimension	2006	2010 Assessment
(i) Listed information (see below) available in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met.	**C**	**B.** Recent Budget Documentation (2010-11) fulfils 6 of 9 information benchmarks.

[19] Presenting budget data in the unified budget format (in recurrent and capital categories) and producing financial reports in a unified budget format, is a simple enough exercise, and can be accommodated within the current classification system with some small modifications.

Assessment 2010

The annual budget documentation, which is submitted to the legislature for their approval and scrutiny, is required to be assessed by this indicator. Annual budget documentation should provide a clear picture of the central government's fiscal forecasts, budget proposals and out-turn of previous years. In addition to information on receipts and payments, this documentation should include all the information listed in the table below.

Table 8: Comprehensiveness of budget documentation

Elements of budget documentation	Availability	Notes
1. **Macro-economic assumptions**, incl. at least estimates of aggregate growth, inflation and exchange rate.	**Yes**	In the MTBF
2. **Fiscal deficit**, defined according to GFS or other internationally recognised standard.	**Yes**	In the 'Budget in Brief' Document and the MTBF.
3. **Deficit financing**, describing anticipated composition.	**Yes**	In the 'Budget in Brief' Document and the MTBF.
4. **Debt stock**, including details at least for the beginning of the current year.	**Partially**	Detailed composition of debt is not publicly available or in Budget Documents.
5. **Financial assets**, including details at least for the beginning of the current year.	**No**	
6. **Prior year's budget out-turn**, presented in the same format as the budget proposal.	**Yes**	'Budget in Brief' Document has details in Summary, by detailed revenue and Development and Non-Development Categories.
7. **Current year's budget** (revised budget or estimated out-turn), presented in the same format as the budget proposal.	**Yes**	Yes. In the 'Budget in Brief' and other Budget Documents.
8**. Summarised budget data** for both revenue and expenditure according to the main heads of the classification used, incl. data for current and previous year.	**Yes**	Comparable information is available for previous year, current year (original and revised budget) and the forthcoming fiscal year of the Budget.
9. **Explanation of budget implications** of new policy initiatives, with estimates of the budgetary impact of all major revenue policy changes and/or some major changes to expenditure programs.	**Partially**	Implications of policy initiatives on the revenue side contained in the Budget Speech are not reported separately. Implication of some expenditure measures are reported in the Budget Speech.

The MTBF document, tabled in Parliament, contains a full description of macroeconomic assumptions not only for the next budget year but also for outer years until 2014-15. These include estimates of aggregate growth, CPI inflation, GDP deflator, exchange rate etc. The forecasts cover the real, monetary, fiscal and external sectors (refer to Table 2.1, Medium Term Macroeconomic Framework, MTBF 2010-11).

The 'Budget at a Glance' table in the Document 'Budget in Brief' provides a full fiscal table containing both the fiscal deficit and its financing, describing anticipated financing that covers the current year, past fiscal year and the forthcoming fiscal year. The 'Budget in Brief' document is part of the Budget Documentation presented to Parliament every year. The Budget documents produce in a comparable fashion the prior years' outturn in the same format as the budget proposal. This is reflected in all the statements in the 'Budget in Brief' document and other documents including the MTBF. The 'Budget in Brief' contains summarized budget data for both revenue and expenditure according to the main heads of budgetary classification containing data for previous, current and forthcoming budget years. The level of Debt Stock at the beginning of the financial year is not available in the Budget Documents. The level and trajectory of debt stock is available in the MTBF document (Table 4.10 in the MTBF, 2010-11) broken down by the broad category of domestic and external debt. But a detailed breakdown is not available publicly. Keeping the spirit of the requirement, this criterion is considered as not fulfilled. Details of financial assets for the beginning for the year are not available.

While the Budget Speech contains details of new policy initiatives included in the budgetary estimates, a description of their budgetary implication especially on the revenue side, is not available. Evidently, these are included in Budget estimates but are not reported separately. The policy initiatives on the expenditure side are sometimes reported. This requirement is therefore not fulfilled. Keeping in view that 6 of 9 information benchmarks are clearly met the score for this indicator is a B.

Comparison 2006 – 2010

The score has improved from a C in 2006 to a B as six of the required nine benchmarks were fulfilled. The basis for the 2006 rating is not clear. Reform initiatives under SPEMP are focused on improving the reports prepared by the Macro Economic Analysis Wing (MEW) of the Finance division and strengthen the capacity of the MEW to explain recent developments, monitor and assess within-year budget evolution, analyze implications of macroeconomic developments, policy proposals and conduct fiscal sustainability analysis. Although the PM&BM specifies the documentation the executive is required to submit to Parliament in Part IV of the Act this can be strengthened. For instance a statement of fiscal risks can include analysis of debt sustainability and debt related risks, government guarantees, information on extra budgetary funds or tax expenditures etc.

PI-7: Extent of unreported government operations

PI-7 Dimensions	2006	2010 Assessment
Method M1	**D**	**B**
(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.	**NS**	**B.** The level of unreported extra budgetary expenditure constitutes 1-5% of total expenditure.
(ii) Income/expenditure information on donor-funded projects, which is included in fiscal reports.	**NS**	**B.** 80-90% of all externally funded project expenditure is included in fiscal reports.

Assessment 2010

Dimension (i): In Bangladesh, there are about 200 statutory bodies engaged in regulatory, developmental and other government functions, supervised by their respective administrative ministries. They are funded from government budget subventions and other sources such as user fees and donor grants, so their expenditure is more than the transfers they receive from the Consolidated Fund and the excess is not included in the government budget or in government monthly or annual accounts. The excess of their expenditure over government transfers is omitted from the overall fiscal accounts of the central government. The major examples are the Bangladesh Rural Development Board, Bangladesh Education Board, Public Universities, Bangladesh Standards and Testing Institute, Bangladesh Council for Industrial and Scientific Research, Bangladesh Atomic Energy Commission, Bangladesh Computer Council, Bangladesh Livestock Research Institute, Bangladesh Fisheries Development Corporation, Textbook Board, and Bangladesh Agricultural Research Institute. The Monitoring Cell in MOF does not monitor most of these bodies or receive their annual reports.

There are also various extra-budgetary *funds* such as the Prime Minister’s Relief Fund, Climate Change Fund etc. Information is not readily available on these funds. These are not included in central government accounts.

There are six ‘self-accounting’ entities which follow existing treasury rules of which three have been brought within the coverage of iBAS. Their monthly and annual accounts are prepared and fully reported in the fiscal reports.

Each Member of Parliament is provided a lump sum for development projects in his/her constituency. These amounts are accounted as expenditure on disbursement. The procedure for accounting and reporting expenditure within the treasury and expenditure control system of the government is still evolving. However, the level of such expenditure is well below 5% of annual budget appropriation.

All revenues should be deposited in the Consolidated Fund, but there are still some exceptions such as land revenues, some bridge tolls and fees collected by mobile courts. The amount of such unaccounted revenues and expenditure from these revenues are estimated to be less than 5% of total revenue.

The excess of expenditure over government transfers, as indicated above consists of donor funds and government’s relief funds that are minimal. The other source of funds is revenue from user fees which as mentioned above are less than 5% of total revenue. Hence, given that the extent of unreported extra-budgetary expenditure is low the dimension scores a B.

Dimension (ii): The GOB budget includes estimates of project expenditure funded by donors and government counterpart contributions, for all projects for which agreements have been signed before the start of the financial year. According to the Budget Wing of the MOF, 80-90 percent of all project aid is included in the budget and fiscal reports capture complete information on loan funded projects. An estimate is also made for projects expected to come on stream during the year. Donors’ disburse funds through Special Accounts in commercial banks and Bangladesh Bank. Monitoring of these accounts and expenditure reporting exists at the aggregate and ministry levels. The main donors responsible for over 70% of all project aid provide separate monthly disbursement statements to the Economic Relations Division which maintains accounts for donor funded programs. All project data is entered into the DMFAS system, including projects funded by grants and loans. As mainstream accounting systems are deficient in capturing information from grant financed projects pertaining to Direct Project Aid (DPA), not all information is included in the fiscal reports. However the extent of unreported information in the fiscal reports concerning grant financed projects is less than 20% (by value) of total grant financing. The existing accounts code and classification system are unable to systematically track Reimbursable Project Aid through GOB. In the case of DPA, donors make payments directly i.e. offshore payments are made by donors directly to suppliers, contractors and consultants, funded either by a grant or by a loan. This should be reported monthly by donors to Project Directors and by Project Directors to their administrative ministries and the CGA by the 15th of the following month, but this is not properly followed in all cases. Since 80-90 percent of all externally assisted project expenditure is included in the budget and fiscal reports capture complete information on loan funded projects, and extent of unreported grant financed activities is less than 20%, the dimension scores a B.

Comparison 2006 – 2010/ongoing reforms

This indicator scored a D in 2006 but was not derived from scoring the two dimensions separately and is therefore not comparable. The 2006 score appears to be based mainly on the omission of reporting of development expenditure from some donor special accounts. There is no immediate plan to bring non-commercial autonomous bodies into a reporting relationship with iBAS or to extend the capture of data on foreign-assisted development projects, in particular DPA. However the government has long term plan to update iBAS and make it an integrated financial management information system that encompasses the issues above.

PI-8: Transparency of inter-governmental fiscal relations

PI-8 Dimensions	2006	2010 Assessment
Method M2	**D+**	**D**
(i) Transparency and objectivity in the horizontal allocation among SN governments.	**NS**	**D**. The transfer system is fragmented, with a large number of different mechanisms through which resources are channelled to sub-national levels. A smaller share is remitted as block transfers. Block transfers are formula based. Block grants in 2010-11 amounted to Tk. 18.3 billion, which is small (1.4%) as a share of the national budget. Hardly any part of the horizontal allocation of transfers from the national government is determined by a transparent and rules based system.
(ii) Timeliness of reliable information to SN governments on their allocations.	**NS**	**D**. Sub-national governments receive reliable estimates of transfers from the national government after their budgets are finalized. Since all sub-national governments (ZPs, UZP, UPs, CCs and MCs) are required to finalize their budgets by June 30th for the next fiscal year, they do so on the basis of the estimates available with them for the ongoing year with an ad hoc increase that is adjusted later on once the actual level of devolution becomes available.
(iii) Extent of consolidation of fiscal data for general government according to sectoral categories.	**NS**	**D**. An annual report on local government performance based on 14 indicators forms the basis for annual performance grants to local governments. However, no consolidation of fiscal reports consistent with national government fiscal reporting takes place.

Dimension (i): Bangladesh’s constitution established a unitary form of government. The central government is territorially divided into six administrative divisions, which are further subdivided into 64 Zila Parishads (ZPs) or districts. In rural areas, districts are further organized into 508 Upazila Parishads (UZPs) or Sub-district Councils and 4498 Union Parishads (UPs). There are 308 Municipalities (MCs) and 6 City Corporations (CCs).

Based on a sample study of 30 UZPs and CCs it is estimated that sub-national expenditures as a percentage of total consolidated government expenditures are estimated to be in the range of 3-4 percent. Less than 2 percent of total government revenue is collected at sub-national levels, again placing Bangladesh at the lowest end internationally and making them dependent on central transfers.

Transfers from higher levels of government are the most important source of financing for most local governments in Bangladesh–-accounting for 50-60 percent of their revenue. The transfer system is fragmented, with a large number of different mechanisms through which resources are channelled to sub-national levels. Intergovernmental transfers account for a small share of total government expenditures, and for the most part are allocated through ad hoc annual negotiations rather than being driven by formulas.

Broadly, there are four major types of grants: (i) earmarked sectoral project grants funded either by donors or by the central government; (ii) program grants, such as Food for Works, Vulnerable Group Development, Vulnerable Group Feeding, Rural Infrastructure Maintenance Program, as well as Age Pensions and allowances for widows and Muktijuddha (freedom fighters) in cash; (iii) block development grants; and (iv) recurrent expenditure grants, including grants towards salaries and allowances for the elected officials and staff. A smaller share is remitted as block transfers, which are allocated through the Local Government Division’s (LGD) Annual Development Program. Block transfers are determined according to a formula based on population, physical area and state of development of the area for which the grant is being made. Block grants in 2010-11 amounted to Taka 18.3 billion, which is small (1.4%) as a share of the national budget. In the past, fiscal transfers to Local Government institutions have ranged between 3 to 5% of the national budget. The indicative score therefore is a D as hardly any part of the horizontal allocation of transfers from national government is determined by a transparent and rules based system.

Dimension (ii): The National Government's annual budget for the next fiscal is finalized on or before June 30th. It is at this point that the entitlements of sub national government from the national government become available. Meanwhile, since all sub-national governments (ZPs, UZP, UPs, CCs and MCs) are required to finalize their budgets by June 30th, for the next fiscal year, they do so on the basis of the estimates available with them for the ongoing year with an ad hoc increase. This is adjusted later on once the actual level of devolution becomes available. Until 2010-11, Local Government budgets were required to be prepared and submitted for approval to higher authorities by the end of June. However, in reality, this often extended to July or later. The budgets are deemed approved if there is no response within a 30 day period which is often perceived to be the case. From 2010-11, MC and CCs are empowered to vote their own budgets. However, ZPs, UZPs and UPs continue to require their budgets to be approved by higher authorities. Since sub-national governments receive reliable estimates of transfers from the national government only after their budgets are finalized a score of D is indicated.

Dimension (iii): At the headquarters, the Monitoring, Inspection and Evaluation wing of LGD leads the supervision of local governments. It is charged with monitoring and evaluating the performance of UPs, Municipalities, ZPs and UZPs. However, Municipal Corporations are excluded from its purview. The wing has defined 14 indicators for monitoring, which include, among others: payment of salaries and allowances; tax collection and resource mobilization; budget performance; and progress with development projects. Based on these reports, the wing produces an annual report on local government performance. These assessments form the basis for annual performance grants to local governments. However, no consolidation of fiscal reports consistent with national government fiscal reporting takes place. The indicative score is a D for this dimension. Based on the scores of the three dimensions the overall score is a D.

Comparison 2006 – 2010/ongoing reforms

This indicator was scored D+ in 2006 but was not derived from scoring the three dimensions and therefore cannot be compared with the present score. There is a need to move towards a more rational, transparent and predictable system of intergovernmental fiscal transfers. Fundamental to this is the need to enhance direct fiscal transfers to local bodies in line with their assigned functions. This would call for a comprehensive review of the current intergovernmental fiscal architecture, especially the vertical and horizontal revenue sharing mechanisms, as well as the institutional arrangements for intergovernmental fiscal relations. In particular, the fiscal transfers through ADP need to be more transparent and timely, and based on rational criteria. Concurrently, either the LGD or the CGA should produce annual fiscal information that covers the budgetary performance of all local governments on a basis that is consistent with central Government fiscal reporting.

PI-9: Oversight of aggregate fiscal risk from other public sector entities

PI-9 Dimensions	2006	2010 Assessment
Method M1	C	D+
(i) Extent of central government monitoring of AGAs and PEs.	NS	**C.** Most major AGAs/SOEs submit fiscal reports to central government annually, but a consolidated overview is significantly incomplete. Public enterprises are monitored by the Monitoring Cell of the MOF in a database called SABRE. AGAs are mainly sub vented autonomous bodies.
(ii) Extent of central government monitoring of SN government's fiscal position.	NS	**D.** There is no annual monitoring of sub-national government fiscal position. There is no separate consolidation of union council, city council or municipality revenues and expenditures, and overall assessment of their fiscal position including expenditure arrears.

Assessment 2010

Dimension (i): Autonomous Government Agencies (AGAs) are mainly sub vented autonomous bodies (see PI-7 (i) above). There is no central monitoring over autonomous agencies' financial flows or liabilities. Public enterprises are monitored by the Monitoring Cell of the MOF in a database called SABRE. Most major AGAs/SOEs submit fiscal reports to central government annually, but a consolidated overview is significantly incomplete. A sample of information tracked through SABRE shows it summarises the income accounts and balance sheets of 48 non-financial public corporations and their subsidiary enterprises. Their total liabilities at June 2010 (revised estimate) were Taka 1057 billion. These mostly constitute contingent liabilities of GOB. When State Owned Enterprises (SOE) default on their debt servicing obligations the GOB takes over the debt by issuing government bonds. Thus some of the total liabilities is debt to the GOB, which is an (non-performing) asset rather than a contingent liability.

Dimension (ii): Sub-national government in Bangladesh comprises CCs, MCs and union councils. ZPs and UZPs are not locally elected bodies and are counted in this assessment as decentralised levels of central government (see PI-8). Union council disbursements are made by district accounts offices and reported, together with central government expenditure, to the CGA. There is no separate consolidation of union council, city council or municipality revenues and expenditures, and overall assessment of their fiscal position including expenditure arrears.

Comparison 2006 – 2010/Ongoing reforms

This indicator was rated C in 2006, based solely on Dimension (i). There is no change in the rating of this dimension. SPEMP has recommended that information on extra budgetary funds must accompany the Annual Draft Financial statements. This should include SOEs and Public Private Partnerships and the budgets of sub-national levels of Government.

PI-10: Public access to key fiscal information

PI-10 Dimension	2006	2010 Assessment
(i) Number of the listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification must be met.	**C.**	**B**. Three of six elements of information are made available to the public (Annual Budget Documentation, In-Year Budget Execution reports and Contract awards over USD 140,000 approximately).

Assessment 2010

Table 9-Public Access to Information

Required documentation	Availability	Comments
Annual budget documentation when submitted to the legislature.	**Yes**	Bangladesh's annual budget documentation release to the public is transparent and prompt. All budget-related documents are uploaded on MOF's website immediately upon presentation of the budget in the Parliament. These documents include (a) Budget speech; (b) Annual Financial Statement; (c) Budget in Brief; (d) Budget at a Glance; (e) Demand for Grants and Appropriation; (d) Gender budget; (e) Consolidated Fund receipt, and (f) the MTBF document.
In-year budget execution reports within one month of their completion.	**Yes**	Reports are routinely made available to the public within a month of completion and uploaded in the MOF website, with some 'occasional slippages'. A complete set of documents submitted to the legislature can be obtained by the public on a request basis (eg. monthly fiscal reports, economic review, ADP utilization, division wise expenditure, poverty and gender and budget implementation status).
Year-end financial statements within 6 months of completed audit.	**Not met**	Financial statements are made available to the public normally within 12 months of completed audits. However, audits lag behind significantly. Unaudited annual accounts are not released for public information. Completed annual finance and appropriation accounts do have to wait for long for audit certification.
External audit reports within 6 months of completed audit.	**Not met**	The C&AG has a mandate under the Constitution to audit the accounts of Government agencies, public bodies and publicly owned companies, a total of 22,000 auditable units, and to report to Parliament. However, there is a significant backlog in external audit. At present, available audit reports that cover a number of ministries for 2006-07 and earlier are publicly available. Under normal circumstances, external audits are expected to be completed within 9 to 10 months after the end of the fiscal year after which it takes another 2/3 months for tabling of audit reports in the National Parliament.
Contract awards (approximately USD 100,000 equiv.) published at least quarterly.	**Yes**	Contract awards exceeding Taka 10 million are advertised on the Central Procurement Technical Unit (CPTU) website (www.cptu.gov.bd). Reports detailing contact awards are submitted to CPTU by procuring agencies which are subsequently published on their website. The Public Procurement Rule 2008 requires that any contract whose estimated cost exceeds the threshold, that is Taka ten million or above, has to be disseminated on the CPTU website. In addition, agencies/ministries having their own website are advised to publish contract awards on their website.
Resources available to primary service unit at least annually.	**Not met**	Information is not publicized through appropriate means or made available upon request on resources available to primary service units (such as elementary schools or primary health clinics). No distinction is made between project or program level activities. The information is also not available from the computerised accounting system iBAS. However, they could be calculated from records kept with the DDOs office (for example Upazila Education officer or Health officer). Information could be made available upon request, but is generally not requested for.

Assessment of information available regarding MOHFW and MOPME also reveals quality and timeliness issues with the information available in the public domain. For example, publicly available budget and year end financial information is often a single aggregate figure for development and a single aggregate figure for non-development expenditure. There is considerable scope, therefore, for strengthening the quantity and quality of information on budget plans that can be made available publically. There is greater need for public availability of in-year budget execution information at the sector level. External audit reports are often not available publicly in a uniform manner for all the audit directorates that undertake separate audit of line ministries (eg. Directorate of Civil Audit, Directorate of Local and Revenue Audit, Works Audit Directorate, Foreign Aided Project Audit Directorate and Directorate of Performance Audit). Information is not publicized through appropriate means on resources available to primary service units. While this information could be made available upon request, there are no set procedures to make a request for such information.

Comparison 2006 – 2010/ongoing reforms

The score has improved from a C in 2006 to a B. There is improved availability of Budget Documentation and information now. The 2006 assessment reports that public did not have easy access to the set of budget documents submitted to Parliament.

C. Budget Cycle

C. (i): Policy-based budgeting

PI-11: Orderliness and participation in the annual budget process

PI-11 Dimensions	2006	2010 Assessment
Method M2	**B**	**B**
(i) Existence of and adherence to a fixed budget calendar.	**NS**	**B.** A clear annual budget calendar exists to enable voting of the budget by June 30. Through the elaborate process, there are minor slippages in the compliance of ministries/Divisions to the call circulars. The budget preparation phase extends over 23 to 24 weeks from the issuance of the first Budget Call Circular. The process as it exists officially allows only about four weeks for soliciting final ministerial budget proposals following the second Budget Call Circular, thus constraining the score.
(ii) Clarity/comprehensiveness of and political involvement in the guidance and preparation of budget submissions (budget circular or equivalent).	**NS**	**C.** The Budget estimates are compiled for National Cabinet approval at a very aggregate level in May or June only after they have been completed in all details by Ministries and Divisions thus constraining the Cabinet's ability to make adjustments.
(iii) Timely budget approval by the legislature or similar mandated body (within the last three years).	**NS**	**A**. The National Parliament has approved the Budget on or before June 30th each year in the last three years.

Assessment 2010

Dimension (i): The Budget preparations begin with the issuance of Budget Call Circular -1 (BCC1) in October/November inviting different ministries and divisions that are covered by the MTBF to prepare their MBF with preliminary estimates and projections. The MBFs are required to be submitted to the Finance Division by the end of December. For instance the BCC-1 for the 2010-11 Budget was issued on November 5, 2009 inviting completed proposals by December 31, 2009. This provides Ministries and Divisions 7 weeks to prepare their MBFs. The MBFs are reviewed by the Finance Division and the Planning Commission with the Ministry/Division. This process takes 3 months.

After this is completed, detailed Budget proposals are sought from Ministries/Divisions against indicative expenditure ceilings through a Budget Call Circular -2 (BCC2). This is typically issued in early April. For instance, BCC2 inviting budget proposal for 2010-11 was issued on April 4, 2010. Ministries and Divisions are officially required to send in their Budget estimates within about four weeks. In this particular case the deadline was April 27, 2010. The Budget is taken to the National Cabinet in May or June and tabled in the National Parliament to enable voting of the Budget by June 30th. Often the Budget Estimates are approved by the National Cabinet on the day of submission to Parliament in June. Through the elaborate process there are minor slippages in the compliance of ministries/Divisions to the call circulars. The process as it exists allows four weeks for soliciting final budget proposals (especially for ministries that are not part of the MTBF process) even as the budget preparation phase extends over 23 to 24 weeks constraining the score. A score of B is indicated.

