



Program Information Document (PID)

ON A PROPOSED CREDIT
IN THE AMOUNT OF 100 US\$M
TO

Peoples Republic of Bangladesh

FOR

Bangladesh Strengthening PFM Program for Enhanced Service Delivery (P167491)



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 11-Jul-2018 | Report No: PIDC162635

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**BASIC INFORMATION****A. Basic Program Data**

Country Bangladesh	Project ID P167491	Parent Project ID (if any)	Program Name Bangladesh Strengthening PFM Program for Enhanced Service Delivery
Region SOUTH ASIA	Estimated Appraisal Date 29-Oct-2018	Estimated Board Date 28-Dec-2018	Does this operation have an IPF component? No
Financing Instrument Program-for-Results Financing	Borrower(s) Peoples Republic of Bangladesh	Implementing Agency Ministry of Finance	Practice Area (Lead) Governance

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Proposed Program Development Objective(s)

The Program Development Objective (PDO) is to improve fiscal forecasting, budget preparation and execution, financial reporting and transparency of the central government.

COST & FINANCING**SUMMARY (USD Millions)**

Government program Cost	300.00
Total Operation Cost	150.00
Total Program Cost	150.00
Total Financing	150.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	100.00
World Bank Lending	100.00
Total Government Contribution	50.00



B. Introduction and Context

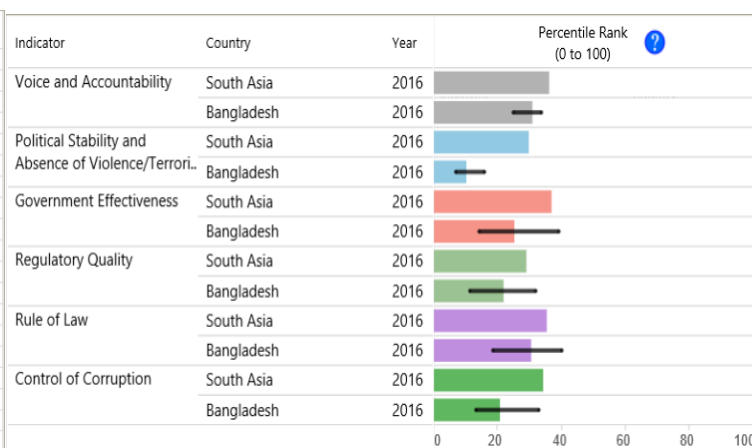
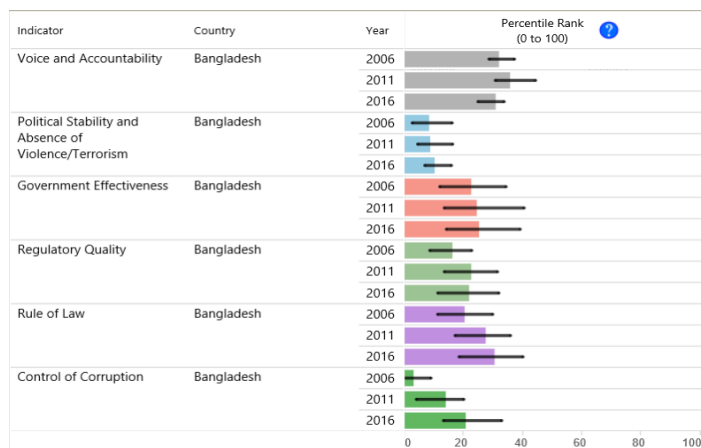
Country Context

1. **Bangladesh is one of the world’s most populous country with an estimated 165 million people in a geographical area of about 144,415 sq.-km and per capita income of US\$1,480 in 2017, well above the lower middle-income country category threshold which it crossed in FY14.** During recent years, economic conditions improved in the country. However, headline inflation increased to 5.8 percent in FY18, from 5.4 percent in FY17, reflecting increases in food prices due to supply shocks. Fiscal deficit was contained at around 4 percent of Gross Domestic Product (GDP) in FY17. The FY18 budget targets 5 percent deficit with 26.2 percent growth in expenditures. The current account balance turned into a deficit equivalent to 0.6 percent of GDP in FY17. The GDP grew well above the average for developing countries in recent years, averaging 6.5 percent since 2010, with an officially projected growth of 7.65 percent in FY18, driven by manufacturing and services. Progress on reducing extreme poverty and boosting shared prosperity through human development and employment generation has continued with the poverty incidence based on the international \$1.90 per capita per day poverty line (measured on the basis of the Purchasing Power Parity exchange rate) declining from 44.2 percent in 1991 to a 13.8 percent in 2016 (latest available poverty data). Bangladesh’s performance against the Millennium Development Goals (MDG) goals was impressive against the South Asia Region average for most of the indicators. Such progress notwithstanding, the pace of poverty reduction and the rate of job creation has slowed since 2010. Bangladesh needs more effort in improving its growth rate to meet its target of moving up the middle-income rankings by 2021 and eliminating poverty by 2030. For accelerating private sector-led growth with improved investment climate, the key challenges are the need for increased infrastructure and power, with much improved quality in spending public resources, better regulations and enhanced skills of its vast and rapidly increasing labor force.