Dimension (ii): The Budgeting process follows three phases: (i) Strategic Phase; (ii) Estimating Phase, and (iii) Budget Approval Phase. The strategic phase begins with the issuance of BCC1. The BCC1 provides ministries/divisions preliminary expenditure ceilings and invites them to prepare MBFs. These are based on the revised budgets for line ministries in the previous FY, adjusted by Finance Division using their judgment in the light of actual expenditures available in the current FY, plus a growth factor (usually GDP real growth rate). The aggregate expenditure estimates cover both development and non-development expenditure. MBFs are expected to prepare forecasts for the following three years including the budget year. The MBFs are evaluated in tripartite meetings between the FD, PC and the Line Ministry with the FD reviewing the non-development expenditure proposals and the PC the Development expenditure proposals. Meanwhile, aggregate resource ceilings are prepared on the basis of an updated macroeconomic and fiscal framework and the conclusions from the evaluation of the MBF submissions. This stage provides indicative expenditure ceilings for each Ministry/Division’s demand for grants.

The MTBF calendar provides for National Economic Council (NEC) approval of the indicative resource ceilings–an important decision point in the budget process at which critical choices have to be made. In practice, the involvement of NEC has not yet been achieved and instead the ceilings have been approved by the Budget Management & Resource Committee which is chaired by the Minister of Finance. Following this, BCC2 is issued inviting the preparation of Budget Estimates for the next fiscal year and forecasts for the following two years based on the indicative expenditure ceilings. The Budget estimates are compiled only after they have been completed in all details by MDAs and presented for National Cabinet approval at a very aggregate level thus constraining the Cabinet’s ability to debate and make adjustments. A score of C is indicated.

Dimension (iii): Bangladesh has had an elected Parliament for the last two years. The National Parliament has approved the Budget on or before June 30th of each year. Bangladesh had a care-taker government prior to the present Government that also approved the Budget by June 30, 2008. Therefore, in the last three years the budget had been approved before the start of the fiscal year. The Indicative score is an A.

Comparison 2006 – 2010/ongoing reforms

Although the scores are similar, this exercise has arrived at the score by assessing all the dimensions. Compared to the status during the last assessment a strategic phase now leads the budget preparation exercise. Ongoing reform under SPEMP is trying to strengthen the policy focus and strategic allocation of the budget. Other areas highlighted for improvement include amending the PM & BM Act to include: (i) a legal provision for timing of Budget submission and, (ii) moving towards a two part budget approval process by presenting a Medium term Macro Framework, MTBF and annual budgets mid year before the next year for a pre-budget debate followed by approval of detailed expenditures towards the end of the fiscal year.

PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting

PI-12 Dimensions	2006	2010 Assessment
Method M2	**D+**	**B**
(i) Preparation of multi-year fiscal forecasts and functional allocations.	**NS**	**A**. Forecasts of fiscal aggregates are prepared for at least three years and the forecast for the immediate following year becomes the annual budget ceiling.
(ii) Scope and frequency of debt sustainability analysis.	**NS**	**B.** Debt Sustainability Analysis covering both external and domestic debt was undertaken in 2006 and 2009.
(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	**NS**	**C.** In the 2010-11 Budget, 33 ministries/Divisions had prepared MBFs. These covered approximately 68% of budgeted primary expenditure in 2010-11. But budgetary allocations are historical and incremental. Separate strategies for certain key sectors are expected to determine budgetary and medium term budget allocations. However, public expenditure does not always reflect sector policies.
(iv) Linkages between investment budgets and forward expenditure estimates.	**NS**	**C.** The Budget Call Circular indicates that allocations must be included for projects that are ongoing and projects that are yet to be approved must not be budgeted for. The Budget Call Circular also emphasizes that in the preparation of budget estimates and projection of non-development expenditure an explicit provision be made for repairs and maintenance. In practice, the link between the ADP and the Budget and the MBFs is not systematic. Funding allocations vary annually from the approved cost estimates originally submitted. With few exceptions, recurrent expenditures arising from investment decisions are sought after completion of the projects. However, it is not clear from either the MBFs or the MTBF the extent of actual recurrent expenditure requirements covered by current allocations although it may be presumed that civil service and other human resource requirements are fully provided for.

Assessment 2010

Dimension (i): Government of Bangladesh prepares a MTBF document that presents three year forecasts. The document outlines both the medium term budget strategy and MBFs. The MTBF has a Medium Term Macroeconomic Framework that covers the real, fiscal, monetary and external sectors and outlines the underlying assumptions behind the fiscal forecasts that extends beyond the period covered by the MTBF. A separate section presents past fiscal performance and strategy for the forthcoming period. This section includes a summary presentation of the Budget Framework using economic classification but does not present all heads of expenditure.

However, the forecast includes projections of the main revenue and expenditure aggregates, some breakdown of expenditure (eg. interest expenditure, program expenditure) detailed work-up of revenue forecasts and fiscal balances, including the financing mix. The composition of public expenditure over the previous five year period is presented in detail. The MTBF lays out expenditure priorities for the projected period and expenditure allocation by sector and Ministries and Divisions. An analysis of the process of determining expenditure priorities in the line ministries, in this case MOPME, leaves the impression that no ministry experiences a real reduction in its allocation, whilst 'priority' ministries (including MOPME) experience a real increase. As a 'rule of thumb', this does allow for some medium term (relative) reallocation of resources to priority sectors. Whilst this is a policy-led approach (in the sense that there is a policy to increase the relative amount of resources going to primary education), it is not an approach that links ceilings to the cost requirements for delivering sector policies (e.g. as would be articulated in sector strategies).

The Budget is linked to the MTBF and the first year of the forecast is the basis for the budget (in this particular case 2010-11).[20] Since forecasts of fiscal aggregates are prepared for at least three years and the forecast for the immediate following year becomes the annual budget ceiling the indicated score is an A.

Dimension (ii): In Bangladesh, the debt sustainability analysis (DSA) covering both external and domestic debt was undertaken in 2006 and 2009. Therefore, the Score is B. It should, however, be remarked that the DSAs have not been conducted by the GOB itself but by the IMF and the World Bank that is officially accepted.

Dimension (iii): GoB's reform effort is to develop a policy-focused budget planning process that establishes a more explicit linkage between the National Strategy for Poverty Reduction, Sixth Five Year National Plan (and other sector policy documents) and resource allocation. The introduction of the MTBF is expected in time to result in a more strategic, policy focused and performance based approach to budgeting. The strategic phase to budget development takes place during October-December focusing on the policy priorities for the allocation of resources for expenditure.

The MBFs under the MTBF link objectives, outcomes, key performance indicators of a Ministry to its budget. The MBF also establishes performance indicators and targets for intermediate outputs produced by the administrative units and for the outputs (goods and services delivery) at the ministry level. As of the 2010-11 Budget, 33 ministries/Divisions had prepared MBFs. These cover approximately 68% of the Budgeted primary expenditure in 2010-11. The process of bringing the remaining 23 or so Ministries/Divisions under the MTBF is expected to be completed by 2011-12. In addition to the MBFs, separate strategies for certain key sectors exist that are expected to determine budgetary and medium term budget allocations.[21] Expenditure policy decisions in the MOHFW, for instance, are driven by three sector documents: (i) the Strategic Investment Plan (ii) Program Implementation Plan and (iii) Operational Plans of the Line Directors. The Strategic Investment Plan outlined the broad health policy directions of the Government and provided a long-term expenditure framework with a strategy for achieving the MDGs. In this context it also identifies the health sector challenges that the MOHFW needs to address. Sector policy frameworks, such as this, present a reasonable set of policies to take the sector forward in order to address sector challenges, and make an attempt to measure sector performance through various output or outcome indicators. However, public expenditure does not always reflect sector policies nor is the links between policy and expenditure allocation strong.[22]

The MBF's themselves are not of uniform quality although the structure of their presentation is similar reflecting different stages of evolution of Line Ministries' traditional budgeting process towards the new format. For instance, in the case of the MOPME, that this exercise reviewed, there

[20] Minor differences in the budget and forecast arise from incorporation of interest and 'other expenditure' under functional heads of expenditure.

[21] Examples are, 'Road Map for Development of Power and Energy Sector', 'Capital Dredging and River Management Strategy of Bangladesh' costing Taka 500 bn, a 20 year Railway Master Plan (under preparation), National Education Policy 2010, a National Information and Communication Technology Policy with 306 action plans and programs such as the Primary Education Development Program or the Health, Nutrition and Population Sector Program.

[22] For instance, the public expenditure policy in the transport sector continues to favour the extension of the road network, despite the sector's policy requirement for a more balanced and integrated multimodal transport system (under the 2004 National Land Transport Policy). While education policy emphasizes improvements in the quality of education, overall spending in education remains low and insufficient to support the significant investments that are needed in the sector to improve quality.

does not appear to be a sector wide strategy process or document that clearly articulates plans over time to implement the ministry's key policies. It was difficult to form a clear link from proposed medium term resource allocations to activities, activities to outputs and outputs to policy goals /objectives.

There remains a need for improvement in coherence between the processes for planning and management of strategic plans, the MTBF and the Annual Development Program. The absence of strategic and operational planning makes budget formulation in line ministries a process rather than a strategy/policy-driven exercise. This will need to be addressed if the goal of an integrated policy-led budget process is to be achieved. This will require that procedures for linking planning and budgeting under the MTBF are backed up by strengthened capacities for policy development and budget submissions reviewed from a policy perspective. The indicated score is a C.

Dimension (iv): The Budget Call Circular indicates that allocations must be included for projects that are ongoing and projects that are yet to be approved must not be budgeted for. All new investments programs are appraised and approved by the Planning Commission for inclusion in the ADP.[23] The Budget Call Circular also emphasizes that in the preparation of budget estimates and projection of non-development expenditure an explicit provision be made for repairs and maintenance and a listing (Form-3 of the Budget Call Circular) show the period of construction, cost of construction, area, year of procurement of vehicle/equipment etc.

In practice, the link between the ADP and the Budget and the MBFs is not systematic. Funding allocations for on-going projects vary annually from the approved cost estimates originally submitted. Similarly, budget estimates for new investments also vary from the original approvals. Unapproved projects are also included in the ADP and can be accommodated within the 5 per cent block allocation allowed within each line ministry's development ceiling. Efforts are made to incorporate recurrent costs under non-development expenditure. Both non-development and development budgets contain elements of recurrent and investment spending. However, it is not clear from either the MBFs or the MTBF the extent of actual recurrent expenditure requirements covered by current allocations although it may be presumed that civil service and other human resource requirements are fully provided for.[24] For instance, in the test case of the MOHFW it was apparent that the separation of preparation of the development and non-development budgets did not provide linkage between investment budgets and forward expenditure estimates. Although multi-year fiscal forecasts and allocations exist in the MOHFW, the corresponding costed sector strategy as represented by the 'Operation Plans' is prepared without reference to these allocations. In the MOPME it was far from clear that all investment decisions were made on the basis of strategic planning documentation (although some were such as the Primay Education Development Programme) and that future recurrent cost implications were systematically included in forward estimates. The indicated score is therefore a C.

[23] The Planning Commission has the lead responsibility for developing and managing the GOB's overall national development strategy (contained in the NSAPR and other relevant policy documents) and for ensuring that a robust set of cross-sectoral (for example poverty, gender and environment) and sector policies/strategies are in place.

[24] From the details of non-development expenditure (for Budget 2010-11) it is estimated that 86% comprise allocation towards recurrent expenditure with the balance being capital and programmatic expenditures. A similar disaggregation of development expenditure is not readily possible. A separate study showed that about 84 percent of the development budget financed capital expenditures (acquisition of assets, acquisition/purchase of land, construction and works, investments in shares and equities), while 16 percent financed recurrent expenditures (pay of officers, allowances, supplies and services). Data relates to the period FY01-07 and is reported in *Bangladesh: Public Expenditure and Institutional Review- Towards A Better Quality of Public Expenditure, June 2010.* The delineation between recurrent and capital expenditures can be achieved using the economic classification data. The data is, however, not readily available publicly.

Comparison 2006 – 2010/ ongoing reforms

The score has improved from a D+ in 2006 to a B. However, it is difficult to compare with the 2006 score as the dimensions were not scored separately then. The main difference is that the Government then was in the process of introducing an MTBF. The Government plans to complete the roll-out of the MTBF to cover all Ministries/Divisions in 2011-12. The medium term priorities are to achieve sustained improvements in resource allocation and related MTBF processes linked to policy and results within a seamless planning and budgeting framework. Under SPEMP, the capacity of Line Ministries to prepare the MBFs is to be strengthened to improve their clarity, quality and resource allocation with respect to strategic objectives. The Treasury and Debt Management Wing (TDMW) of the Finance Division will be assisted to conduct DSA after improving data quality and skills.

Under the MTBF reforms, Bangladesh is seeking to move towards a unified budget.[25] With a unified Budget it is expected that government expenditures, whether they are for capital or recurrent, are developed together in the planning and budgeting process by line ministries, and considered and decided together by the Government as part of the budget preparation process. The MBF should be a mechanism to achieve this by line ministries. The unified budgetary process will present a choice between investment and recurrent spending rather than between development and non-development spending. At the national level, the Medium Term Expenditure Framework and the associated improvements in the budget preparation process, when they are implemented, should ensure that the final allocations of the fiscal space are made to achieve the Government's strategic priorities, regardless of the nature of the expenditures (capital, or recurrent or a mix of both).

C. (ii): Predictability and control in budget execution

PI-13: Transparency of taxpayer obligations and liabilities

PI-13 Dimensions	2006	2010 Assessment
Method M2	**D+**	**C**
(i) Clarity and comprehensiveness of tax liabilities.	**NS**	**D**. The tax procedures for the three main taxes are not common and operate independently. The legal framework is comprehensive. However, in the case of Income Tax, there are tax provisions granting exemptions and concessions that are outside the main law. The VAT Act is not in line with the best practice. Tax administration while being improved suffers from excessive discretion including the power of the National Board of Revenue to grant tax incentives.
(ii) Taxpayers' access to information on tax liabilities and administrative procedures.	**NS**	**B**. Self Assessment has been introduced and taxpayers do have access to information on their tax liabilities. Recent introduction of a web based tax calculator makes tax filing convenient to some sections of taxpayers. NBR website is being improved to make it more up-to-date and user friendly. Tax Fair and major outreach events through various media have been effective in assisting taxpayers in fulfilling their tax liabilities.
(iii) Existence and functioning of a tax appeals mechanism.	**NS**	**C.** The Tax Appeals system is burdened with cases. Taxpayers increasingly use the writ option to directly file cases with the high court and delay their tax liabilities. A dedicated bench for tax cases has been set-up. An Alternative Dispute Mechanism is being set-up to provide a fast remedy for taxpayers.

[25] Unified Budget and District Budget – A Concept Paper, Finance Division, Government of Bangladesh.

Assessment 2010

Dimension (i): The Income Tax Ordinance, 1984, the Value Added Tax Act, 1991 and the Customs Act, 1969 govern the three main taxes. The tax procedures for the three taxes are not common and each of the taxes operates quite independently. The legal framework is comprehensive, however, in the case of Income Tax, there are tax provisions granting exemptions and concessions that are outside the main law. The Income Tax Act has become complicated with several amendments made from year to year. The VAT Act is not in line with the best practice and operates as a modified version of the excise tax that it replaced. Both the VAT Act and the Income Tax Act are now being reformed with the aim to be enacted by the middle of 2011.

Tax administration suffers from a lot of discretion including the power of the National Board of Revenue (NBR) to grant tax incentives. The present system involves excessive contact with taxpayers through 100% desk audits in the case of Income Tax and physical inspection based enforcement in the case of VAT. Tax administration is increasingly using ‘spot checks’ to enforce taxes. Third party information is used for enforcement, but not in a systematic manner. The tax system suffers from a narrow tax base that is further reduced by exemptions and tax holidays. There is no reduction in the tax evasion and this is reflected in the continued low tax-GDP ratio at 9.3%. In view of the tax legislation lacking comprehensiveness, lack of clarity in procedures and excessive administrative discretion the indicated score is a D.

Dimension (ii): Tax Fair and major outreach events through various media has been effective in assisting taxpayers in fulfilling their tax liabilities. Self Assessment has been introduced and taxpayers do have access to information on their tax liabilities. Recent introduction of a web based tax calculator makes tax filing convenient to some sections of taxpayers. NBR website is being improved to make it more up-to-date and user friendly. Some basic versions of on-line filing of taxes for large tax payers have been introduced. Older tax laws are in English, while subsequent laws are drafted in Bangla. Most Tax laws are available both in Bangla and English. Dhaka Customs has been automated and this has reduced the time spent in processing exports and imports. The taxpaying population are largely based in the big cities which do have access to the internet to avail of these web based improvements. The government is also undertaking a major push towards internet accesses throughout the country building on their success with mobile telephony. The dimension is therefore scored a B.

Dimension (iii): A taxpayer can file an appeal against a tax assessment by the Deputy Commissioner to the Commissioner (Appeals)/Additional or Joint Commissioner of Taxes (Appeals). Either the tax administration or the taxpayer can then appeal that order to the Taxes Appellate Tribunal. Matters of law can then be appealed to the High Court and further to its Appellate division. Alternatively, the taxpayer can ask for a revision of the order of the Deputy Commissioner to the administrative Commissioner of Taxes of the respective taxes Zone. The Tax Appeals system is burdened with cases. The pendency of tax cases at all levels is very high even though the trend is downwards (see Table 10 below). Taxpayers increasingly use the writ option to directly file cases with the high court and avoid paying a portion of the disputed tax when filing under the regular process. A dedicated bench for tax cases has been set-up to make the process of clearing such tax cases quicker. An Alternative Dispute Mechanism is being set-up to provide a fast remedy for taxpayers and to reduce pendency of tax cases. A score of C is indicated.

Table 10 -Appeals against Tax Assessment

S/N	Origin of pending cases	2007/08	2008/09	2009/10
1.	Appeal	18,271	14,637	12,332
2.	Tribunal	6,671	6,036	5,500
3.	High Court	Reference: 585 Writ: 50 Total: 635	Reference: 490 Writ: 35 Total: 525	Reference: 542 Writ: 63 Total: 605
4.	Appellate Division		02	

Source: NBR

Comparison 2006 – 2010/ongoing reforms

The score is determined from all three dimensions and is C as compared to D+ in 2006. It is difficult to compare and suggest which dimensions improved as information is not available for 2006, but improvement of score may be attributed to improved access for tax payers to information on tax liabilities and administrative procedures.

The NBR is undertaking a number of reforms in Tax Administration that is expected to improve efficiency, offer better Taxpayer Service and improve Revenue Performance:-

1. The Income Tax Act is being re-written to make it up-to-date with a modernized economic environment and reduce complexity.
2. The VAT Act is similarly being re-written in line with international best practices. This involves removing breaks in the VAT chain and removing elements of the former excise tax in the VAT law.
3. NBR is introducing an Alternative Dispute Resolution System that is intended to reduce the backlog in the Tax Appeal system as well as in the High Court.

PI-14: Effectiveness of measures for taxpayer registration and tax assessment

PI-14 Dimensions	2006	2010 Assessment
Method M2	**D+**	**C**
(i) Controls in taxpayer registration.	**NS**	**C.** The Tax Payer Identification Number (TIN) system has several deficiencies including taxpayers having multiple TINs and TINs with no data of taxpayers. TINs are reported for more than 20 different transactions and third parties have the responsibility to collect information on transactions. However their reporting and use of information by the tax administration is limited due to the deficiencies in the data collection and integration. The VAT structure entails multiple Business ID Numbers for each branch/factory, making the effective sharing and use of data for tax enforcement very difficult.
(ii) Effectiveness of penalties for non-compliance with registration and tax declaration.	**NS**	**C.** Recent changes in the laws have introduced penalties for incorrect quoting of TINs. However, no effective enforcement is being made to correct the problem of multiple TINs or incorrect TINs due to deficiencies in the ICT system.
(iii) Planning and monitoring of tax audit programmes.	**NS**	**C.** NBR has a risk based audit system for selecting cases for further scrutiny that does not utilize third party information. The proper implementation of third party reporting based on a credible TIN database will go a long way in improving the quality of audits.

Assessment 2010

Dimension (i): It is compulsory for all taxpayers to have a Tax Payer Identification Number (TIN). TIN has to be compulsorily quoted in twenty-one different transactions such as registering for land, applying for government tenders, etc. A total of 2.2 million TINs have been generated with approximately 800,000 regular income tax filers. However, the system for generating TINs has several deficiencies as they are not being allotted at a common point and the databases are disaggregated. As a result, it is not uncommon for taxpayers to have multiple TINs and TINs with no data of taxpayers. Only 33% of the TIN database has updated data of taxpayers. Third parties have the responsibility to collect TINs for specified transactions. However their reporting and use of information by the tax administration is limited due to the deficiencies in the data collection and integration and collation by an automated system. The VAT department uses different identification numbers from TINs. A program to introduce unique Business ID Numbers for VAT for each business/branch/factory has been launched. However, this system of different numbers for each sub-unit of a business makes the effective sharing and use of data for tax enforcement very difficult. Further, this system is not integrated with the TINs of the business making the use of information for better enforcement across the two taxes very difficult. While there are weaknesses in the system, the fact that such TIN is allotted and is being reported for specified transactions do not merit a D rating. A score of C is indicated.

Dimension (ii): Penalty amounting up to 10% of the tax is applicable for non-filing of tax return under section 124 of the Income Tax Ordinance 1984. Non-registration for VAT or non filing of a return attracts a penalty of 50,000 Taka under Section 37 of the VAT Act. The use of TIN is mandatory for twenty-one different transactions without which the transaction cannot take place. Recent change in the Income Tax law has introduced penalties for incorrect quoting of TINs. However, no effective enforcement is being made to correct the problem of multiple TINs or incorrect TINs due to deficiencies in the ICT system. NBR is embarking on a process of re-registering all the TINs and moving the valid TINs to a new number and discontinuing the use of the bad TINs. Taxpayers would also be issued a TIN card with security features that would ensure the integrity of the numbers. The TIN database is expected to also capture important supplementary information such as the National Identification Number in the case of individuals and the Registrar Joint Stock Companies Number in the case of companies.

Dimension (iii): NBR uses some risk based criteria for selecting cases for further scrutiny. However, the risk calculation does not utilize third party information due to lack of automation. On the other hand, it does incorporate manual methods such as prevalence of evasion in certain sectors (uncovered by the intelligence unit) and Industry Profit ratios, high value transactions, etc. Recent efforts by the Intelligence wing have uncovered significant amounts of evasion. The quality of enforcement in the Large Taxpayer Units is higher than the other offices due to better facilities and more manageable workload. However, there is significant number of potential taxpayers who do not file returns. Main weakness includes not being able to address poor compliance among the real-estate sector. The proper implementation of third party reporting based on a credible TIN database will go a long way in improving the quality of audits. The fact that a risk based audit structure exists and is being used does not merit a D. A score of C is therefore indicated.

Comparison 2006 – 2010/ ongoing reforms

The indicator is rated a C based on scoring the three dimensions unlike the 2006 consolidated rating. The scoring of a C is justified on the evidence from improved administration. The NBR is undertaking a nation-wide TIN re-registration process with the aim of issuing secure TIN cards to be used for transactions where TIN is mandatory.

PI-15: Effectiveness in collection of tax payments

PI-15 Dimensions	2006	2010 Assessment
Method M1	**C**	**D+**
(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two years).	**NS**	**D.** The arrears stood at 9% of the collections and the debt collection ratio from these arrears was also approximately 9%. However, NBR suggests that the figures for the arrears were not accurate. Despite this, the indications are that the problem is likely to be worse.
(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	**NS**	**B.** Major Taxes are collected either directly by the treasury or at a treasury account at a nationalized bank. Tax collections reach the treasury within three days after they are deposited at the bank.
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	**NS**	**D.** Tax reporting is done monthly and there is some system to reconcile cash balances with collection reports. However complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months' delay.

Assessment 2010

Dimension (i) Tax collections and arrears for which detailed information has been provided are as follows:-

Table 11: Tax Collection and Tax Arrears **(In BDT million)**

	Upto June, 08	Upto June, 09	Upto June, 10
Total Tax Collection	474351	525198	621574
Amount of Tax in Arrear	42761	44907	58384
Amount Collected from Arrear	3885	4540.6	5254
Tax Arrears as % of Collection	9.0%	8.6%	9.4%
Debt Collection Ratio	9.1%	10.1%	9.0%

Tax collections in absolute terms have grown at 18% over the previous year with the biggest contribution to the growth coming from Supplementary Duties and Income Tax. The reliance of ad-hoc taxes does not bode well for the strength of tax system. While NBR indicated that the figures were not entirely accurate, the actual figures are probably worse. It is a general perception that arrears are very high. Further, Tax Deducted at source (TDS) is not properly administered (for example, the filing of TDS returns by withholders is not enforced) leading to the suspicion that a lot more taxes that are due are either not collected properly (by withholding agents) or are collected but not deposited with the government. In view of the low collection of tax arrears, a score of D is indicated.

Dimension (ii): In the case of Income Tax, for payment up to 5000 Taka, taxpayers have to fill up a treasury form (challan) in triplicate and pay at the treasury account of the Bangladesh or Sonali Bank. Amounts above 5000 Taka are paid with a bank draft or a pay order. In the case of customs stations with ASYCUDA ++, the payment is made directly to the treasury branch of the same banks that are located in the customs house. In other customs stations, payment is made to the treasury branch along with a challan. Customs authorities then verify the veracity of the challan before the goods are released. In the case of VAT, all payments are made through the treasury challans at the treasury branch of the Bangladesh Bank (Central Bank) or Sonali Bank (state owned bank). One copy of the challan is given to the bank and one copy to the tax office with the last copy retained with the taxpayer as proof of payment. The challans from the bank and those submitted by taxpayers are reconciled physically. Tax collections reach the treasury within three days after they are deposited at the bank. Therefore a score of B is indicated.

Dimension (iii): Complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months' delay. Consolidated Taxpayer accounts to provide accurate credit or debit position across the different taxes are not maintained and gaps in the system exist. Compliance continues largely to be voluntary. NBR is finding it difficult to keep its tax accounts up-to-date, to give effect to tax liabilities raised by tax officers or lowered on appeal or payment. Further, these tax demands are not accurately consolidated across the country. Some picture is available of consolidated tax demands outstanding, but an accurate picture of the portion of the tax arrears that is collected out of this is not available. A score of D is therefore indicated.

Comparison 2006 – 2010/ongoing reforms

Breakdown of score by dimension is not available for 2006 to make the exercise comparable. Since arrears and debt collection ratio was not available in 2006 the appropriate score should have been a No Score. The government is setting up an e-payment gateway that would pave the way for e-payment of taxes.

PI-16: Predictability in the availability of funds for commitment of expenditures

PI-16 Dimensions	2006	2010 Assessment
Method M1	**C**	**C+**
(i) Extent to which cash flows are forecast and monitored.	**NS**	**A.** The cash forecast for the year is updated monthly by re-estimating future cash flows.
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	**NS**	**B.** Ministries/divisions are provided reliable information on expenditure ceilings quarterly in advance.
(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	**NS**	**C.** Significant in-year budget adjustments are frequent, but undertaken with some transparency.

Assessment 2010

Dimension (i): Cash and debt strategy is set by the Cash and Debt Management Committee, chaired by the Finance Secretary and including senior officers from Bangladesh Bank, Economc Relations Division (ERD), CGA and NRB, which meets quarterly. Operational responsibility lies with the Treasury and Debt Management Wing of Finance Division (TDMW). A Technical Committee, chaired from the TDMW, meets monthly. An annual forecast of cash flows is prepared alongside the budget, and is updated monthly with actual receipts and payments to date, and the unexpended balance of the budget, distributed by month according to past seasonal patterns. There is no re-forecasting of cash flows based on ministry/division contract commitments. Tax revenues are mostly re-forecast monthly by the NBR and non-tax revenue by a branch of the TDMW. A score of A is indicated.

Dimension (ii): On the non-development budget, there are no cash release constraints imposed by Finance Division. DDOs are free to draw cheques within their budgets. However, interaction with the MOFHW and the MOPME indicated different perceptions. MOPME indicated it had access to its entire non-development budget and up to 75 percent of its development budget allocation from the start of a new financial year. MOFHW on the other hand indicated that the final quarter non-development budget is released only after Finance Division verifies that the first tranche has been expended. Funding release for approved projects in the Development Budget is automatic for three quarters as long as an expenditure profile is submitted by line ministries to the Planning Commission. The final quarter is released as soon as the revised budget is finalized. In this case also MOFHW indicated that development funding was less predictable from the perspective of the budget holder. Funds appear to be released to the MOFHW only quarterly, and with some delay. Further funds in the last quarter are released close to the year end. Foreign aid funds, which are initially deposited with Bangladesh Bank, can be transferred to project accounts only with the approval of Finance Division. However, project finance represents less than 20% of total budget of which external aid that is subject to Finance Division's approval represents an even smaller proportion. DDOs can spend only what they receive. Quarterly releases are not matched with overall resource availability, but there has been no recent experience of cash shortage. In seven self-accounting agencies (Railways, Defence, Public Works, Roads & Highways, Public Health Engineering, Forest Department and Post Office), cheques can be drawn by them within their budgets. These departments are responsible for their expenditure control and budget execution. As the extent of external aid subject to approval for disbursement is very low, a score of B is indicated.

Dimension (iii): Scope for budget virements is limited to only very few line items of the budget. On these very few items administrative ministries/divisions can re-allocate their budgets during the year within their total grants (allocations) for development and non-development. Re-allocation from one project to another needs approval of Finance Division and Planning Commission making the process transparent. At the operating level, there is some transparency in negotiating such re-allocations. Parliament provides 'ex post' approval for these revisions after the end of the budget year. Both line ministries consulted were unconcerned with this process although there was a risk that allocations for any given ministry could change substantially and in a manner that is not necessarily predictable. An increase in the total grant can only be made by Parliament (Supplementary Appropriation), and is done once every year, at the end of the year, as part of the next year's budget procedure (see PI-27 iv). In 2009-10 the difference between the original budget and outturn in primary expenditure was (-) 9.3 percent, in 2008-09 it was (-) 10.1 percent and in 2007-08 it was 3.7 percent. A score of C is indicated.

Comparison 2006 – 2010/ ongoing reforms

In 2006, this indicator was scored C but not derived from its dimensions. There has been improvement in cash management since the last assessment. A priority medium term reform under SPEMP is the introduction of a sustainable computerized cash forecasting and cash flow system. The reform program seeks to strengthen the forward estimates process to strengthen base-line funding of ministries and divisions. The reform program will also scope out the development of an IFMIS using iBAS besides strengthening iBAS on the basis of a business process review to support the reform and information demand across Government. The PM&BM Act will be sought to be improved to specify the executive's virement powers without submitting a supplementary budget to Parliament.

PI-17: Recording and management of cash balances, debt and guarantees

PI-17 Dimensions	2006	2010 Assessment
Method M2	**C**	**C+**
(i) Quality of debt data recording and reporting.	**NS**	**C.** Debt data records and reports are incomplete and un-reconciled with respect to some direct project aid given by way of loan, and national savings certificates which constitute about 50 percent of total domestic debt.
(ii) Extent of the consolidation of the government's cash balances.	**NS**	**B.** Most cash balances are calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement.
(iii) Systems for contracting loans and issuance of guarantees.	**NS**	**C.** Central government contracting of loans and guarantees are approved by a single government entity, but are not decided on the basis of clear guidelines, criteria or overall ceilings.

Assessment 2010

Dimension (i): No single entity is responsible for public sector debt management in Bangladesh. The demarcation of roles and responsibilities is mainly on the basis of the type of debt instrument issued or loans contracted. In Bangladesh the debt records for external loans maintained in the DMFAS system are complete other than in respect of some direct project aid given by way of loan. Records are available with a one month lag. Likewise, the records of Treasury bills/bonds with Bangladesh Bank (BB) are maintained in the subsidiary general ledger with BB and also in parallel with the CDBL in an electronic format. The records of Treasury bills/bonds are complete and up-to-date. The same situation does not exist for the National Savings Directorate (NSD) loans. The records of the millions of NSD savings certificates holders or postal deposits holders are maintained with the issuing entities across the country. These are consolidated, and the data regarding the issuance, redemptions and interest payments are made available. The debt records of NSD make for about half the domestic debt. Loan guarantees data are maintained with Treasury and Debt Management Wing.

Reports on the central government domestic (Treasury bills/bonds) and external debt are published annually with debt data that are within six months of the reporting period. These cover the debt service, stock and operation aspects. Bangladesh reports external debt data to the World Bank's debtor reporting system and has a rating of 1, which indicates no problems. The BB separately publishes a monthly Bulletin and also a quarterly statistical update on the Treasury bills/bonds data. There is, however, no separate published report of the NSD data but the data on sales, redemptions and interest is given to the BB for each financial year end with a lag of six months. This data and all other debt data are published in the annual Economic Review with a six-month lag.

The data on loan guarantees is published as part of the budget documents also with a six-month lag. However, data on the total non-financial public sector debt including extra-budgetary and social security funds, local governments and non-financial public corporations is not available. Although the NSD data are not complete and upto date, they represent 50 percent of total domestic debt as mentioned above. The CGA is responsible for the accounting of the issuance, redemption and other servicing payments of debt instruments. The fragmented nature of debt management responsibilities limits the capacity of these entities to produce and consolidate accurate debt data in a timely fashion. Given that management and data aspects for the external and remaining domestic debt are complete and updated a score of C is assigned**.**

Dimension (ii): The government maintains a Treasury Single Account (TSA) with the BB which contains 101 sub-accounts for line ministries and other public institutions. The Sonali Bank acts as an agent for the BB, with all balances at its branches cleared daily to BB. These accounts are used to channel most government revenues and expenditures in local currency and are managed by the CGA

who is also the paymaster for all government transactions. Individual account entries are reconciled daily and sub-accounts monthly. Loans by BB to the Government are reported to the CGA and consolidated monthly. Issues, redemptions, and interest payments on retail debt instruments in all distribution channels are also reported to, booked and consolidated by the CGA on a daily basis.
Government ministries and departments, statutory bodies, nonfinancial SOEs, and public financial entities (nonbanks) hold large numbers of accounts in commercial banks outside the TSA. For ministries, central government agencies, and departments these accounts have traditionally been imprest accounts for small petty cash expenditures, or ring-fenced donor-funded project accounts. Thus, although most cash balances are calculated and consolidated daily, there are certain extra budgetary funds outside the system. Therefore a score of B is indicated.

Dimension (iii): The Rules of Business, 1996, places the responsibility for approving borrowings and loan guarantees on behalf of the national government with the MOF. Although the PM&BM Act 2009 requires the central government to set annual limits of size of public debt, borrowing from domestic and external sources and contingent liabilities, these annual limits have not been set yet. The central government's contracting of loans and guarantees are approved by a single entity, the Finance Division, but in 2009/10 these were not decided on the basis of clear guidelines or within overall ceilings. Therefore a score of C is indicated. At June 2010, the contingent liabilities on borrowings by public enterprises are estimated at Taka 1057 billion (see PI-9 (i)), but there are no data on other contingent liabilities such as court cases outstanding, or unfunded pension liabilities.

Comparison 2006 – 2010/ ongoing reforms

This indicator was rated C in 2006 but the dimensions were not scored separately. The government through SPEMP is contemplating to build capacity for preparation of debt policy and strategy, data recording and analysis in TDMW and manage explicit and implicit contingent liabilities including public borrowing. In addition, ERD and BB are jointly strengthening the system for debt management by migrating to DMFAS version 6.0.

PI-18 Effectiveness of payroll controls

PI-18 Dimensions	2006	2010 Assessment
Method M1	**C**	**D+**
(i) Degree of integration and reconciliation between personnel records and payroll data.	**NS**	**D.** Integrity of the payroll is significantly undermined by lack of regular reconciliation of personnel records with payroll data.
(ii) Timeliness of changes to personnel records and the payroll.	**NS**	**B.** Up to 3 months' delay occurs in updating changes to the personnel records and payroll, but only for a minority of changes. Retroactive adjustments are made occasionally.
(iii) Internal controls of changes to personnel records and the payroll.	**NS**	**C.** Controls exist but are not adequate to ensure full integrity of data.
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	**NS**	**D.** No payroll audits have been undertaken within the last three years.

Assessment 2010

Dimension (i): The payroll function is decentralized to line ministries/divisions.[26] Personnel records are kept by Administration Departments that are in some instances computerized. The records are updated from personnel record documents such as Last Pay Certificates. The same documents are used to update a database kept by the Ministry of Establishment and Administration Department database (for some ministries), and the Chief Accounts Officers (CAOs) of ministries reconcile their

[26] Checks of the MOHFW amd MOPME showed that personnel registers and payroll information for hospitals, schools etc. in the District or Upazilla is maintained within the District or Upazilla by local DDOs under the respective Line Directorates. Personnel and payroll registers are paper-based and manual and links between them are nor automatic.

databases with the central database. However, the update of records is based on update of payroll at the pay points and as suggested above, is not always reconciled at the central level. Integrity of the payroll is significantly undermined by lack of regular reconciliation of personnel records with payroll data.

Salaries are paid to self-drawing (Gazetted) officers by cheque on individual pay bills, while non-Gazetted officers are paid in cash from a single cheque against a group pay bill. In each ministry/division, the Accounts Office prepares all pay bills monthly. Individual pay bills are signed by the respective self-drawing officers, while group pay bills are signed by the respective DDOs. The Accounts Office checks all bills against the budget allocation and against authorised changes notified by the Administration Department. Payroll changes are notified by a letter as there is no standard format. There is also an overall check by comparing the totals for the month against the previous month. Cheques are then drawn manually against approved pay bills, entered in a Cheques Delivery Register and conveyed to the respective officers. Few officers get payment directly into their bank accounts (electronic funds transfer). The government, on a pilot basis tested whether salary can be electronically transferred directly into the bank accounts of serving officials but there is no evidence that suggests general acceptance of the pilot experience and roll out of the plan across the government. For non-Gazetted officers, each DDO cashes a single cheque, pays officers in cash and obtains signatures as acknowledgements of receipt. Unclaimed salaries are surrendered to the Treasury. Data is entered into iBAS - full details on each self-drawing officer and summary data for all others. A score of D is indicated.

Dimension (ii): Payroll records are updated on receipt of official circulars and letters from Ministry of Establishments to the concerned departments (Administration and Accounts Officers) of the ministry but there are delays in notification of changes. However there is no evidence of serious delays in payment following notification. It could take 2 to 3 months sometimes, particularly in remote locations, to process changes to personnel records. Considering the delay that may occur at both ends i.e. delayed issue of circular or letter and the delay to make necessary changes in payroll information, often the concerned officials when transferred or promoted or newly recruited in any given location have to pursue the updating of personnel records or payroll information. Controls are therefore dependent on the timely receipt of information on changes by the concerned office and follow up of the process by each accounts office. The Accounts offices are mandatorily required to process pay bills within 5 working days from the receipt of pay request. The time between preparation of pay bills and issue of checks could take 10 days. However, as delay in processing changes leads to retroactive adjustment, a sample review indicates that this is not widely practiced. In view of the foregoing a score of B is indicated.

Dimension (iii): There are multiple checks at all stages, but principles of internal control are not observed, eg. segregation of the preparation of pay bills and the handling of cash. Authority to change records and payroll is subject to the supervision of the Audit and Accounts Officer (AAO) from CGA and a clear audit trail exists through this process. The officer responsible for updating the personnel registers signs and dates against the changes. This is done based on the payroll records requiring changes that are submitted by the concerned department. The changes in the document are countersigned by two other officers, including the AAO. The prevalence of manual processes in the payroll system, and the use of cash rather than cheques or EFT, adds to the risk of fraud and errors.

Overall, payroll controls and personnel information/records are overly complicated and opaque and are not adequate to ensure full data integrity. Nevertheless the system still provides some check on the integrity of payments as civil servants have to effectively claim their salaries each month supported by documentation (iBAS generated token) and authorization for payment. In view of the inadequacy of controls to assure full integrity of data a score of C is indicated.

Dimension (iv): Surprise checks are made by independent officials at salary payouts, but these do not amount to payroll audits including physical verification of payees.[27]Exclusive payroll audits to specifically identify the existence of ghost workers and a reconciliation of actual payment with that of personnel data base has never been undertaken.[28] External audit of payroll is only confined to an examination of records as a part of overall examination of all other financial transactions thus not amounting to a payroll audit. Therefore a score of D is indicated.

Comparison 2006 – 2010/ongoing reforms

This indicator was rated C in 2006, but without dimensional ratings. The government through SPEMP aims at diagnostic studies that will inform the choice of a system and design features and priorities for system implementation as well as initiate improvements in data quality, procedures and control.

PI-19 Competition, value for money and controls in procurement

PI-19 Dimensions	2006	2010 Assessment
Method M2	**B**	**B**
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	**NS**	**B.** The existing legal and regulatory framework governing procurement in Bangladesh satisfies all the six listed requirements, except for a few recent amendments for small-value works contracts.
(ii) Use of competitive procurement methods.	**NS**	**B**. Open competition is the default method based on data obtained from several assessment reports on contracts actually implemented by key procuring agencies of the GOB.
(iii) Public access to complete, reliable and timely procurement information.	**NS**	**C.** Bidding opportunities are published widely in newspapers and web sites while part of contracts awarded is published in publicly accessible web sites.
(iv) Existence of an independent administrative procurement complaints system.	**NS**	**B.** The procurement complaints system meets three of the five criteria. However, implementation of this system requires significant changes.

Assessment 2010

The Government of Bangladesh recognizes procurement reform to be a priority area for governance improvement. It formally initiated nationwide public procurement reforms in 2000. The institutional arrangement necessary to devise and implement the regulatory framework was accomplished in April 2002 through the establishment of a Central Procurement Technical Unit (CPTU), under the Implementation Monitoring and Evaluation Division (IMED) of the Ministry of Planning, as an institution of the Government. CPTU is responsible for carrying out designated procurement reforms, and functions as a permanent entity of the Government to handle procurement policy and technical matters.

Government promulgated the Public Procurement Regulations 2003 (PPR-2003) in September 2003, the procedures for implementation of PPR-2003 in September 2004, and the Public Procurement Processing and Approval Procedures in October 2004. At the same time CPTU issued key Standard Bidding Documents and Standard Request for Proposals to standardize all public procurement of goods, works and services in conformity with the regulatory framework. This was followed with the passage in Parliament in July 2006 of the Public Procurement Act 2006 (PPA-2006) embodying a comprehensive set of international good procurement practices. PPA-2006 became effective from

[27] As a part of routine pre audit functions, the authorized official in the concerned department of agency verifies whether payroll is consistent with the department's organogram, number of assigned officials and budgetary allocation.

[28] For instance, in the MOPME (and MOHFW) which were assessed separately, there is no record of payroll audit having taken place in primary education (and other sectors), which means that there has not been an opportunity to date to test the probity of the payroll.

January 31, 2008 after the Government promulgated the Public Procurement Rules 2008 (PPR-2008). PPA-2006 is designed to govern all procurement with public funds. Prominent features of the Regulations and the Act included provisions for advertising procurement opportunities, publishing contract award results, annual post procurement audit, and independent review panel for addressing bidders' grievances. For small value civil works contracts, there are a few amendments to the PPA-2006 in 2009 that may have impacts on good procurement practices.

Dimension (i): PPA-2006 comprises of 73 Sections divided into 9 Chapters. These Sections and Chapters are arranged in a hierarchical way describing the legal requirements governing procurement in Bangladesh. That description includes, among other things: (i) procedures to prepare and issue procurement related documents; (ii) procedures to invite, receive, open and evaluate bids and proposals; (iii) General guidelines for procurement processing; (iv) Principles governing participation and competition; (v) complaints and appeals mechanism; (vi) methods for procurement of goods, works and services; (vi) approval and notification of contract award; (vi) rules governing professional misconduct, and (vii) adoption of electronic processing system in public procurement.

PPR-2008 comprises of 129 Rules divided into 9 Chapters that amplify and explain the Act. The Rules follow a hierarchical structure that is similar to that of the Act, and make explicit references to Sections and Sub-sections of the Act as required.

Procurement laws and regulations are freely and easily accessible to the public through appropriate means. Section 9 of the Act mandates that this Act and the rules, and such other procurement-related papers or documents as may be needed by the general public – be preserved and made available.

The legal framework applies to all procurement undertaken using government funds and covers procurement of goods, works or services by any procuring entity (government, semi-government, any statutory body and by a company registered under the Companies Act, 1994) using public funds. The legal framework makes open competitive procurement the default method of procurement (Section 31 of the Act) and defines clearly the situations in which other methods can be used. It provides for signing a contract with the lowest evaluated responsive bidder. Other sections deal with non-discrimination in opportunity to compete (Section 25 of the Act) unless the Government decides otherwise. To create conditions for fair and open competition among bidders, a procuring entity is required to provide a correct and complete description of expected performance levels (or intellectual and professional services), characteristics and quality levels ensuring that such descriptions are not restrictive. Under no circumstances is negotiation permitted to alter the lowest responsive price. The legal framework provides for an independent, administrative procurement review process for handling procurement related complaints by participants prior to contract signature. The legal framework provides for public access to all of the following procurement information: government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints. The existing legal and regulatory framework governing procurement in Bangladesh satisfies all the six listed requirements and therefore this Dimension receives a score of A.

Dimension (ii): The GOB till date does not have a master database of public procurement contracts, so data obtained from assessing GOB's key agencies implementing large projects funded by GOB and DPs (such as Roads and Highways Department, Local Government Engineering Department, Bangladesh Water Development Board, Rural Electrification Board, Department of Primary Education, Ministry of Health and Family Welfare etc.) as well as the data from Bank's supervision of almost forty agencies implementing Bank-financed or Bank-administered Multi Donor Trust Funds (MDTF) were used in scoring this dimension. For local procurement above the threshold for Request for Quotations (RFQ) method – as defined and described in PPA-2006 and PPR-2008 for goods and works – open competition has been the default method for procurement, including international competitive bidding for large contracts following applicable Bank/DP Guidelines. Procurement methods other than open competition in contracts prior-reviewed by Bank consisted mainly of Direct Procurement Method for goods and Individual Consultant Selection, Single Source Selection and Community Service Organization Selection for services as defined and described in PPA-2006 and PPR-2008. The number of contracts using methods other than open competition, compared to the total number of contracts implemented by the key procuring entities, in any given year, was found to be extremely small.

There were no deviations observed in restricted-competition procurements that were reviewed. While justifications on record in case of restricted-competition procurement reviewed were adequate *prima facie*, an analysis indicated that RFQ was used to circumvent or bypass the use of more competitive methods in a small number of cases (representing not more than 10% of such contracts reviewed). Some of the justifications provided for using less competitive procurement methods were not adequate in context. The value of these distortions is estimated at less than 10% of the total value of procurements processed through less competitive methods. In spite of open competition being the default procurement method, World Bank's supervision and GOB's monitoring reports reveal issues related to inadequate procurement management capacity in implementing agencies[29], delays in procurement processing and approval, delays in contract management, complaints from bidders, alleged fraud and corruption etc. none of which is necessarily a result of open competition. This dimension is therefore scored a B.