Sectoral (or multi-sectoral) and Institutional Context of the Program

2. **Bangladesh has improved on almost all governance indicators in the past ten years; however, the overall scores are still lower than the regional averages.** The World Governance Indicators show steady improvement on most accounts (see figure 1) that indicates the success of earlier reforms to strengthen public financial management, transparency, anti-corruption, and rule of law. The biggest achievement has been to maintain a tight fiscal management for stable economic growth. A lean public sector (roughly a million public servants including those in State-Owned Enterprises (SOEs) has helped the country to keep the establishment cost below 25 percent of budget, leaving sufficient space for development expenditures. The Right to Information Act (2009) provides the government an opportunity to facilitate greater disclosure of information and become more open and accountable. However, more work is needed both on the supply side to strengthen its ability to effectively implement the Act, as well as on the demand side to raise public awareness. Key public oversight institutions (e.g. judiciary, anticorruption, and election commissions, etc.) also need further strengthening. Finally, domestic resources need significant mobilization to achieve broad development goals.

Figure 1: World Governance Indicators (WGI)



Source: The World Bank – World Governance Indicators

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3. **As a key ingredient of good governance, strong PFM systems are critical to derive maximum benefit from a steady increase in government expenditures over the years.** The Public Expenditure Review 2015 (PER) validated the government’s then prudent fiscal management - low fiscal deficits (3.1% of GDP), improved sustainability of public debt (debt reduced to 34 percent of GDP at the end of FY14), and increased proportion of development expenditures (40%, FY14). At the same time, the PER identifies the key concerns - low tax to GDP ratio (less than 10%), limited budget absorption capacity, decreasing quality of the investment portfolio resulting in implementation delays (80% of projects), cost overruns, low return on investment, and increasing debt service costs. The PER also raises budget allocation issues - rapid asset erosion due to lack of maintenance and repairs¹, limitations in the design and targeting of agriculture subsidies, and low per capita health expenditures.

4. **Bangladesh has long experience of carrying out PFM reforms.** From 1992–2001, United Kingdom (UK) support through the Reforms in Budgeting and Expenditure Control Program achieved more consistent and structured presentation of the budget, streamlining of financial reporting, and better alignment of recurrent and development budgets and reporting. Support continued from the Financial Management Reform Program (2002–2009), jointly financed by UK and the Royal Netherlands Embassy, to achieve the phased introduction of a Medium-Term Expenditure Framework approach to budget preparation, improved financial management legislation, strengthening of agencies involved in debt and liabilities management, and development of a fiscal programming framework, including baseline modeling of macroeconomic scenarios. A wide-area network was connected to 64 District Accounts Offices for data capture on a central server, thus allowing the Office of the Comptroller and Auditor General for the first time to see real-time transaction data of expenditures by ministries and agencies. The Bank-administered Strengthening Public Expenditure Management Program (SPEMP) Multi-donor Trust Fund Project began in 2008 with financial contributions from the Governments of Canada, Denmark, the Netherlands and the UK, as well as the European Union. After close of the SPEMP-A support to the Finance Division (FD) in 2014, the government kept its commitment to the PFM reforms through its own-budget, especially for the development of the integrated financial management information system (iBAS++).