Dimension (iii): PPR – 2008 requires that at the beginning of each financial year, the procuring entity shall arrange to publish the Total Procurement Plan and Annual Procurement Plan on their notice boards, websites, on the departmental websites, bulletins, reports etc. However, the websites and bulletin boards of most procuring entities do not carry this mandated information. The CPTU website has a link labelled "Annual Procurement Plan", but opens to blank page. CPTU suggests that availability of procurement plans on its website will improve with the introduction of electronic government procurement (e-GP) under the Public Procurement Reform Project II. PPA-2006 and PPR-2008 require publication of bidding opportunities – both nationally and internationally. Advertisements for competitive bidding opportunities appear in the print media and on the CPTU website; and on the websites of many procuring entities. However the advertisement of invitations on the procuring entity's website, where available, is yet to be fully complied with.

PPR- 2008 stipulates that all contract awards valued at: (a) BDT ten million and above for goods and related services and works and physical services, and (b) BDT five million and above for intellectual and professional services be published by CPTU on its website. This provision is generally complied with but not always. Notification of award for contracts below the threshold specified is required to be published by the procuring entity on its notice board and/or on its website. This provision is seldom complied with. Neither CPTU nor any of the agency websites was found to be maintaining a complaints database. Two key procurement information – bidding opportunities and contract awards – was available publically in a reliable manner; contract award information was incomplete because the law mandated publication of such information for contract value of BDT 10 million and above; and the agencies that made these key information available represented more than 75% by value of procurement operations.[30] A score of C is therefore assigned.

[29] For instance, in the separate study of MOHFW it was found that a system of preparing, approving and consolidating plans on an annual basis, after the budget has been approved resulted in a lengthy procurement cycle.

[30] The percentage of procurement operations by value was arrived at by comparing aggregate expenditure (by procuring agencies) under Economic Codes 6800 to 7099 in the Development Budget with the aggregate expenditure for 2010-11.

Dimension (iv): PPA-2006 and PPR-2008 (Rules 56 through 60) contain explicit and detailed provisions for an independent administrative procurement complaints system. This four tier system has provisions for submitting complaints, representations and appeals: (i) to the concerned officer of the Procuring Entity; (ii) elevation of the complaint to the Head of the Procuring Entity; (iii) further elevation to the Secretary of the Ministry or Division; and (iv) pursuing the appeal with a security deposit with the Review Panel– an independent panel of experts– appointed by CPTU.

The Review Panel after completing its review, may: (a) reject the appeal; (b) advise the parties to act according to rules in the PPR; (c) recommend remedial measures; (d) suggest annulment, in whole or in part, of a non-compliant action or decision of a Procuring Entity; (e) suggest the payment of compensation by a Procuring Entity for costs incurred by the complainant, or (f) recommend that the procurement proceedings be completed. Decisions of the Panel are final. The first three tiers of the complaints redress mechanism are not necessarily independent from the government whereas the Review Panel formed by CPTU is completely independent. A security deposit is also taken for appealing to the review panel. Therefore three of the five criteria are met and this dimension therefore receives a B.

Comparison 2006 – 2010/ongoing reforms

The new methodology uses four dimensions, instead of three as in the old method, and is more comprehensive covering the promotion of transparency and competition by the legal framework and public access to procurement information. The major reform since 2006 exercise has been the enactment of the PPA-2006 embodying international good practices which became effective from 2008. Prominent features included provisions for advertising procurement opportunities, publishing contract award results, annual post procurement audit, and an independent review panel for addressing bidders' grievances. Recent amendments in the PPA-2006 and PPR-2008 (in 2009 and 2010) have resulted in reversals of some provisions. As a consequence, the World Bank lists the exceptions to PPA-2006 and PPR-2008 in its financing agreements with GOB for local procurement.

PI-20 Effectiveness of internal controls for non-salary expenditure

PI-20 Dimensions	2006	2010 Assessment
Method M1	**C**	**D+**
(i) Effectiveness of expenditure commitment controls.	**NS**	**D.** There is no commitment control system to prevent expenditure exceeding budget or cash availability.
(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	**NS**	**C**. Internal control rules and procedures exist but are not properly understood by those directly involved in their application. Some rules and procedures may be excessive but overall controls are deficient.
(iii) Degree of compliance with rules for processing and recording transactions.	**NS**	**D.** The core set of rules are not complied with on a routine and widespread basis.

Assessment 2010

Dimension (i): There is no system of deducting expenditure commitments as they are made from budgets to ensure that they cannot, later in the year, result in excess expenditure. The most inherent weakness of the internal control system is the lack of direct linkage between budgets and the accounting process as no system exists for automatic budgets checks before payments are processed.[31]

[31] The case study of the MOHFW confirmed this and showed the responsibility for budget check before commitment or payments processing rested with the DDO who maintains budget and expenditure records. Payments can be made as long as there is an account code for the relevant expenditure. The lack of a direct link between budget and accounting records means there is very little management information on actual performance against budget.

For development expenditure, the Finance Division of the MOF continues to carry out its cash management function by withholding or delaying releases of the budgeted funds to spending units for 4th quarter in the event of latter's failure to submit budget execution reports for the first three quarters. Even with this control, since budget utilization report represents only actual expenditure figures without their respective budget comparison, there is always potential for over spending of budgeted appropriation at any given time. Payments can be made as long as there is an account code and variance checks between budget and actual expenditure are only carried out after expenditure is made.

In case of non-development expenditure, the approved budget is further distributed by the departments to their units' up to Upazila level. Responsibility for budget checks before commitment or payment processing rests with the officials of the respective departments. The officials maintain a set of budget and expenditure records and send regular reports to their department HQ. This 'offline' practice contributes to weakening the expenditure management system particularly when District and Upazila level budgets account for 70% of total government expenditure.

The integrated budgeting and accounting system (iBAS), one of the notable reforms over the past 15 years are separate stand alone systems and designed to be complimentary. They are not fully integrated as budget information is not linked with the accounting system. In particular, the system does not allow budget checks before expenditure processing is done, leaving no scope for budget monitoring at the operational level where effective budgetary control is needed. Therefore the dimension scores a D.

Dimension (ii): There are copious rules (GFR, TR and FD circulars); these are defined and issued through executive orders and circulars. However, it appears that they are not properly understood by various authorities.[32] Other forms of internal controls include "compliance with General Financial Rules and Treasury Rules" during pre-audit processes i.e. at point of payment. However, revisions and updates of these rules are overdue including introduction of new rules to meet changing requirements and this is being reviewed by a current reform initiative.

In 2005, the MOF issued an Internal Control Manual setting out standards, principles and policies to be followed, but it was not appropriately enforced. A 2007 report says that development of an internal control environment is hampered by a lack of conceptual understanding, appropriate training and supervision.[33] Nevertheless, given that GFR, TR and FD circulars are in place a score of C is awarded.

Dimension (iii): Widespread infringement of Financial Rules and Regulations has consistently been reported in the CAG reports which contain many findings of serious financial irregularities'.[34] Compliance is weak and often no action follows when officers are found guilty of defalcation and

[32] The MOHFW and MOPME studies also pointed to weaknesses in the internal control system. Other identified weaknesses were in asset and inventory recording and maintenance and verification. It was observed that neither Line Departments nor DDOs maintained up-to-date asset registers. The Foreign Aided Project Audit Directorate's FY 08-09 'exit report' of MOPME projects that are foreign funded points to compliance irregularities and internal control issues. The Directorate of Local and Revenue Audit (responsible for audit coverage that includes primary education offices) pointed towards general problems of financial control such as: (a) incurring expenditure above allocations for particular budget heads; (b) utilising cash from incorrect budget heads for expenditure; (c) making payments for goods and services before they have been supplied as contracted etc.

[33] Government of Bangladesh and World Bank (2007) Public Sector Accounting and Auditing: A Comparison to International Standards, pp. 73/74.

[34] As of January 2009, the new PAC faced a backlog of 490 audit reports containing 9,700 observations involving a total of Taka 110 billion.

other irregularities.[35] Systems are only partly automated. For instance all bills are prepared and posted into iBAS, but cheques are drawn manually. Therefore this dimension scores a D.

Comparison 2006 – 2010/ongoing reforms

This indicator was rated C in 2006 although without scoring the dimensions. The basis of that score is not clear. The situation on internal controls is not seen to have improved. SPEMP includes a component to review and revise the GFR, Treasury Rules and Accounts Codes so as to be consistent with the business processes to be introduced in the integrated financial management information system.

PI-21: Effectiveness of internal audit

PI-21 Dimensions	2006	2010 Assessment
Method M1	**D**	**D**
(i) Coverage and quality of the internal audit function.	**NS**	**D**. There is no internal audit focused on systems monitoring.
(ii) Frequency and distribution of the reports.	**NS**	**D.** Internal Audit Units do not undertake internal audit and do not issue reports.
(iii) Extent of management response to internal audit findings.	**NS**	**D.** There are no internal audit recommendations or management response.

Assessment 2010

Dimension (i): Internal audit function is largely absent although a few ministries/Divisions and departments have established internal audit functions. Existing internal audit functions are inadequate and there has been limited demand for the internal audit function. For instance in the Finance Division, there is an Expenditure Control and Internal Audit Wing, but the Internal Audit section has no staff and no mandate. These units typically perform routine transaction and compliance testing (voucher checking before payment) and are responsible to their Chief Accounts Officers. They do not employ modern internal audit techniques. Few of the staff has had professional training. In 2005, the Ministry of Finance issued an Internal Control Manual, but the guidelines have not been put into practice effectively. This dimension therefore scores a D.

Dimension (*ii*): There are no internal audit reports of the government. Of the MTBF ministries, only one ministry (health) complied with government policy to outsource the internal audit function to private audit firms.[36] This has been done under a development project and to some extent to cater to donors' requirement for additional monitoring of the program. Even in this Ministry there is no systematic planning of internal audit that can determine the frequency of audit or evidence that internal audit reports are formally shared with MOF and CAG. Thus this dimension scores a D.

Dimension (iii): There are no internal audit recommendations. The CGA has an internal Control Unit that carries out central inspection. At the regional level this is done through the Divisional Controller of Accounts. There is a clear instruction from CGA that inspection must be carried out at least

[35] On view is that financial management rules within the GOB are generally overly bureaucratic, with an over-engineering of controls in many areas which, as a result, creates inefficiencies in expenditure and incentives to circumvent some of the detail of the control rules. Studies have also cited lack of adequate numbers of trained finance staff (particularly at the operational level) as one of the main reasons for weakness in financial management.

[36] For example under the donor assisted Health Nutrition and Population Sector Programme the internal audit function was outsourced to a private firm in 2007. The first internal audit report prepared by the private firm identified significant capacity constraints, operational inefficiencies and weak internal controls. Line Directors are confused about the multiplicity of arrangements and are unable to distinguish between internal and external audit.

annually of the accounts offices but there is no indication that discrepancies found are followed up by senior management. This dimension scores a D.

Comparison 2006 – 2010/ongoing reforms

This was rated D, and there has been no change. The Finance Division of the MOF which plays a central agency role in establishing government wide internal audit function has prepared a policy paper that aims at development of internal audit units in Line Ministries. This proposes setting up an Internal Audit Development Unit in Finance Division and dedicated Internal Audit Units in each of the larger ministries. The Internal Audit Development Unit would coordinate training of internal audit staff and advise the Internal Audit Units on their operations and development. Internal Audit units, headed by Chief Internal Auditors, would provide management service to the Principal Accounting Officers. Strengthening internal audit functions across the government is one of the key components of SPEMP.

C.(iii): Accounting, recording and reporting

PI-22: Timeliness and regularity of accounts reconciliation

PI-22 Dimensions	2006	2010 Assessment
Method M2	**C**	**B**
(i) Regularity of bank reconciliations.	**NS**	**B**. Bank reconciliations for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from the end of the month.
(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	**NS**	**B.** Reconciliation and clearance of suspense accounts and advances takes place at least annually within 2-3 months of the end of the year. Some accounts have un-cleared balances brought forward.

Assessment 2010

Dimension (i)*:* Reconciliation of banking and fiscal records is undertaken on a monthly basis. All pay points reconcile their bills, cheques and challans (receipt vouchers) with the scrolls (bank statements) on a daily and monthly basis. Where receipts are deposited or cheques issued on a Sonali Bank branch and transferred to the Treasury managed accounts with Bangladesh Bank, there is a difference between the actual dates of receipt and payment and the dates shown by Bangladesh Bank, due to processing delay. Accounts with the Bangladesh Bank are reconciled with the fiscal accounts monthly in total, i.e. all sub-accounts in total. Non-matching items are classified, normally within 15 days of the month end. Government accounts in commercial banks are reconciled by the respective departments and autonomous bodies. There is no explanation given in case of reconciliation differences. However, the non matching items are required to be fully reconciled.

Although there have been substantial improvements in the reconciliation process, the reconciliation discrepancy which is about 5% of total expenditure, continues largely due to the existence of a number of account coding errors at the ministry level as well as timing difference in the reconciliation process between the Central Bank and CGA. In view of the evidence on regularity of Bank reconciliation this dimension scores a B.

Dimension (ii): There has been a clamp down on the use of suspense accounts. Government rules (Treasury Account Manual) require most suspense accounts to be cleared within three months. Unclassified revenue is credited to a 'Miscellaneous Revenue' code which is adjusted later to the correct code, rather than through a suspense account. Various forms of advances such as daily and travel allowance advance have to be cleared within 30 days from the date of return from travel while procurement advance which is actually a mobilization advance also require settlement within 30 days from the day of purchase or service rendered. Operational Imprest is also given to departments as permanent advance. Status of such advance is shown in the Finance Account at aggregate level. There is no provision in the accounting system for carry forward of advances to the next year. If advance remains unsettled at the close of the year or new advance is given in the last month of the fiscal year, these are treated as expenditure in the fiscal year for which the advance was given. If subsequent adjustment requires the amount to be refunded, adjusted amount is treated as receipts of the government. Reconciliation and clearance of suspense accounts and advances takes place annually within three to four months of the end of the fiscal year. Therefore this dimension scores a B.

Comparison 2006 – 2010/ ongoing reforms

Although there is a difference in the basis of scoring, there has been some improvement in the quality and timeliness of reconciliation. The government through SPEMP is planning for a further improvement of bank and other reconciliation to ensure data reliability.

PI-23: Availability of information on resources received by service delivery units

PI-23 Dimension	2006	2010 Assessment
(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units.	**C**	**D.** The systems in the education and health ministries do not provide information on resources received by primary schools or primary health clinics. No comprehensive data collection on resources to service delivery units in any major sector has been collected and processed within the last three years.

Assessment 2010

Dimension (i)*:* Neither the overall accounting nor management information system within ministries supports tracking of resources specially provided to front line service delivery units. The systems in the education and health ministries do not provide information on resources received by primary schools or primary health clinics, nor have there been any public expenditure tracking studies in any major sector since 2007. The resources both in kind and cash that are provided to primary schools and health ministries are considered part of overall resources allocated to the sectors. Expenditure is reported against the respective budget heads of the ministries. However, in case of some donor funded operation in health and education sector, ad hoc assessments have been carried out of the material distribution system such as drugs and school books. However information can be manually collected at Upazila level (Upazila health complex, Health officers) where information is readily available. This dimension scores a D.

Comparison 2006 – 2010/Ongoing reforms

The indicator was rated C in 2006 on the ground that, for the revenue budget, there is good information on resources received by the service delivery units. Such information no longer appears to be available. In 2006, three tracking studies had been commissioned. The results of those studies have not been tracked, monitored and acted upon. Under SPEMP, initiatives have been undertaken to streamline the accounting system to track this information through iBAS. Under the Unified Budget and District Budget initiative it is proposed to reflect district wise expenditure progressing to Upazilas. Over the longer term, the allocation for all government offices at District and Upazila levels is proposed to be reflected.

PI-24: Quality and timeliness of in-year budget reports

PI-24 Dimensions	2006	2010 Assessment
Method M1	**C**	**C+**
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	**NS**	**C.** Comparison with the budget is possible and can be generated from the iBAS after the monthly and annual accounts have been closed. Expenditure is captured only at the payment stage.
(ii) Timeliness of the issue of reports.	**NS**	**B.** The compilation process to issue monthly reports does not conform to the official time line of 4 weeks. There is slippage of 4 to 6 weeks in the issuance of monthly reports.
(iii) Quality of information.	**NS**	**C.** There are some concerns about the accuracy of information, but these do not undermine its basic usefulness.

Assessment 2010

Dimension (i): The government maintains accounts on the basis of actual expenditure. The rules of business clearly define the responsibilities of Ministry of Finance and the line ministries in the preparation of budget reports. Overall, the CGA which reports to the Ministry of Finance is responsible for preparing financial statements of cash release and expenditure incurred and consolidated financial statements of cash, direct payment and commodity loan and assistance. The line ministry is responsible for maintaining the central accounts of all resources received and spent in cash and kind. The CAO's attached with the ministries are responsible to prepare ministry reports. Financial statements from 64 districts are obtained on line through iBAS by CGA from 6 divisional accounts offices. The accounts offices at the divisional level collect financial information from 483 Upazila accounts offices electronically at an aggregate level while Upazila accounts are maintained manually.[37] Overall, the accounting system is capable of producing monthly and annual expenditure reports showing comparison between budget and actual expenditure upto detailed administrative and economic classification through the iBAS. But this is seldom produced and used by executives.[38] The timely production of monthly and annual expenditure reports from iBAS, is affected by timely availability of expenditure reports from self-accounting entities, project aid, food account etc. However, neither the accounting system nor iBAS generated in- year budget monitoring reports cover expenditure commitment which is a serious gap towards an effective monitoring of budget implementation. Expenditure is captured only at the payment stage. In view of this evidence the dimension scores a C.

Dimension (ii): The Ministry of Finance website (www.mof.gov.bd) shows monthly Fiscal-Macro data with a time lag of 4 to 6 weeks. At the time of the assessment, the latest data on budget execution report was for April 2010 which was issued in June and posted on website on 8 August 2010. However, iBAS generated preliminary data on each month is available in the Ministry within 25 days of the close of each month. Although data is available, the compilation process to issue monthly reports does not conform to the official time line of 4 weeks because of a range of factors, including consolidation of expenditure data of the self-accounting bodies. There is slippage of 4 to 6 weeks in the issuance of monthly reports. Therefore the dimension scores a B.

Dimension (iii): The National Cabinet monitors budget implementation progress through quarterly ADP review meeting and identifies actions for adjustment. After the quarterly review meeting, Line

[37] CAOs and District Accounting Officers (DAO) make accounting entries in the system through dedicated IBAS terminals in their offices. Upazila AOs record their accounting transactions manually and then travel to their respective DAO on a monthly basis to enter this data on the terminals there.

[38]The CGA office noted that Budget execution reports would be prepared for and presented to senior management in line ministries upon request, but that requests for ministry-specific bespoke reports are generally not forthcoming. In our case study, we found that although MOPME does not ask for CGA reports, it does appear to have a recent history of preparing budget execution information for internal management purposes.

ministries receive guidance and instruction to manage activities for which they are accountable. The role of CGA is to affect payment and maintain the primary budget execution records. The line ministries are responsible to maintain the central accounts of all resources received and spent in cash and kind and for reconciling CGA data with their own records.[39] There is no formal system for recording the accounts of commodity grants and turnkey projects through Direct Project Assistance which causes difficulties in reconciling information. Initiatives are underway to achieve effective two way flow of information between CGA and line ministries. There have been some concerns about accuracy of information, resulting from time lag in consolidating reports provided by various ministries and departments and un-reconciled data received from DDOs. These being mere abstracts of expenditure are not of high quality. Monthly reports from iBAS suffer from the same issues as the annual financial statements, including the omission of significant amounts of donor-funded project expenditure. In view of these weaknesses in the quality of information a score of C is awarded.

Comparison 2006 – 2010/ongoing reforms

This indicator was rated C in 2006, when the CGA had only begun the process of installing software and connecting decentralised accounts offices to the centre. There has been improvement in accounting and reporting systems since then. The SPEMP includes a component for improvement of iBAS and the possible development of a successor IFMIS.

PI-25: Quality and timeliness of annual financial statements

PI-25 Dimensions	2006	2010 Assessment
Method M1	**C**	**D+**
(i) Completeness of the financial statements.	**NS**	**C.** A consolidated financial statement is prepared annually. However information on revenue, expenditure and bank account balances are not always complete and timely but the omissions are not significant.
(ii) Timeliness of submission of the financial statements.	**NS**	**D.** The date of submission for audit is indeterminate as the C&AG does not necessarily accept the statements at the first submission by the CGA.
(iii) Accounting standards used.	**NS**	**D.** Statements do not disclose accounting standards**.**

Assessment 2010

Dimension (i): A consolidated financial statement is prepared annually covering the entire current and capital expenditure of the government after reconciliation with bank balances. Financial information of all ministries and departments' are consolidated into a single annual financial report. In addition, departmentalized entities such as Defence, Railways and Postal departments produce separate financial statements besides being a part of the consolidated statement. However foreign loan/grants are not fully reflected in the annual financial statements. The Consolidated Financial Statements of the Government consist of 14 Statements that are supported by 25 Schedules and 7 Annexes. This dimension scores a C in view of lack of completeness of financial statements.

Dimension (ii): Since the implementation of iBAS, the 'June preliminary accounts' are available within a month of the end of the year. Following reconciliations and consolidation of the self-accounting departments with the rest of the ministries and divisions and correction of many errors, the 'June final accounts' should be available by October, and submitted to the C&AG by December, i.e. within six months of the year end. This target is not met. The accounts for 2008/09 were outstanding

[39] The MOHFW study showed delays in reconciling the figures from these two systems, apparently due to mis-coding in the Upazila. The accounting errors were due to weak staff capacities but also due to project codes sometimes being assigned only when costs are incurred, rather than when budgets are prepared and funds allocated to the cost centres.

at 31 July 2010, i.e. more than 12 months after the year end. It should be noted that the date of submission for audit is indeterminate as the C&AG does not necessarily accept the statements at the first submission by the CGA. The 2008/09 accounts were submitted in September 2010 and was not yet finalized till the date of this report (January 2011).

Accounts are not published until they are audited and tabled along with the audit report in Parliament. As of November 2010, the latest *published* Finance and Appropriation Accounts are for the year 2005/06, which were tabled in April 2010 following the re-constitution of the 9th Parliament PAC. The 2006/07 Accounts had been audited and sent to the President and tabled in Parliament in December 2010. The 2007/08 Accounts had been prepared and audited but only substantially printed and were yet to be submitted to the President. The 2008/09 Accounts had been prepared and substantially audited, but the C&AG had not submitted his report to the President. Since the date of submission of accounts for audit is indeterminate the dimensions score a D.

Dimension (iii): Government's accounts are kept on a modified cash basis and presented in the same format each year. They do not comply with the international standard (IPSAS cash-basis, mandatory disclosures) due to the omission of a summary statement of receipts and payments, recognition of cash balances controlled by the Government, disclosure of accounting policies, and explanatory notes on loans, advances, national savings, and the General Provident Fund.[40] Therefore the dimension scores a D.

Comparison 2006 – 2010/ ongoing reforms

This was rated C in 2006 on an overall basis, but the reduced score of D+ in this assessment is mainly due to delay in submission of annual financial statements in the last two years. The government has plans to bring further improvement in generating quality and timely financial statements through SPEMP.

C. (iv): External Scrutiny and Audit

PI-26 Scope, nature and follow-up of external audit

PI-26 Dimensions	**2006**	**2010 Assessment**
Method M1	**D+**	**D+**
(i) Scope/nature of audit performed.	**NS**	**C**. Central government entities representing 70-80% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards are disclosed.
(ii) Timeliness of audit reports to legislature.	**NS**	**D**. Audit reports are submitted to the Parliament more than 12 months from the end of the period covered or, for financial statements, from the date of receipt of the statements.
(iii) Evidence of follow up on audit recommendations.	**NS**	**C**. There is clear evidence of follow up, though it may be relatively weak and is at present delayed.

Assessment 2010

Dimension (i): The C&AG has a mandate under the Constitution to audit the accounts of Government agencies, public bodies and publicly owned companies, a total of 22,000 auditable units, and to report to Parliament. The C&AG is appointed by the President and holds office for five years, or up to the age of 65 years if earlier. The C&AG is free to choose what to audit, when to audit and how to audit.

[40] Government of Bangladesh and World Bank (2007)- Bangladesh Public Sector Accounting and Auditing: A Comparison to International Standards.

The C&AG office has ten directorates with each having responsibilities for conducting audit activities in various government offices and other areas of the public sector.[41] However, C&AG is constrained by lack of staff capacity and management flexibility. Out of 5,000 approved posts, about 1,000 are not filled. The C&AG can move his staff laterally, but recruitment and promotions are processed, if at all, by the Ministry of Establishments with only informal inputs from OCAG.

Financially, the C&AG is more independent though as a department of the Ministry of Finance his independence is still constrained. The budget of the OCAG has not so far been subject to an expenditure ceiling and the initial audit estimate is rarely cut, but this may not continue when the OCAG is brought within the MTBF. A Supplementary Budget is not usually needed.

The annual audit plan covers all large units and a proportion of the smaller units. The smallest units are audited over a cycle of three to five years. The OCAG estimates that the audits for 2006-07 covered 8,000 auditable units or 70-80 percent of total expenditure. In 2009, the OCAG completed 14 regularity audit reports for groups of agencies, four special reports and an annual agency report. Two performance audits were in progress. Audit standards are set out in an Audit Manual based on INTOSAI and ASOSAI standards. However, auditors and accountants are part of the same cadre, and there are conflict-of-interest situations where auditors audit their own work or work of former colleagues.[42] Regularity audits do not focus on systems, and recommendations are made on individual transactions rather than the strengthening of systems. Issue-based and performance audits, and audits of foreign-assisted projects, include appraisal of controls. This dimension scores a C based on the evidence.

Dimension (ii): The process is lengthy, as audit does not usually start until three months into the following year (except for 'interim' or 'preventive' audits), then the field audit takes three months and the auditee is given a total of 90 days to respond to audit observations. Observations involving serious financial irregularities are developed into report paragraphs after taking into consideration the replies from the concerned auditees. Audit reports are finalised within the OCAG Directorates, approved by the C&AG, printed, and submitted via the Office of the Prime Minister to the President who has them laid before Parliament, usually within a week of receipt. The latest audit report to Parliament is for 2006-07, sent on July 7th 2010, and submitted to Parliament on December 7, 2010 to be considered by the PAC. The audit reports for 2007-08 are complete and mostly printed, and were expected to go to the President in December 2010, and the target is to submit the 2008-09 reports by March 2011. In view of the delay in submission of audit reports to Parliament the dimension scores a D.

Dimension (iii): Follow up on audit recommendations is generally weak. There is no established mechanism or system to follow up on audit recommendations. Although the rule requires a formal response to be submitted by the audited entity within 45 days from the receipt of the audit report, this is not strictly followed. As a result issues raised by the OCAG are repeated in subsequent reports with little evidence of progress. According to OCAG, 30-40 percent of audit observations (serious financial irregularities) is responded to satisfactorily, and is therefore excluded from the final audit report. According to the 2009 annual report of OCAG, on average 22 percent of recommendations are implemented, such as recovery of public money. The total amount recovered or adjusted in the accounts in 2009 was Taka 57.1 billion (about 3 percent of total public expenditure). In view of the evidence showing relatively weak audit follow up the dimension scores a C.

[41] For example the MOPME is audited by the following Directorates - Local and Revenue, Works, Civil, Foreign Aided Projects.

[42] Despite an administrative order in 1983 to separate the Accounts and Audit cadre, this has been successfully resisted by the auditors, who fear loss of travel opportunities and career prospects if they are transferred into accounts posts. An attractive audit cadre scheme of service has not yet been developed.

Comparison 2006 – 2010/ ongoing reforms

This indicator was rated D+ in 2006, but without sufficient detail or breakdown by dimension to make valid comparisons. OCAG is receiving technical assistance from CIDA through a project 'Strengthening Comptrollership and Oversight of Public Expenditures' (SCOPE), a five-year project launched in February 2009. This has components for organizational strengthening, human resource development, and strengthening alliances (with the media, Parliamentary Committees, civil society organizations, academia, and so on). A SPEMP technical assistance for OCAG is being negotiated with World Bank to provide technical assistance from a multi-donor trust fund. This includes assistance with drafting a new Audit Act.

PI-27: Legislative scrutiny of the annual budget law

PI-27 Dimensions	2006	2010 Assessment
Method M1	**D**	**D+**
(i) Scope of the legislature's scrutiny.	**NS**	**C.** The legislative review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalised.
(ii) Extent to which the legislature's procedure are well established and respected.	**NS**	**B.** Simple procedures exist for the legislature's budget review (Parliament Rules 111-129) and are respected.
(iii) Adequacy of time for the legislature to provide a response to budget proposals and, where applicable, on macro-fiscal aggregates earlier in the budget preparation cycle.	**NS**	**D**. The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month).
(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	**NS**	**C**. Rules regarding in-year budget amendments exist but are not followed in many instances.

Assessment 2010

Dimension (i): The Estimates are reviewed by the whole House following the Budget Speech by the Minister of Finance. For the year 2010/11, this was given on June 10, 2010. Parliament Rules of Procedure do not allow any motion to increase an Estimate or any re-direction to another purpose. Cut motions are allowed and provide an opportunity for Members to voice their concerns, but these are normally defeated by the ruling party's majority. The 2010/11 budget was passed on June 30, 2010.
The Committee on Estimates is established under Parliament Rules of Procedure 235-237. It examines such of the Estimates as it thinks fit or is specifically referred to it by the House. The functions of the Committee are: (a) to report what economies, improvements in organization, efficiency or administrative reform, consistent with the policy underlying the estimates, may be effected; (b) to suggest alternative policies in order to bring about efficiency and economy in administration; (c) to examine whether the money is well laid out within the limits of the policy implied in the estimates; and (d) to suggest the form in which the estimates shall be presented to the House. It can cover any body spending public funds, and there is no clear demarcation between the work of the Committee on Estimates and the Public Undertakings Committee.

In reality, the Estimates Committee does not review the annual budget documents. It examines selected issues (a recent example is river dredging) and makes recommendations on ways of improving the efficiency of public expenditures. Meetings are private. Reports are made to the responsible ministries and to the Speaker, and may be shared with the media. They are not in practice discussed in the House. In view of the limited legislative scrutiny of the annual budget the dimension scores a C.

Dimension (ii): The budget review procedure is laid down in the Parliament Rules 111-129, which are respected by Members and by the executive. Budget proposals are formulated after consultation within government ministries', head of parliamentary standing committees and with a wide range of stakeholders. The budget proposal is placed in the house at the beginning of June every year. Subsequently, three weeks of deliberations/debates follow in line with the Rules of Procedures. Finally, the budget is approved by parliament at the beginning of July. Parliamentary rules only allow for a general discussion of the Budget. Though an estimates committee exists to scrutinize select issues as referred to it by Parliament to improve efficiency of public expenditure, the committee is not very effective. Negotiations are not provided for but motions may be moved to reduce the Demand for Grant through a Cut Motion on items other than charged expenditure. No spending takes place in the New Financial Year until the budget is approved. Therefore this dimension scores a B.

Dimension (iii): The legislature has about three weeks (for FY 2010-11 from June 10-30, 2010) to conclude its review. This is insufficient for a meaningful debate. There are 35 Standing Committees on Ministries, but the Estimates are not referred to them, in accordance with Parliament Rules of Procedure 126 and 127. Therefore this dimension scores a D.

Dimension (iv): The rules on budget amendments are laid down by the Constitution, GFR and PM&BM Act 2010. These do not allow overspending of any grant (appropriation to a ministry or division). Article 90 of the Constitution states that no money should be withdrawn from the Consolidated Fund except under appropriation. In practice, grants are sometimes overspent and then regularized by a Supplementary Appropriation at the end of the year. Article 91 states that the President has the power to authorise expenditure from the consolidated fund in excess of the grant or on a new service that was not included in the Annual Financial Statement for the year. But the President shall cause to lay before the house a supplementary financial statement setting out the estimated amount of expenditure or setting out an excess financial statement setting out the amount of the excess. Therefore this dimension scores a C.

Comparison 2006 – 2010/ ongoing reforms

This indicator was given a D score in 2006 on an overall basis, mainly due to the lack of time for a meaningful debate. No change in performance is seen in this aspect. But this assessment scores all dimensions and finds Bangladesh has simple procedures for budget review that are respected. SPEMP activity for strengthening parliamentary oversight was launched on November 2, 2010. This is a four-year project to support a unified secretariat for the Public Accounts, Public Undertakings and Public Expenditure Committees to strengthen parliamentary review capacity and bring reviews up to date, and for improved public relations.

PI-28: Legislative scrutiny of external audit reports

PI-28 Dimensions	2006	2010 Assessment
Method M1	**C**	**D+**
(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	**NS**	**D**. PAC has not made a report to Parliament in the last three years.
(ii) Extent of hearings on key findings undertaken by legislature.	**NS**	**A.** In depth hearings on key findings are held with responsible officers from all or most audited entities on which the CAG has made observations. In-depth hearings have been conducted, in camera as required by current Rules of Procedure, with the relevant Principal Accounting Officers on all key findings from all audited entities. This level of scrutiny has been applied since the current Chair took over the Committee.

(iii) Issuance of recommended actions by legislature and implementation by the executive.	**NS**	**D.** There is no direct evidence with respect to recommendations made by PAC to the Parliament. However, according to OCAG and PAC actions are recommended to the executive, some of which are implemented according to existing evidence.

Assessment 2010

Dimension (i): More recently, audit reports of 2005-2006 were presented by the C&AG in 2009 and reviewed by the PAC in 2010. The most recent reports of the C&AG presented to Parliament and reviewed are in respect of the 2005/06 fiscal year. The PAC's conclusions and recommendations are contained in a report that has been endorsed by the Chair and at the time of the assessment awaited tabling in Parliament. Unlike with previous reports of the PAC, however, it is anticipated that the First Report of the PAC to the 9th Parliament will immediately be published on a new PAC website and publicized through media releases and briefings.[43] During the period October 2006 until the 9th Parliament was formed in February 2009, there was no active Parliament or PAC to scrutinize the 40-50 audit reports generally submitted by the OCAG each year. As of January 2009, there were some 490 audit reports that had been received by the parliament but not scrutinized by the PAC, some of which went back as far as 1971, and a further 78 audit reports that had been completed during the period when Parliament was suspended. However, currently, PAC is undertaking additional sessions to reduce backlog. Since PAC has not made a report to Parliament in the last three years the score is a D.

Dimension (ii): Unlike jurisdictions where the PAC selects a sample of audit reports or a sample of audit paragraphs from each audit report to scrutinize in detail, the PAC of the 9th Parliament of Bangladesh has decided to examine every audit report that had not been scrutinized by the PACs of the first eight Parliaments. As noted above, this comprised a backlog of some 490 audit reports dating back to 1971. Four sub-committees were constituted to examine audit reports relating to 1971-1990, 1991-2000, 2001-2005 and 2006 onwards, respectively. As of the date of the assessment, some 97 of the 490 audit reports had been scrutinized, including the most recent audit reports (2005/06) submitted by the Office of the Comptroller and Auditor General. The PAC Chair anticipates that the backlog of audit reports will be eliminated during the term of the current legislature. In-depth hearings have been conducted, in camera as required by current Rules of Procedure, with the relevant Principal Accounting Officers on all key findings from all audited entities. Hearings take place regularly (at least once a month). This level of scrutiny has been applied since the current Chair took over the Committee. The score is an A as the evidence covers activity in the last twelve months.

Dimension (iii): According to OCAG and the current PAC Chair, PAC scrutiny results in actions that are taken by the Executive in respect of audit observations contained in audit reports. In the past, the Executive did not take action on audit observations until the audit reports were endorsed by the PAC—a practice that both OCAG and PAC are trying to change. Record keeping with respect to the extent that PAC/audit recommendations are implemented is unreliable. There is no direct evidence with respect to recommendations made by PAC to the legislature. But as noted above under the assessment for PI-26, OCAG suggests that between 20 and 25 percent of audit observations are implemented, resulting in cash recoveries and the regularization of transactions through ex-post authorizations. The score for this Dimension is therefore a D.

[43] After this assessment was completed the PAC published its first report and a second report is in the process of finalization.

Comparison 2006- 2010/ ongoing reforms

The basis for the 2006 C rating is not evident. However, the 2010 rating is primarily determined because Dimension (i) requires evidence relating to the timeliness of examination of audit reports received by the Parliament within the most recent 3 years, and since there was no PAC during much of that time period, there is necessarily a low rating for this dimension of performance. The current plans to clear the backlog should result in a higher rating of this dimension and the overall indicator rating.

Going forward, in addition to opening PAC hearings to the public, the Parliament hopes through SPEMP for a Parliamentary Oversight Project to professionalize the PAC secretariat such that PAC hearings in future may be more focussed, strategic and effective. In particular, the secretariat may follow up with OCAG and the responsible Pay and Accounts Officer to clear audit queries prior to the PAC hearing, and suggest priority themes or items for which briefing materials may be presented for the consideration of PAC members.

D. Donor practices

D-1: Predictability of Direct Budget Support

D-1 Dimensions	2006	2010 Assessment
Method M1	**B**	**D+**
(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature.	**NS**	**C**. In only one out of the last three years direct budget support outturn fell short by more than 15% (i.e. 2008-09).
(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).	**NS**	**D.** Aid disbursements based on policy support loans depend on government meeting its policy commitments. Quarterly disbursement estimates are not usually provided by donors. The requirements for score C (or higher) are not met.

Dimension (i): Discussion with development partners are typically carried out in April-May to predict likely donor resources for the next financial year beginning in July. Multilateral agencies sometimes provide direct budget support through development support credit to coincide with the budget cycle. Direct budget support is expected to provide the most timely and predictable source of assistance. These are timed to disburse at the beginning of the government's budget cycle and based on the conditions agreed and met by the government in advance. GOB's 'Budget in Brief' documents, however, show considerable variation between amounts budgeted and received under two categories 'Special Support/Credit for Development' and 'Structural Adjustment' that account for budget support. In 2007-08, the budgeted amount under these two heads was Taka 28 bn whereas Taka 73 bn was received according to the revised estimates. In 2008-09, an amount of Taka 37 bn was budgeted against which the receipts were nil. In 2009-10 Taka 38 bn was budgeted. As against this the revised estimates show receipt of Taka 55 bn. A similar order of variation is seen even if we consider just the 'Structural Adjustment' head in two of the three years examined. Only in 2009-10 the budget and revised heads show identical amounts of Taka 3.3 bn. As a consequence a score of C is indicated.

Dimension (ii): The main donors (Asian Development Bank and IDA) provide a projection of resource commitments over a three year period in the Country Partnership Strategy and the Country Assistance Strategy. Aid disbursements based on policy support loans from, for example, the ADB and WB, depend on government meeting its policy commitments. When policy decisions are delayed, fund disbursement is also delayed. But development partners usually do not indicate quarterly disbursement plans. Projects implementation agencies in Government have an implementation plan that provides likely disbursement information. The requirement for score C (or higher) is not met.

Comparison 2006 – 2010

The 2006 score is not comparable with the 2010 score as the methodology used in 2006 did not provide sufficient detail or breakdown by dimension to make valid comparisons. However, this assessment finds significant variation in direct budget support outturn.

D-2: Financial information provided by donors for budgeting and reporting on project and program aid

D-2 Dimensions	2006	2010 Assessment
Method M1	**C**	**B**
(i) Completeness and timeliness of budget estimates by donors for project support.	**NS**	**B.** Development partners responsible for about 80% of the project aid provide projections of their project support through official implementing agencies for the government's fiscal year in a format suitable for GOB requirement.
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	**NS**	**B.** Donors provide information on disbursement of project support on a regular basis. This basis differs from agency to agency and could be monthly or quarterly and reports are provided within one to three weeks of the end of the period. However, DPA is not reported with the same frequency.

Assessment 2010

Dimension (i): The main donors, responsible for about 80% of project aid provide projections of their project support through official implementing agencies for the financial year in a format suitable for GOB's requirement. Project disbursements are also monitored on a quarterly basis by the Finance Division's Economic Relations Division (ERD). However, there is no consistent monitoring of budget against actual direct project aid by Donors and reimbursable project aid spending by chief administrative officers to ensure completeness of reporting of foreign aid. While responsibilities for reporting and information flow are not clear there is clearly a need for setting up improved coordination mechanisms between donors and official agencies for reporting direct project aid. Most projects/programs are overseen by an official steering committee or similar forums. The evidence meets a score of B for this dimension.

Dimension (ii): Donors provide information on disbursement of project support on a regular basis. This basis differs from agency to agency and could be monthly or quarterly and reports are provided within one to three weeks of the end of the period. Some also maintain information online with access to the ERD. This does not apply to direct project aid.

- All World Bank financed project aid is reflected in the annual budget. Investment projects prepare an annual disbursement plan/forecast at the beginning of the project life that is updated on a periodic basis, usually monthly.
- Similarly, ADB financed project aid is reflected in the annual budget. ADB commitment and disbursement are regularly coordinated and communicated to the ERD usually on a monthly basis.
- Official Japanese agencies (Embassy of Japan, JICA and JBIC) coordinate and communicate commitment and disbursement plans and update ERD on a monthly basis.
- DFID provides quarterly reports on spending to ERD/FABA usually within three weeks of the end of the quarter.
- Embassy of Germany, KfW and GTZ maintain coordinated discussions with the Government.
- USAID publishes annual commitments and disbursement schedules for each country through the website.

- Official Danish agencies submit annual reports of commitments and disbursements to ERD. Special reports are also available on request.
- EKN informs ERD regarding its project and program aid on an ad-hoc basis but is trying to do that more regularly (at least on an annual basis).

Mainly because of weaknesses in reporting Direct Project Aid a score of B is indicated.

Comparison 2006 – 2010/ongoing reforms

The 2006 score is not comparable with the 2010 score as the methodology used in 2006 did not provide sufficient detail or breakdown by dimension to make valid comparisons. Compared to 2006 the ERD monitors project disbursement on a quarterly basis. The major donors also provide disbursement information online.

D-3: Proportion of aid that is managed by use of national procedures

D-3 Dimension	2006	2010 Assessment
(i) Overall proportion of aid funds to central government that are managed through national procedures.	**B**	**D.** Less than 50% of external aid to central government are managed completely through the use of national procedures.

Assessment 2010

Except for food aid and budget support that follow national procedures in their entirety (banking, authorization, procurement, accounting, audit, disbursement and reporting), the use of different aspects of national procedures varies in project aid. Aid of this nature comprised 23-50 percent of total external assistance in 2008-09 and 2009-10.[44] DPA, however, uses donor procedures in their entirety. National procedures in project aid are followed while dealing with local procurement up to an estimated value equivalent to less than US$0.3m for goods, US$2m equivalent for works and very small contracts and off-the-shelf shopping. Donor practices are used for international procurement. Some donors (e. g. DFID) employ the assistance of Procurement Support Agencies. While banking, accounting (through iBAS) and reporting use national procedures, accounting is supplemented by the use of project accountants and Chartered Accountants for auditing since statutory auditing by the C&AG lags. Disbursement is made by donors through the use of five special accounts for project funding. The Foreign Aided Project Audit Directorate of the C&AG covers 400 projects that are audited every year but audit lags behind and presently covers project accounts upto 2008-09. However, these are not published yet. In view of the limited use of national procedures in their entirety the dimension scores a D.

Comparison 2006 – 2010/ ongoing reforms

The 2006 scoring was partial covering only the procurement aspect rather than national systems in entirety. Hence the two are not comparable. The Paris and Accra agenda has led Development Partners to acknowledge the need for enhanced use of national procedures and there is inclination on the part of Development Partners' to use GOB systems. However, perceived high level of fiduciary risks, despite some of the extended reform programmes to improve GOB's systems, means progress has been slow. However, some smaller bilateral donors are increasingly considering adoption of national systems. For instance DANIDA now uses GOB's procurement procedures.

[44] This comprises Grants for Food aid and Project aid, Loans for Special Support/Credit for Development and Structural Adjustment.

Government PFM reform process

a. Description of recent and on-going reforms[45]

i. PFM reform and related programs

The volume of government spending in Bangladesh at 15% of GDP as of 2009-10, and its potential for strong developmental impact requires a sound PFM system to ensure high quality of public spending. Recognizing the importance of this issue, the GOB has taken a number of measures to improve the PFM system. The Financial Management Reform Strategy and Medium Term Rolling Action Plan, officially adopted in 2006, laid out the GOB's vision, main objectives and high level reform actions to be undertaken over the next five years.

The importance of a sound PFM system in Bangladesh has also been recognized by a number of development partners, leading to the formation of a five year multi-donor trust fund (MDTF) for PFM reform support. The MDTF-Strengthening Public Expenditure Management Program is a comprehensive program funded by DFID, EU, Netherlands DANIDA and CIDA is a potential future funding partner, and is administered by the World Bank. The SPEMP is built around three key priority areas: (i) budget preparation and execution; (ii) internal and external auditing; and (iii) legislative and public oversight. In addition to these projects, the SPEMP plans to annually provide a series of practical, just-in-time analytical and technical assistance programs to complement the three stand-alone projects.

The PFM reform program seeks to strengthen and build the capacities for improved effectiveness, efficiency and transparency of the public resource management process. The overarching objective of the project is to strengthen institutions and build capacity for budget management and accountability, with a particular focus on the performance of the MTBF, and the establishment of a comprehensive government-wide accounting, reporting and financial management system. Additionally SPEMP focuses on engagement with Parliament, legislative and public oversight, and external auditing with the objective of achieving a much broader constituency for PFM transformation. The project builds on the progress achieved under the Financial Management Reform Program and its predecessor Reforms in Budgeting and Expenditure Control project.

SPEMP seeks to modernize core institutions of budgeting within government with a particular emphasis on introducing performance orientation in PFM. The purposes are to strengthen the strategic focus of budgeting, based on improving the MTBF and to establish comprehensive accounting and treasury management systems. Further, SPEMP seeks to deepen and institutionalize the MTBF and build a more strategic and performance oriented budget management process, while strengthening financial accountability in central and line ministries.

The PFM aspect of SPEMP has ten components that focus on strengthening different aspects of the system across government. These include:

(a) improving strategic budget management in the Finance Division by: (i) strengthening technical capacity for macro-fiscal forecasting, fiscal policy and analysis; (ii) budget processes and system development; (iii) strengthening budget/accounts classification and fiscal reporting, and (iv) build-up of internal audit capacity within the Finance Division.

[45] This section relies heavily on the SPEMP Inception report Deepening MTBF and Strengthening Financial Accountability Project.

(b) Developing capacities for debt policy and management by: (i) improving governance, coordination and monitoring mechanisms among all agencies dealing with debt management; (ii) building capacity for preparation of debt strategy, debt policy formulation, debt recording and analysis in the Treasury and Debt Management Wing of the Finance Division; (iii) building capacity to manage explicit and implicit contingent liabilities, and (iv) strengthening the regulatory framework for public borrowing.