5. **Despite significant PFM improvements, several diagnostic studies continue to report on lack of reliability in the revenue forecast and expenditure budgets, insufficient oversight, fragmented dual budget issues, weaknesses in controls, lack of timeliness for preparation of fiscal reports and audit.** A sound PFM

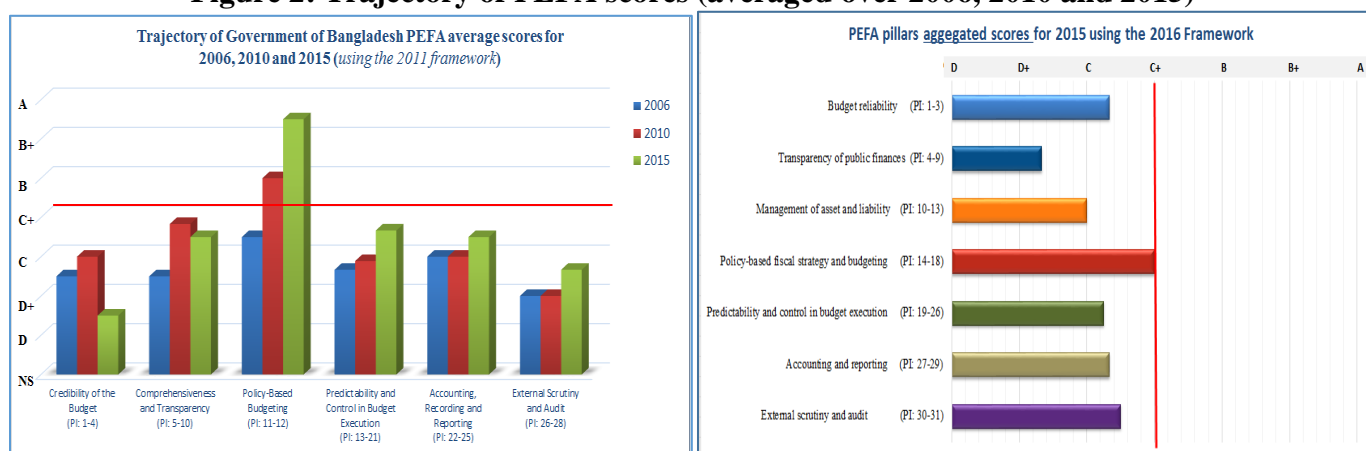
¹ The Global Competitiveness Report 2014-15 ranks Bangladesh’s overall infrastructure at 130 out of 144 countries.



system is considered as fundamental to the 7th Five Year Plan objectives to effectively manage public resources. The Public Expenditure and Financial Accountability Assessment (PEFA) scores for 2015, when compared to 2006 and 2010, show a continued overall improvement in performance, particularly in relation to execution, accounting, and auditing (see Figure 2). Using the 2016 framework, which has tougher benchmarks, the PEFA shows Bangladesh’s overall performance in PFM is below average for six out of seven pillars. Individual performance indicators revealed improvements in seven areas, while 14 remained the same and seven deteriorated. The downgrades highlight a weakening of comprehensiveness, transparency, and budget credibility, reflecting the need to strengthen and modernize institutions for budgetary management and financial accountability. These limitations adversely affect the institutional performance and delivery of services to citizens.

Figure 2: Trajectory of PEFA scores (averaged over 2006, 2010 and 2015)

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6. **More than 250 SOEs play a significant role in Bangladesh economy and the governance of SOEs has considerable effect on fiscal management and service delivery.** As extra-budgetary institutions, SOEs do not benefit from the same level of attention and control as institutions and transactions under the scope of the budget. Financial and governance related data on SOE is fragmented and performance is not monitored effectively. Fiscal risks, debt and contingent liabilities aggregated for all SOEs is unknown. As a result, there is a significant need for fiscal risk monitoring and performance evaluation mechanisms for SOEs through a strengthened SOE Monitoring Cell in the FD. Bank’s recent policy note suggests that there is an opportunity to improve corporate governance of SOEs, including ownership arrangements, financial and fiscal discipline and performance evaluations, building on reforms already initiated by the Government.

7. **The PFM Reform Strategy (2016-21) was approved by the Minister of Finance in August 2016.** The PFM Reform Strategy clearly sets out the key goals and objectives of the PFM reforms and identifies the priority reform actions. The Strategy was developed by a cross-institutional team from the Ministry of Finance, the Office of the Comptroller and Auditor General, the Planning Commission, and the National Board of Revenue, among others and identified the following five goals for PFM reforms:

- Goal 1: Maintain aggregate fiscal discipline compatible with macro-economic stability and pro-poor growth;
- Goal 2: Allocate resources consistent with Government priorities as reflected in National Plan;
- Goal 3: Promote the efficient use of public resources and delivery of services through better budget execution;



- Goal 4: Promote accountability through external scrutiny and transparency of the budget; and
- Goal 5: Enhance the enabling environment for improved PFM outcomes.