(c) Developing PFM capacities in the line ministries by: (i) rolling out of the MTBF process in all Line Ministries; (ii) institutionalizing the MTBF process[46]; (iii) strengthening of internal audit function in Line Ministries[47]; (iv) strengthening planning cells in line ministries to support resource allocation decision making process; (v) strengthening internal organization of the financial management functions of line ministries, and (vi) integration of procurement planning with budget formulation.

(d) Developing the Planning Commission's capacity to support the MTBF. Among other areas it will strengthen the planning process in the context of the MTBF and support improved program evaluation and monitoring.

(e) Improvement in accounting and financial reporting by: (i) modernizing government accounting and budgeting systems and future IFMIS functionality; (ii) introducing accounting standards and best practices in public expenditure management; (iii) supporting arrangements for IT systems, and (iv) strengthening arrangements for self accounting units such as the Public Works Department or Post Office.

(f) Supporting the design and installation of treasury and cash management systems, either based on existing systems as an interface to iBAS, as an added functionality to iBAS or a future system.

(g) Institutionalization of internal audit.

(h) Reviewing PFM Legislation and Regulations to: (i) strengthen the PM&BM Act to improve the Budget Framework, and (ii) establish a formal regulation under the PM&BM Act based on review and revision of the existing GFR and Treasury Rules.

(i) Setting the foundation for computer based payroll, pension etc. and management information system for controlling and managing public assets.

(j) Training and Human Resource Development by strengthening training in all aspects of PFM.

b. Institutional factors affecting reform planning and implementation

i. Government leadership and ownership

Over the last two decades, Bangladesh's PFM policies and institutions have gone through a process of incremental transformation. Notable achievements include: (i) the consolidation and amendment of the PFM regulatory framework; (ii) the computerization of the budget process and introduction of a new budget classification system; (iii) introduction of the PM&BM Act 2009 to ensure the

46 In August 2005, the Finance Division issued ToRs for Line Ministries' Budget Management Committees, establishing them as the key body within the LMs responsible for preparing the annual MBF (including two forward year projections), overseeing its execution, and monitoring its overall performance in relation to the achievement of its service delivery objectives.

47 A policy paper has recently been produced and is currently being considered and reviewed by senior FD management.

accountability of public resources to Parliament; (iv) introduction of PPA- 2006 and PPR-2008; (v) introduction of e-Procurement on a pilot basis in select agencies, and (vi) the development and piloting of strengthened expenditure management through a MTBF. The Government wishes to complete the rollout of the MTBF to all ministries/divisions and constitutional bodies by 2011-12. The Government has also made a commitment to bring out a 'Unified Budget and District Budget' that seeks to integrate the Development and non-Development Budgets.[48]

The Government has shown its strong commitment to using SPEMP to support its own home-grown PFM reform strategy articulated in 2006. SPEMP is fully owned by the Government reflecting its strong political commitment to the strengthening of public expenditure management process building gradually on the achievements of the past 15 years. MOF has indicated a desire to develop the LMs' capacity in financial management. This would be facilitated by both the continuing roll-out of MTBF to the remaining ministries and the provision of access to, and usage of, financial information by Pay and Accounts Offices and within the LMs.

ii. Coordination across government

A high level strategic oversight committee, the National Coordination Committee (NCC), chaired by the Minister of Finance and including members of major stakeholder Ministries, Planning Commission etc. has been constituted to provide coordination. The NCC provides high level strategic direction and monitoring of results given the transformative nature of the Project and will be responsible for adjusting and amending the strategy and work program as necessary.

Motivating staff outside the FD of the MOF and in the LMs about the importance of the reforms will be a challenge. Reforms will need to be sequenced carefully, in order to build capacity sustainably, and to achieve interim results. At all levels of stakeholders, there will be need for skill upgrading. Inflexible civil service management arrangements and frequent rotation can undermine reform effort.

But also there is a need for new guidelines to strengthen public resource management to make the PFM reform program effective across Government. For instance, the current policies and strategies for the management of resources and assets in the Government lack an overarching policy and strategy document. Also, no ready definition of the different types of assets that must be monitored and managed (e.g. buildings, roads and other fixed assets) is available although these are understood. MOF has overall responsibility for asset management policy and for setting the standards and rules as with other resource systems while asset management is a responsibility of LMs. LMs report to MOF only if an asset is lost or damaged.

iii. Sustainability of the reform process

Reforms across Government can be sustained through proper training and broad-based ownership. The important part is for the stakeholders implementing reform to be convinced of the benefits of change. Sequencing of reforms will be critical and progress in strengthening the budget processes will depend on reforms in other components e.g. the budget classification structure, the accounting processes and changes in the role of the Planning Commission. For example, a completely Unified Budget and a District Budget can only be achieved within a seamless planning and budgeting framework. For this to happen, planning and budgeting procedures will need to be re-considered. Budget classification, chart of accounts and IT systems have to be reformed to support the new practice. Extra-budgetary expenditures should also be reviewed and brought within the budget framework to enable an integrated policy view of Government spending. Changes in the budget and accounts data classification – in particular, expansion to permit additional segmentation – will be needed to support a comprehensive reform and modernisation of PFM. Conversely, any change to the

[48] Historically, the budget was planned separately with the Annual Development Plan driving the Development Budget.

classification structure implies significant changes to financial management processes, including the current automated accounting/budget system, manual forms and internal procedures. Therefore, the two issues are intertwined. Introduction of a new budget classification will be a sizeable task. As Bangladesh has a unitary budget, a new classification system will impact all administrative processes from the national to the regional and district/local levels. Base comprehension and computer literacy could be constraining factors in implementing and rolling out a new classification structure.

There are challenges across the board in implementing this complex reform agenda. The introduction of the MTBF has introduced a more strategic, policy focused and performance-based approach to budgeting in LMs. Some improvements have occurred in terms of the better linkages between strategic policy and priorities with resource allocations, but the performance management aspects associated with the MTBF remains an area that requires considerable improvement.

- Preparedness of FD, PC, LMs and the CGA to support this further roll-out with the required level of technical, policy and administrative support.
- Preparedness and senior management support within the new LMs to embrace the MTBF. The absorptive capacity of LMs' staff is also an issue that needs to be considered.
- Another critical institutional reform required to ensure effective MTBF implementation is the establishment of a Budget Management Branch within each LM, as prescribed under the PM&BM Act. This reform will require support from the FD, Ministry of Establishment and the LMs themselves. This Branch is critical to achieving many of the benefits of implementing MTBF.

The fragmented nature of debt management responsibilities limits the capacity of these entities to produce and consolidate accurate debt data in a timely fashion. The current system of cash-flow forecasting and cash balance management is weak. This has resulted in cash balances lying idle in Government accounts, while costly financing is undertaken via overdraft facilities with the Bangladesh Bank or borrowing. A meaningful debt strategy and Act would also underpin effective macro-fiscal planning and management, as well as development of a medium-term fiscal and budget strategy. There is no secondary market at present for debt instruments (e.g. treasury bills). Mechanisms of introducing a secondary market for trading treasury bills and bonds will need to be examined.

The roll-out of MTBF to the remaining LMs, introduction of unified and district budgeting, and decisions on district LM and Upazila functionality are also key to agreeing the operational shape of Government IFMIS requirements. There will subsequently be a choice to make between the re-development of iBAS or alternative solutions. A key long-term issue is the sustainability of the IT based Government financial systems upon which the Government has become increasingly dependent. A key strategic issue is how these systems are managed in a manner that ensures strong integration and interface. Future development should share a common infrastructure, follow similar standards, work in an integrated manner, share support facilities and utilise a cost effective delivery structure.

The Government's vision is for the Planning Commission to become the official think tank of the Government. The associated reforms envisaged for the PC face substantial risks. First, the vision and role for the PC will require buy-in by Government at the highest level. Second, there may be internal resistance within PC to maintain the status quo. Third, staffing requires substantial upgrading of skills. Fourth, implementation requires innovative ways to attract talent and retain quality staff.

It is important to develop a strategic approach to the development of resource management systems. Plans to develop iBAS do not include HR or Payroll. With the current cash accounting system, the introduction of an asset management system has low priority, although it is recognised that in the longer-term such a system will be required (e.g. for accrual accounting). The GFR require LMs to manage and report on their assets; however, no policy, strategy or guidelines exist on how these should be managed, or on the reporting mechanisms to follow. Very little, if any, pressure exists to move away from the current processes.

Training and capacity building will be essential for success. Any training will have to be competency- and skills-based covering both the concept, and the "how to" aspects. A public awareness-raising program will be important to explain the new approaches to budget management and accountability, and to encourage public interest in Government financial management performance.

To be successful a number of other important factors need to be taken into consideration. These will include: (a) the need for sound planning for implementing the reform program; (b) having strategies to target both staff who will benefit from the change and those who are likely to feel disadvantaged; (c) use of regular communication; (d) providing good training programs that will result in immediate benefit in terms of improvement of their skills, and (e) mentoring by staff from another organisation in Government where change has been successful.

Currently training to support PFM staff is limited in scope and not systematic. The Financial Management Academy (FIMA)[49] is the only training institute that offers training courses related to PFM. The main training delivery is now from generic courses provided at FIMA, under the auspices of the C&AG. There is need for a clear model for capacity building and institutional development, and how to maximise the use of scarce resources to underpin sustained improvements in the quality of PFM. The medium-term priority should be to build a structured approach to skills development, capacity building and institutional improvement, that is geared to the needs and sequencing of PFM reforms Government-wide.

[49] Located in Mirpur under the control of C&AG.

Annex 1: Summary Table of Performance Indicators

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
A.	**PFM-OUT-TURNS: Credibility of the budget**		
PI-1	Aggregate expenditure out-turn compared to original approved budget	**B**	In two of the last three financial years (2007-08 and 2009-10) the deviation between actual expenditure and original budget primary expenditure at an aggregate level has been less than 10% respectively. Only in 2008-09 was 10% exceeded.
PI-2	Composition of expenditure out-turn compared to original approved budget	**D+**	(i) Variance in expenditure composition exceeded 15% in atleast two of the last three years (2007-08 and 2009-10). (Score D) (ii) Actual expenditure to the contingency vote was on average nil in the last three years. (Score A) (Aggregate score = D+; Scoring Method M1)
PI-3	Aggregate revenue out-turn compared to original approved budget	**B**	Actual domestic revenue was between 95% in 2009-10, 93% in 2008-09 and 104% in 2007-08.
PI-4	Stock and monitoring of expenditure payment arrears	**Not Scored**	(i) Information on stock of expenditure payment arrears is not available. (Score = Not rated) (ii) There was no central data on the stock of arrears at June 2009 or June 2010. (Score = D) (Aggregate score = Not rated; Scoring Method M1)
B.	**KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency**		
PI-5	Classification of the budget	**B**	Budget formulation and execution is based on administrative, economic and functional classification that can produce consistent documentation according to GFS and COFOG standards.
PI-6	Comprehensiveness of information included in budget documentation	**B**	Budget Documentation for 2010-11 fulfils 6 of 9 information benchmarks. Documentation includes: (i) Macroeconomic assumptions (ii) Fiscal deficit according to GFS standard (iii) Deficit financing (iv) Prior year's budget out-turn (v) Current year's budget in the same format and (vi) Summarised budget data for both revenue and expenditure for previous year, current year (original and revised budget) and the forthcoming fiscal year.
PI-7	Extent of unreported government operations	**B**	(i) The level of unreported extra budgetary expenditure is estimated at 1-5% of total expenditure. (Score B) (ii) Eighty to Ninety percent of all externally funded project expenditure is included in fiscal reports. (Score B) (Aggregate score = B; Scoring Method M1)
PI-8	Transparency of inter-governmental fiscal relations	**D**	(i) The transfer system is fragmented, with a large number of different mechanisms through which resources are channelled to sub-national levels. A smaller share is remitted as block transfers. Block transfers are formula based. Block grants in 2010-11 amounted to Tk. 18.3 billion, which is small (1.4%) as a share of the national budget. Hardly any part of the horizontal allocation of transfers from the national government is determined by a transparent and rules based system. (Score D) (ii) Subnational governments receive reliable estimates of transfers from the national government after their budgets are finalized. Since all subnational governments (ZPs, UZP, UPs, CCs and MCs) are required to finalize their budgets by June 30th for the next fiscal year, they do so on the basis of the estimates available with them for the ongoing year with an adhoc increase that is adjusted later on once the actual level of devolution becomes available. (Score D) (iii) An annual report on local government performance based on 14 indicators forms the basis for annual performance grants to local governments. However, no consolidation of fiscal reports consistent with national government fiscal reporting takes place. (Score D) (Aggregate score = D; Scoring Method M2)
PI-9	Oversight of aggregate fiscal risk	**D+**	(i) Most major AGAs/PEs submit fiscal reports to central government annually, but a consolidated overview is significantly

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
	from other public sector entities.		incomplete. Public enterprises are monitored by the Monitoring Cell of the MOF in a database called SABRE. Autonomous government agencies (AGAs) are mainly sub vented autonomous bodies.(Score = C) (ii) There is no annual monitoring of sub-national government fiscal position. There is no separate consolidation of union council, city council or municipality revenues and expenditures, and overall assessment of their fiscal position including expenditure arrears. (Score = D) (Aggregate score = D+; Scoring Method M1)
PI-10	Public access to key fiscal information	**B**	Three of six elements of information is made available to the public (Annual Budget Documentation, In-Year Budget Execution reports and Contract awards over USD 140,000 approximately).
C.	**BUDGET CYCLE**		
C(i)	**Policy-Based Budgeting**		
PI-11	Orderliness and participation in the annual budget process	**B**	(i) A clear annual budget calendar exists to enable voting of the budget by June 30. Through the elaborate process, there are minor slippages in the compliance of ministries/Divisions to the call circulars. The budget preparation phase extends over 23 to 24 weeks from the issuance of the first Budget Call Circular. The process as it exists officially allows only about four weeks for soliciting final ministerial budget proposals following the second Budget Call Circular thus constraining the score. (Score = B) (ii) The Budget estimates are compiled for National Cabinet approval at a very aggregate level in May or June only after they have been completed in all details by Ministries and Divisions thus constraining the Cabinet's ability to make adjustments.(Score = C) (iii) The National Parliament has approved the Budget on or before June 30th each year in the last three years.(Score = A) (Aggregate score = B; Scoring Method M2)
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	**B**	(i) Forecasts of fiscal aggregates are prepared for at least three years and the forecast for the immediate following year becomes the annual budget ceiling. (Score = A) (ii) Debt sustainability analysis covering both external and domestic debt was undertaken in 2006 and 2009. (Score = B) (iii) In the 2010-11 Budget, 33 ministries/Divisions had prepared MBFs. These cover approximately 68% of budgeted primary expenditure in 2010-11. But budgetary allocations are historical and incremental. Separate strategies for certain key sectors are expected to determine budgetary and medium term budget allocations. However, public expenditure does not always reflect sector policies. (Score = C) (iv) The Budget Call Circular indicates that allocations must be included for projects that are ongoing and projects that are yet to be approved must not be budgeted for. The Budget Call Circular also emphasizes that in the preparation of budget estimates and projection of non-development expenditure an explicit provision be made for repairs and maintenance. In practice, the link between the ADP and the Budget and the MBFs is not systematic. Funding allocations vary annually from the approved cost estimates originally submitted. With few exceptions, recurrent expenditures arising from investment decisions are sought after completion of the projects. However, it is not clear from either the MBFs or the MTBF the extent of actual recurrent expenditure requirements covered by current allocations although it may be presumed that civil service and other human resource requirements are fully provided for. (Score = C) (Aggregate score = B; Scoring Method M2)
C(ii)	**Predictability and Control in Budget Execution**		
PI-13	Transparency of taxpayer obligations and liabilities	**C**	(i) The tax procedures for the three main taxes are not common and operate independently. The legal framework is comprehensive. However, in the case of Income Tax, there are tax provisions granting exemptions and concessions that are outside the main law.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			The VAT Act is not in line with the best practice. Tax administration while being improved suffers from excessive discretion including the power of the National Board of Revenue to grant tax incentives. (Score = D) (ii) Self Assessment has been introduced and taxpayers do have access to information on their tax liabilities. Recent introduction of a web based tax calculator makes tax filing convenient to some sections of taxpayers. NBR website is being improved to make it more up-to-date and user friendly. Tax Fair and major outreach events through various media has been effective in assisting taxpayers in fulfilling their tax liabilities. (Score = B) (iii) The Tax Appeals system is burdened with cases. Taxpayers increasingly use the writ option to directly file cases with the high court and delay their tax liabilities. A dedicated bench for tax cases has been set-up. An Alternative Dispute Mechanism is being set-up to provide a fast remedy for taxpayers. (Score = C) (Aggregate score = C; Scoring Method M2)
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	**C**	(i) The Tax Payer Identification Number (TIN) system has several deficiencies including taxpayers having multiple TINs and TINs with no data of taxpayers. TINs are reported for more than 20 different transactions and third parties have the responsibility to collect information on transactions. However their reporting and use of information by the tax administration is limited due to the deficiencies in the data collection and integration. The VAT structure entails multiple Business ID Numbers for each branch/factory, making the effective sharing and use of data for tax enforcement very difficult. (Score =C) (ii) Recent changes in the laws have introduced penalties for incorrect quoting of TINs. However, no effective enforcement is being made to correct the problem of multiple TINs or incorrect TINs due to deficiencies in the ICT system. (Score = C) (iii) NBR has a risk based audit system for selecting cases for further scrutiny that does not utilize third party information. The proper implementation of third party reporting based on a credible TIN database will go a long way in improving the quality of audits. (Score = C) (Aggregate score = C; Scoring Method M2)
PI-15	Effectiveness in collection of tax payments	**D+**	(i) The arrears stood at 9% of the collections and the debt collection ratio from these arrears was also approximately 9%. However, NBR suggests that the figures for the arrears were not accurate. (Score = D) (ii) Major Taxes are collected either directly by the treasury or at a treasury account at a nationalized bank. Tax collections reach the treasury within three days after they are deposited at the bank (Score = B) (iii) Tax reporting is done monthly and there is some system to reconcile cash balances with collection reports. However complete reconciliation of tax assessments, collections, arrears and transfers to Treasury does not take place annually or is done with more than 3 months' delay. (Score = D) (Aggregate score = D+; Scoring Method M1)
PI-16	Predictability in the availability of funds for commitment of expenditures	**C+**	(i) The cash forecast for the year is updated monthly by re-estimating future cash flows.(Score = A) (ii) Ministries/divisions are provided reliable information on expenditure ceilings quarterly in advance. (Score = B) (iii) Significant in-year budget adjustments are frequent, but undertaken with some transparency. (Score = C) (Aggregate score = C+; Scoring Method M1)
PI-17	Recording and management of cash balances, debt and guarantees	**C+**	(i) Debt data records and reports are incomplete and un-reconciled with respect to some direct project aid given by way of loan, and national savings certificates which constitute about 50 percent of total domestic debt.. (Score = C) (ii) Most cash balances are calculated and consolidated at least weekly, but some extra-budgetary funds remain outside the arrangement. (Score = B) (iii) Central government contracting of loans and guarantees are approved by a single government entity, but are not decided on

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			the basis of clear guidelines, criteria or overall ceilings. (Score = C) (Aggregate score = C+; Scoring Method M2)
PI-18	Effectiveness of payroll controls	**D+**	(i) Integrity of the payroll is significantly undermined by lack of regular reconciliation of personnel records with payroll data. (Score = D) (ii) Up to 3 months' delay occurs in updating changes to the personnel records and payroll, but only for a minority of changes. Retroactive adjustments are made occasionally. (Score = B) (iii) Controls exist but are not adequate to ensure full integrity of data. (Score = C) (iv) No payroll audits have been undertaken within the last three years. (Score = D) (Aggregate Score = D+, Scoring Method M1)
PI-19	Competition, value for money and controls in procurement	**B**	(i) The existing legal and regulatory framework governing procurement in Bangladesh satisfies all the six listed requirements, except for a few recent amendments for small-value works contracts. (Score = B) (ii)Open competition is the default method based on data obtained from several assessment reports on contracts actually implemented by key procuring agencies of the GOB. (Score = B) (iii) Bidding opportunities are published widely in newspapers and web sites while part of contracts awarded is published in publicly accessible web sites.(Score = C) (iv) The procurement complaints system meets three of the five criteria. However, implementation of this system requires significant changes.. (Score = B) (Aggregate Score = B, Scoring Method M2)
PI-20	Effectiveness of internal controls for non-salary expenditure	**D+**	(i) There is no commitment control system to prevent expenditure exceeding budget or cash availability. (Score = D) (ii) Internal control rules and procedures exist but are not properly understood by those directly involved in their application. Some rules and procedures may be excessive but overall controls are deficient. (Score = C) (iii) The core set of rules are not complied with on a routine and widespread basis. (Score = D) (Aggregate Score = D+, Scoring Method M1)
PI-21	Effectiveness of internal audit	**D**	(i) There is no internal audit focused on systems monitoring. (Score = D) (ii) Internal Audit Units do not undertake internal audit and do not issue reports. (Score = D) (iii) There are no internal audit recommendations or management response. (Score = D) (Aggregate Score = D, Scoring Method M1)
C(iii)	**Accounting, Recording and Reporting**		
PI-22	Timeliness and regularity of accounts reconciliation	**B**	(i) Bank reconciliations for all Treasury managed bank accounts take place at least monthly, usually within 4 weeks from the end of the month. (Score = B) (ii) Reconciliation and clearance of suspense accounts and advances takes place at least annually within 2-3 months of the end of the year. Some accounts have un-cleared balances brought forward. (Score = B) (Aggregate Score = B, Scoring Method M2)
PI-23	Availability of information on resources received by service delivery units	**D**	The systems in the education and health ministries do not provide information on resources received by primary schools or primary health clinics. No comprehensive data collection on resources to service delivery units in any major sector have been collected and processed within the last three years.

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
PI-24	Quality and timeliness of in-year budget reports	**C+**	(i) Comparison with the budget is possible and can be generated from the iBAS after the monthly and annual accounts have been closed. Expenditure is captured only at the payment stage. (Score = C) (ii) The compilation process to issue monthly reports does not conform to the official time line of 4 weeks. There is slippage of 4 to 6 weeks in the issuance of monthly reports. (Score = B) (iii) There are some concerns about the accuracy of information, but these do not undermine its basic usefulness. (Score = C) (Aggregate Score = C+ Scoring Method M1)
PI-25	Quality and timeliness of annual financial statements	**D+**	(i) A consolidated financial statement is prepared annually. However information on revenue, expenditure and bank account balances are not always complete and timely but the omissions are not significant. (Score = C) (ii) The date of submission for audit is indeterminate as the CAG does not necessarily accept the statements at the first submission by the CGA. (Score = D) (iii) Statements do not disclose accounting standards. (Score = D) (Aggregate Score =D+ Scoring Method M1)
C(iv)			**External Scrutiny and Audit**
PI-26	Scope, nature and follow-up of external audit	**D+**	(i) Central government entities representing 70-80% of total expenditures are audited annually. Audits predominantly comprise transaction level testing, but reports identify significant issues. Audit standards are disclosed. (Score = C) (ii) Audit reports are submitted to the legislature more than 12 months from the end of the period covered or, for financial statements, from the date of receipt of the statements. (Score = D) (iii) There is clear evidence of follow up, though it may be relatively weak and is at present delayed. (Score = C) (Aggregate Score =D+, Scoring Method M1)
PI-27	Legislative scrutiny of the annual budget law	**D+**	(i) The legislative review covers details of expenditure and revenue, but only at a stage where detailed proposals have been finalised. (Score = C) (ii) Simple procedures exist for the legislature's budget review (Parliament Rules 111-129) and are respected. (Score = B) (iii) The time allowed for the legislature's review is clearly insufficient for a meaningful debate (significantly less than one month). (Score = D) (iv) Rules regarding in-year budget amendments exist but are not followed in many instances.(Score = C) (Aggregate Score =D+, Scoring Method M1)
PI-28	Legislative scrutiny of external audit reports	**D+**	(i) PAC has not made a report to Parliament in the last three years. (Score= D) (ii) In depth hearings on key findings are held with responsible officers from all or most audited entities on which the CAG has made observations. In-depth hearings have been conducted, in camera as required by current Rules of Procedure, with the relevant Principal Accounting Officers on all key findings from all audited entities. This level of scrutiny has been applied since the current Chair took over the Committee.(Score = A) (iii) There is no direct evidence with respect to recommendations made by PAC to the Parliament. However, according to OCAG and PAC actions are recommended to the executive, some of which are implemented according to existing evidence. (Score = D) (Aggregate Score =D+, Scoring Method M1)
D.			**Donor practices**
D-1	Predictability of Direct Budget Support	**D+**	(i) In only one out of the last three years direct budget support outturn fell short by more than 15% (i.e 2008-09) (Score = C) (ii) Quarterly disbursement estimates are not usually provided by donors. (Score = D)

No.	Indicator	Scoring	Brief Explanation and Cardinal Data used
			(Aggregate Score =D+ Scoring Method M1)
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	**B**	(i) Development partners responsible for about 80% of the project aid provide projections of their direct project support through official implementing agencies for the government's fiscal year in a format suitable for GoB requirement. (Score = B) (ii) Donors provide information on disbursement of project support on a regular basis. This basis differs from agency to agency and could be monthly or quarterly and reports are provided within one to three weeks of the end of the period. However, direct project aid is not reported with the same frequency. (Score = B) (Aggregate Score =B, Scoring Method M1)
D-3	Proportion of aid that is managed by use of national procedures	**D**	Less than 50% of external aid to central government is managed completely through the use of national procedures.

Annex 2: Summary table on progress made

Indicator	2006	2010	Explanation of Performance Change
PI-1. Aggregate expenditure out-turns compared to original approved budget	**C**	**B**	In the 2006 assessment actual primary expenditures were more than 10% lower than the budgeted primary expenditure in all the three years examined (FY03-05). In the period examined for this assessment deviation exceeded 10% marginally in only one year (2008-09) explaining the change in the score.
PI-2. Composition of expenditure-outturn compared to original approved budget	**C**	**D+**	There has been deterioration in the score since 2006 primarily in Dimension (i) of the new scoring methodology relating to variance in expenditure composition. Whether it is an aberration is hard to tell. The budget is actively monitored in January–April of each fiscal year. This allows funds to be moved between Ministries and Division to address poor fund utilization by LMs. This may potentially undermine any strategic allocation decisions made at the beginning of the year.
PI-3. Aggregate revenue out-turns compared to original approved budget	**C**	**B**	Actual domestic revenue was between 94% and 112% in two of the three years examined under the new methodology as opposed to being 94% of budgeted domestic revenue when the last exercise was conducted.
PI-4 Stock and monitoring of expenditure payment arrears	**D**	**NS**	Not scored overall because cash based system does not record stock of expenditure payment arrears and any changes in the stock.
PI-5 Classification of the budget	**C**	**B**	Budget formulation and execution is based on administrative, economic and functional classification that can produce consistent documentation according to GFS and COFOG standards using bridging tables. This was rated C in 2006 on the ground that the functional classification was not consistent with COFOG. It is not clear if there was at that time the ability to derive a COFOG classification.
PI-6 Comprehensiveness of information included in the Budget	**C**	**B**	In the current assessment six of the required nine benchmarks were fulfilled. The basis for the 2006 rating is not clear.
PI-7 Extent of unreported government operations	**D**	**B**	This indicator scored a D in 2006 but was not derived from scoring the two dimensions and therefore not comparable. This appears to be based mainly on the omission of reporting of development expenditure from some donor special accounts. This assessment finds 80-90% of all externally funded project expenditure is included in fiscal reports and the level of unreported extra budgetary expenditure constitutes 1-5% of total expenditure.
PI-8 Transparency of inter-government fiscal relations	**D+**	**D**	This indicator was not derived from the three dimensions and therefore cannot be compared with the current score. This assessment finds: (i) Hardly any part of the horizontal allocation of transfers from central government is determined by a transparent and rules based system;(ii) Sub-national governments receive reliable estimates of transfers from the national government after their budgets are finalized; (iii) no consolidation of fiscal reports consistent with central government fiscal reporting takes place
PI-9 Oversight of aggregate fiscal risk from other public sector entities	**C**	**D+**	This indicator was rated C in 2006, based solely on Dimension (i). There is no change in the rating of this dimension in this assessment. The second dimension gets a D as There is no annual monitoring of sub-national government fiscal position.
PI-10 Public access to key fiscal information	**C**	**B**	The score has improved from a C in 2006 to a B. There is improved availability of Budget Documentation and information now. The 2006 assessment reports that public did not have easy access to the set of budget documents submitted to Parliament.
PI-11 Orderliness and participation in the annual	**B**	**B**	Although the scores are similar, this exercise has arrived at the score by assessing the dimensions. Compared to the assessment of

Indicator	2006	2010	Explanation of Performance Change
budgeting process			the last exercise there is a strategic phase that leads the budget preparation exercise. Ongoing reform under SPEMP is trying to strengthen the policy focus and strategic allocation of the budget.
PI-12 Multi-year perspective in fiscal planning, expenditure policy & budgeting	**D+**	**B**	The score has improved from a D+ in 2006 to a B. However, it is difficult to compare with the 2006 score as the dimensions were not scored separately then. The main difference is that the Government then was in the process of introducing an MTBF. The Government plans to complete the roll-out of the MTBF to cover all Ministries/Divisions in 2011-12.
PI-13 Transparency of taxpayer obligations and liabilities	**D+**	**C**	Scoring is determined from scoring all three dimensions and is C as compared to D+ in 2006. It is difficult to compare and suggest which dimensions improved as information is not available for 2006, but improvement of score may be attributed to improved access for tax payers to information on tax liabilities and administrative procedures.
PI-14 Effectiveness of measures for taxpayer registration and tax assessment	**D+**	**C**	The score is rated a C based on scoring the three dimensions unlike the 2006 consolidated rating. The scoring of a C is justified on the evidence from improved administration. The NBR is undertaking a nation-wide TIN re-registration process with the aim to issue secure TIN cards that would then be used for transactions where TIN must be quoted.
PI-15 Effective collection of tax payments	**D+**	**D+**	Breakdown of score by dimension is not available for 2006 to make the exercise comparable. Since arrears and debt collection ratio was not available in 2006 the appropriate score should have been a No Score as opposed to a D+ now.
PI-16 Predictability in the availability of funds for commitment of expenditures	**C**	**C+**	There has been improvement in cash management since the last assessment explaining the change in score even if the dimensions were not score separately in 2006.
PI-17 Recording and management of cash balances, debt and guarantees	**C**	**C+**	This indicator was rated C in 2006 but the dimensions were not scored separately. No change is seen in performance.
PI -18 Effectiveness of payroll controls	**C**	**D+**	This assessment finds weaknesses in maintenance of payroll integrity and personnel records and no payroll audits had been conducted in the last three years.
PI-19 Competition, value-for-money & controls in procurement	**B**	**B**	This dimension is not comparable with the past. The new methodology uses 4 dimensions, instead of three as in the old method and is more comprehensive covering the promotion of transparency and competition by the legal framework and public access to procurement information.
PI-20 Effectiveness of internal controls for non-salary expenditure	**C**	**D+**	This indicator was rated C in 2006 although without scoring the dimensions. The basis of that score is not clear. The situation on internal controls is not seen to have improved. While rules and procedures exist they are not properly applied. No systems exist for expenditure commitment control.
PI-21 Effectiveness of internal audit	**D**	**D**	There is no change in the situation even if the 2006 scoring method is not comparable. Internal audit units do not undertake internal audit and do not issue reports. There are no internal audit recommendations and or management response. There is no internal audit focussed on systems monitoring.
PI-22 Timeliness and regularity of accounts reconciliation	**C**	**B**	Although there is a difference in the basis of scoring, there has been some improvement in the quality and timeliness of reconciliation.
PI-23 Availability of information on resources received by service delivery units	**C**	**D**	The indicator was rated C in 2006 on the ground that, for the revenue budget, there is good information on what resources are received by the service delivery units. Such information no longer appears to be available. In 2006, three tracking studies had been commissioned. The results of those studies have not been tracked, monitored and acted upon. The systems in the education and

Indicator	2006	2010	Explanation of Performance Change
			health ministries do not provide information on resources received by primary schools or primary health clinics.
PI-24 Quality, timeliness of in-year budget reports	**C**	**C+**	This indicator was rated C in 2006, when the CGA had only begun the process of installing software and connecting decentralised accounts offices to the centre. There has been improvement in accounting and reporting systems since then.
PI-25 Quality and timeliness of annual financial statements	**C**	**D+**	The reduced score of D+ in this assessment is mainly due to delay in submission of annual financial statements in the last two years.
PI-26 Scope, nature, follow up of external audit	**D+**	**D+**	This indicator was rated D+ in 2006, but without sufficient detail or breakdown by dimension to make valid comparisons. Scoring limited by dimension that measure timeliness of submission of audit reports to Parliament. Audit reports are submitted to the legislature more than 12 months from the end of the period covered or, for financial statements, from the date of receipt of the statements.
PI-27 Legislative scrutiny of the annual budget law	**D**	**D+**	This indicator was given a D score in 2006, mainly due to the lack of time for a meaningful debate. No change in performance is seen in this aspect. However, the present assessment covers all dimensions and Bangladesh scores well on legislative procedures for budget review.
PI-28 Legislative scrutiny of ext. audit reports	**C**	**D+**	The basis for the 2006 C rating is not evident. However, the 2010 rating is primarily determined because Dimension (i) requires evidence relating to the timeliness of examination of audit reports received by the Parliament within the most recent 3 years, and since there was no PAC during much of that time period, there is necessarily a low rating for this dimension of performance.
D-1 Predictability of Direct Budget Support	**B**	**D+**	The 2006 score is not comparable with the 2010 score as the methodology used in 2006 did not provide sufficient detail or breakdown by dimension to make valid comparisons. However, this assessment finds significant variance in direct budget support outturn.
D-2 Financial Information provided by Donors for budgeting and reporting on aid	**C**	**B**	Although the two scores are not arrived at in the same manner, compared to 2006 the ERD monitors project disbursements on a quarterly basis. The major donors also provide disbursement information online.
D-3 Proportion of aid that is managed by use of national procedures	**B**	**D**	The 2006 scoring was partial covering only the procurement aspect rather than national systems in entirety as this assessment considers. Hence the two are not comparable. This assessment finds that except for food aid and budget support that follow national procedures in their entirety (banking, authorization, procurement, accounting, audit, disbursement and reporting), the use of different aspects of national procedures varies in project aid.

Annex 3: Interviewees and Workshop Attendees

Name	Institution/division	Position
Ministry of Finance		
Dr. Mohammad Tareque	Finance Division	Secretary
Mr. Ranjit Kumar Chakraborty	Finance Division	Additional Secretary
Mr. Muslim Chowdhury	Finance Division	Joint Secretary
Mr. Kazi Shofiqul Azam	Finance Division	Joint Secretary, Budget
Mr. Shubhashish Bose	Finance Division	Joint Secretary
Mr. Iqbal Harun	Finance Division	Deputy Secretary
Ms. Mahmuda Begum	Economic Relations Division (ERD)	Deputy Secretary, Director, Foreign Aid and Budget Accounts (FABA)
Public Bodies (Trading and Beneficial)		
Mr. Gour Chandra Roy	Foreign Aid and Performance Audit Division (FAPAD)	Director General
Mr. Sabbir Ahmed	Office of Controller General of Accounts (CGA)	Deputy Controller General of Accounts
Md. Ruhul Quddus	Office of Controller General of Accounts (CGA)	Deputy Controller General of Accounts
Dr. Chowdhury Saleh Ahmed	Monitoring Cell	Director General
Mr. Roop Ratan Pine	Accounts and Budgeting Department, Bangladesh Bank	Joint Director
Sector Ministries		
Dr. Md. Alfaz Hossain	Ministry of Health and Family Welfare	Deputy Secretary
Mr. Madhob Chandra Roy	Ministry of Local Government	Joint Secretary (Admin)
Mr. S. M. Ghulam Farooque	Ministry of Education	Additional Secretary
Audit Office		
Mr. Manindra Chandra Dutta	Office of the Comptroller and Auditor General	Deputy Comptroller & Auditor General
Donors		
Mr. Salahuddin Khan	European Union	Sr. Programme Officer
Mr. Md. Ashrafuzzaman	Embassy of Denmark	Programme Officer
Workshop attendees		
Mr. Ranjit Kumar Chakraborty	Finance Division	Additional Secretary
Mr. Mohammad Muslim Chowdhury	Finance Division	Joint Secretary
Ms. Christianne Roehler	Management Implementation Support Consultancy, Deepening MTBF and Strengthening Financial Accountability	Component Advisor

Name	Institution/division	Position
	Project, Finance Division	
Mr. Kazi Shofiqul Azam	Budget Wing , Finance Division	Joint Secretary
Mr. Shahabuddin Ahmed	Budget Wing, Finance Division	Joint Secretary
Mr. Moinul Islam	Macroeconomic Wing, Finance Division	Joint Secretary
Mr. Manindra Chandra Roy	Director General	FAPAD
Mr. S. M. Rezvi	Parliament	Additional Comptroller and Auditor General
Mr. Md. Zahidul Haque	Finance Division	Deputy Secretary
Mr. Md. Ruhul Quddus, ACMA	Office of Controller General of Accounts	Deputy CGA
Dr. Golam Faruque	Finance Division	Senior Assistant Secretary
Mr. Pratap Ranjan Jena	National Institute of Public Finance and Policy, India	Faculty
Mr. Md. Ashrafuzzaman	Embassy of Denmark	Programme Officer
Ms. Pernille Hougesen	Embassy of Denmark	Counsellor
Mr. Omar Farooq Khan	Senior Development Advisor	Canadian High Commission
Mr. Patrick Lemibux	Canadian International Development Agency (CIDA)	Senior Analyst, Aid effectiveness
Dr. Md. Afzal Hossain	Internal Resources Division (IRD), Ministry of Finance	Deputy Secretary
Mr. Rup Ratan Pine	Accounts and Budgeting Department Bangladesh Bank	Joint Director
Mr. Junghun Cho	The World Bank	Senior Governance Specialist
Mr. Mohan Nagarajan	The World Bank	Senior Economist
Mr. Burhanuddin Ahmed	The World Bank	Senior Financial Management Specialist
Ms. Suraiya Zannath	The World Bank	Senior Financial Management Specialist
Mr. Diepak Elmer	The World Bank	Economist
Ms. Dilshad Dossani	The World Bank	Operations Analyst
Ms. Rubaba Anwar	The World Bank	ETT

Annex 4: List of documents consulted

Title	Author	Date
Annual Budget 2010-11 Documents	Government of the People's Republic of Bangladesh	June 2010
Bangladesh: Public Expenditure and Institutional Review -Towards a Better Quality of Public Expenditure	World Bank	June 2010
Deepening MTBF and Strengthening Financial Accountability Project, Inception Report	PDP Australia Pty Ltd.	September 2010
Medium Term Budget Framework 2010-11 to 2012-13	Government of the People's Republic of Bangladesh	June 2010
Public Expenditure Manual	Government of the Peoples Republic of Bangladesh	
Public Sector Accounting and Auditing: A Comparison to International Standards	Government of Bangladesh and World Bank	2007
' Strengthening Public Expenditure Management Program' Program Document	World Bank	October 28, 2008
Towards revamping Power and Energy Sector: A road Map	Government of the People's Republic of Bangladesh	June 2010
Unified Budget and District Budget: A Concept paper	Government of the People's Republic of Bangladesh	

Annex 5: Budget vs. Actual Comparison

Data for Year 2007-08 (Old Methodology)					
Ministry/Department	**Original Budget**	**Actual Expenditure**	**Difference (Bud & Act)**	**Absolute Deviation**	**Percent Deviation**
Education	6188	5752	-436	436	7.0%
Local Government Division	5034	3944	-1090	1090	21.7%
Defence	5470	6705	1235	1235	22.6%
Primary and Mass Education	4544	3847	-697	697	15.3%
Health and Family Welfare	3977	3376	-601	601	15.1%
Agriculture	4204	5967	1763	1763	41.9%
Home Affairs	4401	4413	12	12	0.3%
Roads and Railways	4858	3657	-1201	1201	24.7%
Food and Disaster Management	2091	1658	-433	433	20.7%
Power	1846	1128	-718	718	38.9%
Water Resources	1166	1197	31	31	2.7%
Social Welfare	801	777	-24	24	3.0%
Housing and Public Works	731	775	44	44	6.0%
Women and Children Welfare	778	848	70	70	9.0%
Energy and Mineral Resource	263	194	-69	69	26.2%
Environment and Forest	212	198	-14	14	6.6%
Establishment	677	661	-16	16	2.4%
Fisheries and Animal Resources	481	439	-42	42	8.7%
Post and Telecommunication	1094	1095	1	1	0.1%
Foreign Affairs	249	296	47	47	18.9%
21 (= sum of rest)	17487	22056	4569	4569	26.1%
Total Expenditure Deviation	66552	68983	2431	2431	3.7%
Composition Variance	66552	68983		13113	19.7%

Data for Year 2007-08 (New Methodology)					
Ministry/Department	**Adjusted Budget**	**Actual Expenditure**	**Difference (Bud & Act)**	**Absolute Deviation**	**Percent Deviation**
Education	6414.0	5752	-662.0	662.0	10.3%
Local Government Division	5217.9	3944	-1273.9	1273.9	24.4%
Defence	5669.8	6705	1035.2	1035.2	18.3%
Primary and Mass Education	4710.0	3847	-863.0	863.0	18.3%
Health and Family Welfare	4122.3	3376	-746.3	746.3	18.1%
Agriculture	4357.6	5967	1609.4	1609.4	36.9%
Home Affairs	4561.8	4413	-148.8	148.8	3.3%
Roads and Railways	5035.5	3657	-1378.5	1378.5	27.4%
Food and Disaster Management	2167.4	1658	-509.4	509.4	23.5%
Power	1913.4	1128	-785.4	785.4	41.0%
Water Resources	1208.6	1197	-11.6	11.6	1.0%
Social Welfare	830.3	777	-53.3	53.3	6.4%
Housing and Public works	757.7	775	17.3	17.3	2.3%
Women and Children Welfare	806.4	848	41.6	41.6	5.2%
Energy and Mineral Resource	272.6	194	-78.6	78.6	28.8%
Environment and Forest	219.7	198	-21.7	21.7	9.9%
Establishment	701.7	661	-40.7	40.7	5.8%
Fisheries and Animal Resources	498.6	439	-59.6	59.6	11.9%
Post and Telecommunication	1134.0	1095	-39.0	39.0	3.4%
Foreign Affairs	258.1	296	37.9	37.9	14.7%
21 (= sum of rest)	18125.8	22056	3930.2	3930.2	21.7%
Total Expenditure Deviation	68983	68983		13343.3	19.3%

Data for Year 2008-09 (Old Methodology)					
Ministry/Department	**Original Budget**	**Actual Expenditure**	**Difference (Bud & Act)**	**Absolute Deviation**	**Percent Deviation**
Education	6584	6248	-336	336	5.1%
Local Government Division	4213	4141	-72	72	1.7%
Defence	6645	7129	484	484	7.3%
Primary and Mass Education	4547	4335	-212	212	4.7%
Health and Family Welfare	4388	4010	-378	378	8.6%
Agriculture	6276	6822	546	546	8.7%
Home Affairs	5439	5266	-173	173	3.2%
Roads and Railways	4032	3268	-764	764	18.9%
Food and Disaster Management	5645	5460	-185	185	3.3%
Power	1666	1034	-632	632	37.9%
Water Resources	1158	1192	34	34	2.9%
Social Welfare	990	972	-18	18	1.8%
Housing and Public Works	986	1391	405	405	41.1%
Women and Children Welfare	1273	1138	-135	135	10.6%
Energy and Mineral Resource	304	91	-213	213	70.1%
Environment and Forest	215	207	-8	8	3.7%
Establishment	737	705	-32	32	4.3%
Fisheries and Animal Resources	509	473	-36	36	7.1%
Post and Telecommunication	446	470	24	24	5.4%
Foreign Affairs	318	340	22	22	6.9%
21 (= sum of rest)	19026	13063	-5963	5963	31.3%
Total Expenditure Deviation	75397	67755	-7642	7642	10.1%
Composition Variance	75397	67755		10672	14.2%

Data for Year 2008-09 (New Methodology)					
Ministry/Department	**Adjusted Budget**	**Actual Expenditure**	**Difference (Bud & Act)**	**Absolute Deviation**	**Percent Deviation**
Education	5916.7	6248	331.3	331.3	5.6%
Local Government Division	3786.0	4141	355.0	355.0	9.4%
Defence	5971.5	7129	1157.5	1157.5	19.4%
Primary and Mass Education	4086.1	4335	248.9	248.9	6.1%
Health and Family Welfare	3943.2	4010	66.8	66.8	1.7%
Agriculture	5639.9	6822	1182.1	1182.1	21.0%
Home Affairs	4887.7	5266	378.3	378.3	7.7%
Roads and Railways	3623.3	3268	-355.3	355.3	9.8%
Food and Disaster Management	5072.8	5460	387.2	387.2	7.6%
Power	1497.1	1034	-463.1	463.1	30.9%
Water Resources	1040.6	1192	151.4	151.4	14.5%
Social Welfare	889.7	972	82.3	82.3	9.3%
Housing and Public Works	886.1	1391	504.9	504.9	57.0%
Women and Children Welfare	1144.0	1138	-6.0	6.0	0.5%
Energy and Mineral Resources	273.2	91	-182.2	182.2	66.7%
Environment and Forest	193.2	207	13.8	13.8	7.1%
Establishment	662.3	705	42.7	42.7	6.4%
Fisheries and Animal Resources	457.4	473	15.6	15.6	3.4%
Post and Telecommunication	400.8	470	69.2	69.2	17.3%
Foreign Affairs	285.8	340	54.2	54.2	19.0%
21 (= sum of rest)	17097.6	13063	-4034.6	4034.6	23.6%
Total Expenditure Deviation	67755	67755		10082.4	14.9%

Data for Year 2009-10 (Old Methodology)					
Ministry/Department	**Original Budget**	**Actual Expenditure**	**Difference (Bud & Act)**	**Absolute Deviation**	**Percent Deviation**
Education	6926	8316	1390	1390	20.1%
Local Government Division	5382	5538	156	156	2.9%
Defence	7051	9012	1961	1961	27.8%
Primary and Mass Education	5148	5694	546	546	10.6%
Health and Family Welfare	4956	4849	-107	107	2.2%
Agriculture	5643	7147	1504	1504	26.7%
Home Affairs	5794	6089	295	295	5.1%
Roads and Railways	4131	4317	186	186	4.5%
Food and Disaster Management	5791	4113	-1678	1678	29.0%
Power	1330	912	-418	418	31.4%
Water Resources	1127	213	-914	914	81.1%
Social Welfare	1250	1225	-25	25	2.0%
Housing and Public Works	1248	1251	3	3	0.2%
Women and Children Welfare	1179	1097	-82	82	7.0%
Energy and Mineral Resources	443	1008	565	565	127.5%
Environment and Forest	248	782	534	534	215.3%
Establishment	719	710	-9	9	1.3%
Fisheries and Animal Resources	560	524	-36	36	6.4%
Post and Telecommunication	431	467	36	36	8.4%
Foreign Affairs	389	516	127	127	32.6%
21 (= sum of rest)	25420	13496	-11924	11924	46.9%
Total Expenditure Deviation	85166	77276	-7890	7890	9.3%
Composition Variance	85166	77276		22496	26.4%

Data for Year 2009-10 (New Methodology)					
Ministry/Department	**Adjusted Budget**	**Actual Expenditure**	**Difference (Bud & Act)**	**Absolute Deviation**	**Percent Deviation**
Education	6284.4	8316	2031.6	2031.6	32.3%
Local Government Division	4883.4	5538	654.6	654.6	13.4%
Defence	6397.8	9012	2614.2	2614.2	40.9%
Primary and Mass Education	4671.1	5694	1022.9	1022.9	21.9%
Health and Family Welfare	4496.9	4849	352.1	352.1	7.8%
Agriculture	5120.2	7147	2026.8	2026.8	39.6%
Home Affairs	5257.2	6089	831.8	831.8	15.8%
Roads and Railways	3748.3	4317	568.7	568.7	15.2%
Food and Disaster Management	5254.5	4113	-1141.5	1141.5	21.7%
Power	1206.8	912	-294.8	294.8	24.4%
Water Resources	1022.6	213	-809.6	809.6	79.2%
Social Welfare	1134.2	1225	90.8	90.8	8.0%
Housing and Public Works	1132.4	1251	118.6	118.6	10.5%
Women and Children Welfare	1069.8	1097	27.2	27.2	2.5%
Energy and Mineral Resources	402.0	1008	606.0	606.0	150.8%
Environment and Forest	225.0	782	557.0	557.0	247.5%
Establishment	652.4	710	57.6	57.6	8.8%
Fisheries and Animal Resources	508.1	524	15.9	15.9	3.1%
Post and Telecommunication	391.1	467	75.9	75.9	19.4%
Foreign Affairs	353.0	516	163.0	163.0	46.2%
21 (= sum of rest)	23065.0	13496	-9569.0	9569.0	41.5%
Total Expenditure Deviation	77276.0	77276		23629.8	30.6%

Year	For PI-1 Total Expenditure Deviation	Expenditure Composition variance	For PI-2 - Variance in excess of total deviation (PI-I)	For PI-2 - Variance in Expenditure Composition
2007-08	3.7%	19.7%	16%	19.3%
2008-09	10.1%	14.2%	4.1%	14.9%
2009-10	9.3%	26.4%	17.1%	30.6%

Taka Crore	**2007-08**		**2008-09**		**2009-10**	
	Original Budget	Actual Exp	Original Budget	Actual Exp	Original Budget	Actual Exp
(a) Total Budget Allocation	87,137	89,696	99,962	89,326	113,819	101,608
(b) Out of which						
i) Interest Exp	10,785	13,738	12,565	15,363	15,808	14,868
ii) Project Aid	9,800	6,975	12,000	6,208	12,845	9,464
(c) Net (a-b)	**66,552**	**68,983**	**75,397**	**67,755**	**85,166**	**77,276**

Annex 6: Procurement Legal Framework Review

The Government of Bangladesh recognizes procurement reform to be a priority area for governance improvement. It formally initiated nationwide public procurement reforms in 2000 and has sustained those efforts through the last eleven years. The institutional arrangement necessary to devise and implement the regulatory framework was accomplished in April 2002 through the establishment of a Central Procurement Technical Unit (CPTU) as a regular institution of the Government funded under its revenue budget. CPTU was to be responsible for carrying out designated procurement reforms, and would function as a permanent entity of the Government to handle procurement policy matters and to provide guidance on technical matters. Administratively it is a unit within the Implementation Monitoring and Evaluation Division (IMED) of the Ministry of Planning.

CPTU drafted, and the Government promulgated, the Public Procurement Regulations 2003 (PPR-2003; the Regulations) in September 2003, the Procedures for Implementation of PPR-2003 in September 2004, and the Public Procurement Processing and Approval Procedures in October 2004. At the same time CPTU drafted and issued key Standard Bidding Documents and Standard Request for Proposals to standardize all public procurement of goods, works and services in conformity with the regulatory framework. Preparation of the regulations, procedures, bidding documents proceeded through a mechanism of consultation with stakeholders comprising of implementing agencies, contracting communities, consultants associations, NGOs, and professional bodies.

This was followed with the passage in Parliament in July 2006 of the Public Procurement Act 2006 (PPA-2006; the Act), drafted by CPTU and embodying a comprehensive set of international good procurement practices. PPA-2006 became effective from January 31, 2008 after CPTU drafted and the Government promulgated the Public Procurement Rules 2008 (PPR-2008; the Rules).

PPA-2006 (and PPR-2003 before that) was designed to govern all procurement with public funds throughout the country. Prominent features of the Regulations and the Act included provisions for advertising procurement opportunities, publishing contract award results, annual post procurement audit, and independent review panel for addressing bidders' grievances.

Dimension (i):

1. *Procurement legal framework is organized hierarchically and precedence is clearly established.*

PPA-2006 comprises of 73 Sections divided into 9 Chapters. These Sections and Chapters are arranged in a <u>hierarchical</u> manner that <u>comprehensively</u> describes, in a logical and consistent sequence, the legal requirements governing procurement in Bangladesh. That description includes, among other things, the following topics:

- How to prepare and issue procurement related documents.
- How to invite, receive, open and evaluate bids and proposals.
- How to constitute the committees to open and to evaluate bids and proposals.
- Procedures to follow in obtaining approval of key steps in procurement processing.
- General guidelines for procurement processing.
- Principles governing participation in procurement process and competing for procurement opportunities.
- Principles governing complaints and appeals regarding the processing and / or the results of procurement.

- Comprehensive listing of various methods available for procurement of goods, works and services; and principles governing their application in specific types of contracts.
- Laws catering to the specific requirements of national procurement and international procurement.
- Detailed treatment of each procurement processing step: advertisement of procurement opportunity, prequalification of bidders, preparation and submission of bids and proposals, opening and evaluation of bids and proposals, approval of recommended contract award, notification of contract award, negotiation of proposals, signing of contract, completing the procurement process, and procurement arrangements for special needs and circumstances.
- An entire chapter is devoted to professional misconduct – involving fraud, corruption, collusion or coercion – and corresponding administrative and legal measures to deal with and / or discourage such conduct.
- A separate (though short) chapter on adoption of electronic processing system in public procurement.

PPR-2008 comprises of 129 Rules divided into 9 Chapters that amplify upon and explain the Act. Those explanations, supplemented with information in 12 Schedules and numerous illustrative examples, constitute the definitive guidelines on applying the Act in the actual processing of procurement. The Rules follow a hierarchical structure that is similar to that of the Act, and make explicit references to Sections and Sub-sections of the Act as required.

2. *Procurement laws and regulations are freely and easily accessible to the public through appropriate means.*

   Public accessibility of the Act (Section 9 of the Act):The Government shall ensure that this Act and the rules, orders, directives and guidelines issued under this Act – and such other procurement-related papers or documents as may be needed by the general public – are easily made available to them and properly preserved.

3. *The legal framework applies to all procurement undertaken using government funds.*

- This Act extends to the whole of Bangladesh and applicable to the following areas:
  - Procurement of goods, works or services by any procuring entity using public funds.
  - Procurement of goods, works or services by any government, semi-government or any statutory body established under any law.
  - Procurement of goods, works or services using public funds by a company registered under the Companies Act, 1994.

For carrying out the purposes of this Act, the Government (under section 67 of the Act) shall – through a Central Procurement Technical Unit or any other unit established by it relating to procurement monitoring, coordination and management – perform the following responsibilities:

- Provide for monitoring compliance with and implementation of this Act through the authority as designated by the Government;
- Arrange for performance of the necessary functions and responsibilities incidental thereto, through the authority as designated by the Government.
- Perform any other responsibilities as prescribed.

4. *The legal framework makes open competitive procurement the default method of procurement and defines clearly the situations in which other methods can be used and how this is justified.*

Preferred procurement method (Section 31 of the Act): A procuring entity shall use open competitive bidding as the preferred method for procurement of goods, related services, works or physical services provided that the procuring entity:

- Uses the method to determine prequalification, if applicable.
- Provides opportunity to bidders for competition under equal and non-discriminatory terms.
- Invites tenders through advertisement following the provisions of Section 40 of the Act.
- Allows the prescribed minimum time for submission of bids and the required minimum time for supply of goods or completion of works.
- Signs a contract with the lowest evaluated responsive bidder.

Non-discrimination in opportunity to compete (Section 25 of the Act): Unless the Government otherwise decides, a procuring entity shall not exclude a person from participation in public procurement on the basis of colour, nationality or race, or any criterion not related to the qualifications as specified in the procurement-related document or to any decision taken against a person under this Act.

Qualification to compete (Section 26 of the Act)

- In order for a person to participate in procurement, a procuring entity shall specify in the procurement-related document the required minimum qualifying criteria and any other qualifying criteria that in the judgment of the procuring entity the person must meet.

- The criteria mentioned above shall relate to the person's past contract performance, production capacity and financial capability to execute a particular procurement activity.

Explicit and non-restrictive specifications (Section 15 of the Act): To create conditions for fair and open competition among bidders, a procuring entity shall – in preparing technical specifications and descriptions of the goods and related services, or works and physical services to be procured – provide a correct and complete description of their expected performance levels, characteristics and required quality levels ensuring that such descriptions are not restrictive. The procuring entity shall also ensure that goods, works and services are procured accordingly.

To create conditions for fair and open competition among consultants, a procuring entity shall – in preparing the terms of reference of the consultants – provide a correct and complete description of the intellectual and professional services to be procured; but no condition shall be imposed that may restrict competition.

Fairness in evaluation (Section 7 of the Act): Each member of the evaluation committee shall, when signing the evaluation report: (a) individually sign a declaration of impartiality and (b) collectively certify that the bids or proposals have been evaluated following the provisions of this Act and the Rules made there under.

Contract award to be free from pre-condition or compulsion (Section 49 of the Act): Under no circumstances shall negotiations be held with a view to alter the lowest responsive price.

A bid evaluation committee shall not, as a condition for award of contract, instruct a bidder to undertake responsibilities not stipulated in the bidding document or to change its offered price or to otherwise modify any other condition of its bid.

5. *The legal framework provides for an independent, administrative procurement review process for handling procurement complaints by participants prior to contract signature.*

Right to complain (Section 29 of the Act): A Person, who has suffered or is likely to suffer loss or damage due to failure of a procuring entity to fulfil its obligations under this Act, may complain against that procuring entity to the authority as specified in Section 30.

The above lays the foundation for a complaints system that has the potential to be administratively independent from the procuring entity. It also establishes the legal right of bidders to complain about the processing or outcome of any procurement.

Complaints procedure (Section 30 of the Act): A complaint to be lodged under Section 29 shall be submitted to the administrative authority of the relevant procuring entity and any complaint so lodged, shall be considered and disposed of by that authority within the prescribed time limit. In the event that a person is not satisfied with the decision of the administrative authority or that authority fails to give a decision in due time, the aggrieved person may appeal to the review panel through the Government or any authority designated by the Government. For the purpose of reviewing an appeal and give decisions, the Government may constitute one or more review panels consisting of well-reputed specialists in legal, management, and procurement matters and well-reputed specialists having technical knowledge in the procurement of relevant goods, works or intellectual and professional services – provided that no one in the service of the republic shall be included in the review panel.

The review panel is an external authority that is administratively independent of the Government, and its formation follows sound international standards. Review panels have so far functioned well, and though their recommendations are non-binding, the Government has acted in compliance with those recommendations with very few exceptions.

6. The legal framework provides for public access to all of the following procurement information: *government procurement plans, bidding opportunities, contract awards, and data on resolution of procurement complaints.*

Procurement plan preparation and publication (Section 11 of the Act): A procuring entity shall prepare and arrange to publish annual and updated procurement plans, following the directives issued by the Government from time to time, for the information of all concerned.

Competition in procurement (Section 13 of the Act): To ensure competition in procurement on the basis of neutral and objective terms, a procuring entity shall provide to all prospective bidders, applicants or consultants all necessary information required for the preparation of the bid, quotation, application or proposal.

Advertisement of procurement opportunity (Section 40 of the Act)

- A procuring entity shall directly arrange to publish the advertisement in at least one Bangla language and one English-language daily newspaper of wide circulation in the country.

- In the event that more than one edition of the newspaper is published on the date of publication of the advertisement, the same advertisement shall be published in each copy of every such edition.

- In addition (a) a procuring entity shall publish such advertisement on its own website, if any; (b) advertisement for procurement above a prescribed threshold value shall be submitted to the authority, designated by the Government from time to time, for uploading on its website.

- Where procurement opportunities for goods, works or services are made open to international bidders, consultants or applicants, a procuring entity shall also arrange to publish the relevant advertisement in an English language newspaper or publication of wide international circulation, or in a UN publication, or in foreign trade missions of Bangladesh at home or abroad – whichever are deemed appropriate.

Easy access to bidding document (Section 44 of the Act)

- At the same time as the advertisement for the procurement of goods, related services, works or physical services is published, a procuring entity shall arrange for sale of the bidding document at a price fixed by it to all interested bidders.

- The price of a bidding document shall be so fixed that it does not exceed the cost of printing and distributing the document.

- All prequalified applicants shall be invited to purchase the bidding document.

- To explain the purpose and other conditions pertaining to a particular procurement and obtaining information from bidders, a procuring entity may hold a pre-bid meeting at a time, date and place as specified in the bidding document.

Completion of bidding (Section 53 of the Act): A procuring entity shall, following the signing of the contract with the successful bidder, notify in writing all the other bidders that they have been unsuccessful and return their bid security.

Award publication and debriefing (Section 21 of the Act)

- A procuring entity shall publish the notification of award of contract in the prescribed format on its notice board and on its own website, if any, and for contracts above a prescribed threshold shall send a copy of the notification of award of contract to the authority designated by the Government for publication on its website.

- Following the signing of a contract with the successful bidder or consultant, any other bidder or consultant shall have the right to be debriefed by the procuring entity about its own bid or proposal and in the event of such bidder or consultant wishing to know the grounds for non-acceptance of its bid or proposal, the procuring entity shall inform that bidder or consultant about its relative ranking and the deficiencies of its tender or proposal.

Maintaining Records of Procurement (Rule 43 of the Rules)

- Procuring entities shall maintain records and documents regarding their public procurement activities for a minimum period as defined in Schedule II of the Rules.

- The Procurement record shall be maintained from the beginning of procurement planning up to the full completion of contractual obligations.

- Each procurement record shall, as a minimum, contain the following documents and information:

- A brief description of the goods and related services, works and physical services or intellectual and professional services procured and, where applicable, the justification for using a method other than the open competitive method.
- A copy of the published advertisement as well as a copy of the invitation for applications, bids, proposals, quotations or other solicitations.
- A copy of the original cost estimate for the contract.
- The names and addresses of bidders or applicants who submitted bids, proposals or quotations; the name and address of the bidder or consultant to whom the contract was awarded as well as the contract price.
- A copy of any pre-qualification, bid, proposal or other solicitation documents.
- Minutes of bid or proposal opening meeting.
- All communications with bidders or applicants.
- The pre-disclosed criteria for evaluation and its application, and evaluation report and comparative statement of bids or proposals or quotations received.
- The record of approval of the evaluation report and the contract document.
- Information relating to any decision on temporary suspension or annulment of any procurement proceedings after having been initiated.
- Documentation with respect to any appeal or complaint concerning the procurement proceedings.
- Delivery and acceptance reports for goods, completion report and measurement books for works and completion report for services.
- Copies of all amendments made to the contract and extra work or variation orders issued affecting the conditions of the contract relating to the contract price and the delivery or work completion schedule.
- All records of the payment including the bills, invoices for procurement of goods, works and services.

Making available records of procurement proceedings (Rule 44 of the Rules)

- When a specific procurement activity has been completed, either by signing of a contract or termination prior to signing of a contract, the record of that activity shall be made available to any concerned person.

- Notwithstanding anything contained under the foregoing Rule, a procuring entity shall not, unless ordered to do so by a competent court, disclose information if its disclosure:
  - Would be contrary to the laws of Bangladesh.
  - Would impede law enforcement.
  - Would not be in the public interest.
  - Would prejudice the legitimate commercial interest of the parties.
  - Would prevent fair competition.
  - Relates to the examination and evaluation of bids, proposals or quotations and the actual contents of those documents, other than a summary of the evaluation of bids, proposals or quotation received.

Procurement post review (Section 24 of the Act)

- A procuring entity shall, within nine months of the end of each fiscal year, arrange for independent procurement post review of its total procurement activities during the preceding year.

- The authority empowered by the Government in this behalf may undertake procurement post review of the procurement activities carried out by a procuring entity.

- The review shall follow the random sample method.

Dimension (ii)

A. Evidential information

Procurement methods other than open competition in contracts prior-reviewed by Bank consisted mainly of Direct Procurement Method (DPM) for goods and Individual Consultant Selection (ICS), Single Source Selection (SSS) and Community Service Organization Selection (CSOS) for services as defined and described in PPA-2006 and PPR-2008 – or similar methods as defined in Bank's guidelines. The number of contracts using these methods, compared to the total number of contracts prior-reviewed by Bank, in any given year was found to be extremely small. The procuring entity provided adequate justifications in accordance with the provisions of Bank's guidelines or national procurement laws – as applicable – before receiving no-objection from Bank.

Many of the procurements post-reviewed by Bank were carried out using the Request for Quotation Method (RFQ) – as defined and described in PPA-2006 and PPR-2008 for goods and works. Rule 69(3) of the PPR-2008 states that: *a decision to use RFQ method shall be approved in writing by the Head of the Procuring Entity or an officer authorized by him or her unless the RFQ method was scheduled for the said object of procurement in the approved procurement plan*. Observance of this Rule (as well as other relevant provisions) made it necessary that justification for adoption of the method would be recorded for review by the approver. The records examined revealed the existence of such recorded justification.

B. Deviations

There were no deviations observed in restricted-competition procurements that were prior-reviewed by Bank. While justifications appeared on record in case of restricted-competition procurements post-reviewed by Bank, and those were adequate *prima facie*, an analysis of the application of this method indicated that RFQ was used to circumvent or bypass the use of more competitive methods in a small number of cases (representing not more than 10% of such contracts reviewed). Rule 69(4)(a) stipulates that: *procuring entities shall not use the RFQ Method as means to either bypass more competitive methods of bidding or split large potential contracts into smaller ones solely to allow the use of this method*.

Dimension (iii)

A. Procurement plans

Rule 16(9) of the Rules stipulates that: *at the beginning of each financial year, the procuring entity shall arrange to publish the Total Procurement Plan and Updated Annual Procurement Plan for Development Projects and Programs, and Annual Procurement Plan for Revenue Budget approved under Sub-Rule (7) on their notice boards, and where applicable in their websites and in the websites of the concerned department or directorate or organizations, bulletins and reports.*

The websites and bulletin boards of most procuring entities do not carry this mandated information. The CPTU website has a link labelled "Annual Procurement Plan", but opens to blank page. CPTU confirmed that availability of procurement plans on its website will improve with the introduction of electronic government procurement (e-GP) under the Public Procurement Reform Project II. The public availability of this information is practically non-existent.

B. Bidding opportunities

PPA-2006 and PPR-2008 contain explicit and detailed provisions for publication of bidding opportunities – both nationally and internationally. Procuring entities have meticulously complied with those provisions. Advertisements for competitive bidding opportunities appear in the print media and on the CPTU website in the manner prescribed by law; and on the websites of many procuring entities. However the stipulation of Rule 90(2)(h) of the Rules that: all invitations shall also be advertised in the procuring entity's website, if any is yet to be fully complied with.

C. Contract awards

Rule 37(1) of the Rules stipulates that all contract awards valued at: (a) BDT ten million and above for goods and related services and works and physical services and (b) BDT five million and above for intellectual and professional services will be notified in the prescribed format to CPTU for publication on its website. This provision is mostly complied with but not always.

Rule 37(2) of the Rules stipulates that: *notification of award for contracts below the threshold specified shall be published by the procuring entity on its notice board and where applicable on its website. This provision is seldom complied with*. Internet Link to "Contract Award", opens a page to search contract award data for a number of agencies. The search function yields contract award information mandated by the law. CPTU developed a dynamic procurement website to ensure the widest possible exposure to Procurement Plans, actual Procurement Notices of over Tk.1 crore and Contract Awards with ease of use and convenience for the administrators in mind. This also contributed to be the starting point for data acquisition for monitoring.

Neither CPTU nor any of the agency websites was found to be maintaining a complaints database. Discussions with a number of major procuring entities at various times confirmed that none of them maintained a system that would allow progress and history of complaints to be monitored publically.

Determining the percentage of procurement operations by value represented by the agencies that made key procurement information to the public could be carried out through the comparison of aggregate expenditure of those agencies under Economic Codes 6800 to 7099 with the aggregate national expenditure under those codes. This required interviewing key personnel in those agencies and in the Ministry of Finance. A request was sent out to MOF in November 2010 to facilitate such an interview with agencies listed in that request letter as well as with MOF itself. A response is awaited.

Since the bulk of expenditure under Economic Codes 6800 to 7099 traditionally takes place from the Development budget, that information was used as a proxy. It was tested if those identified agencies represented 75% or more of the total Development budget allocation of 2010-11.

It can thus be said that two of the key procurement information – bidding opportunities and contract awards – were available to the public in a reliable manner; contract award information was incomplete because the law mandated publication of such information for contract prices of BDT 10 million and above; and the agencies that made these key information available represented more than 75 percent by value of procurement operations.

Dimension (iv)

PPA-2006 and PPR-2008 (Rules 56 through 60) contain explicit and detailed provisions for independent administrative procurement complaints system. This four tier system has provisions for submitting complaints, representations and appeals in writing to:
(i) the concerned officer of the Procuring Entity (such as, the Project Director, Line Director, Project Manager, Procurement Officer, Officer assigned for Procurement who issued the Tender or Proposal Document;
(ii) if not satisfied with the response to step (i), address the same complaint to the Head of the Procuring Entity;
(iii) if not satisfied with the response to step (ii), send a complaint to the Secretary of the concerned Ministry or Division; and
(iv) if not satisfied with the response to step (iii), pursue the appeal through the Review Panel - an independent panel of experts - appointed by CPTU. A complainant may appeal to a Review Panel only if the complainant has exhausted all options of complaints to the administrative authority, and has to submit a security deposit against the appeal.

The Review Panel after review, unless it dismisses the complaint as being frivolous may take any of the following decisions, as deemed appropriate -
(a) reject the appeal, stating its reasons and suggest that a Procuring Entity continue with procurement proceedings; or
(b) state the Rules (of PPR) or principles that govern the subject matter of the appeal and advise the parties to act accordingly for its disposal; or
(c) recommend remedial measures if the Procuring Entity has taken action contrary to its obligations under PPR; or
(d) suggest annulment in whole or in part of a non-compliant action or decision of a Procuring Entity, other than any action or decision bringing the procurement contract into force; or
(e) suggest the payment of compensation by a Procuring Entity for costs incurred by the complainant, such as, cost of preparation of tender document and expenses associated with legal fees and other expenses incurred in lodging the complaint, including the return of the security deposit if a Procuring Entity is in breach of its obligations under PPR; or
(f) recommend that the procurement proceedings be completed.
Decisions of the Review Panel shall be taken on the basis of majority opinion. The decision of the Review Panel shall be final and all concerned parties will act upon such decision.