8. **A PFM Action Plan (2018-23) [the government PFM program] has been recently elaborated to support effective implementation of the PFM Reform Strategy (2016-21)².** This PFM Action Plan provides the implementation roadmap for some priority actions with clear institutional responsibilities among 13 reform components, cost-benefit analysis of sub-activities, and results indicators to monitor the successful implementation. The PFM Action Plan also elaborates on the governance structure for reforms and the change management approach introduced earlier in the Strategy (component # 14). Elaboration of the PFM Action Plan followed a long consultative process with a broad range of stakeholders.

9. **The PFM Action Plan aspires to solve specific high-level PFM problems.** Successful PFM reforms require both ‘causality’ and ‘discovery’. The PFM Action Matrix provides a high-level causal logic needed for reforms to maintain the focus and direction to achieve the desired results indicators. Nevertheless, the exact pathway or solutions to drive the reform agenda in Bangladesh will build in sufficient flexibility for course-correction. Therefore, the sub-activities described in the PFM Action Plan present the current thinking of the program implementation teams on how they can achieve the desired results. These listed sub-activities will be considered as a guide and will be subject to change as such understanding evolves overtime. For example, the current forecasting model is static and based in excel and hence, limits the robustness and dynamism to provide adequate analysis to support budget credibility. With a view to enhance accuracy of projections and to enable better quantification of fiscal risks, the Macro-Economic Wing of the FD undertook two attempts at developing a dynamic macro forecasting model. In the first instance the model was not suitable for Bangladesh’s context. In the second instance the model’s failure was mostly due to inconsistencies and outdated data. The PFM Action Plan underscores the need for a dynamic forecasting model and use of reliable data derived from various other systems; however, the detailed methodology to achieve this would be flexible and subject to change during the implementation of the Plan. Another example is that the Budget Management Committees (BMCs) are not all institutionalized in accordance with the Terms of Reference (ToR) developed by the FD and have limited capacity for preparation of the Sector Strategy Papers, Annual Performance Agreements, and the Medium-Term Strategy and Business Plans. Accordingly, the result intended in this respect is to improve the performance of the BMCs, but the thinking on how to build their capacity and monitor performance improvements is likely to evolve during the implementation.

10. **The new Strengthening PFM Program for Enhanced Service Delivery (the SPFMES Program) will support implementation of a part of the PFM Action Plan.** The SPFMES includes Action Plan components directly led by the FD – including the macro-fiscal forecasting, debt management, budget preparation and execution, integrated financial management information system (IFMIS), treasury single account (TSA), SOEs monitoring, pensions, internal audit, and financial reporting. The Program boundaries are further clarified later in this document.

Relationship to CAS/CPF

² The PFM Action Plan has already been endorsed by the SPEMP Technical Advisory Meeting and is being sent for the final approval to the Finance Minister.



11. **Promoting good governance and curbing corruption are among the development goals of the Government's Seventh Five-Year Plan (2016-2020).** Relevant priorities under the Bank's Systematic Country Diagnostic and Country Partnership Framework FY16-FY20 include revenue mobilization, planning and budgeting, civil registration and national identification systems, development of regulatory capacity in the public administration, and devolution of public services to local governments. These guiding documents have opened opportunities for reinforcing the Bank's engagement in the relevant governance areas in the country. The Minister for Finance has approved a new PFM strategy 2016-21 based on lessons of the reforms previously undertaken and critical priorities to support delivery of the 7th Five Year Plan. The strategy is being operationalized through a PFM Action Plan 2018-23.

Rationale for Bank Engagement and Choice of Financing Instrument

12. **The current context provides a unique window of opportunity to strengthen Bangladesh's PFM institutions and systems.** The World Bank has a well-recognized comparative advantage among Development Partners (DPs) in improving PFM systems, given its broad international experience. This is also a critical time to intervene in Bangladesh, given the heightened need for prudent use of resources under the current fiscal pressures, the call from development partners for the World Bank to take a leadership role and the greater appetite among authorities for committing to difficult reforms on attaining a low-middle income status.

13. **At the same time, there are several lessons learned from the implementation of past PFM reforms:**

Design of interventions:

- It is important to ensure adequate prioritization, sequencing, and realism of the reform goals and the project design to be better informed by previous projects and known capacity constraints.
- More effective consultation with Government about their priorities and more active questioning of paper commitments would enable this realism of reform goals.
- A clear results framework, and results chain analysis is needed at the design stage that should be regularly reviewed during implementation.
- Greater use of the available trust fund resources to supplement the technical knowledge of the task team, especially to provide more intensive oversight of critical activities.

IFMIS:

- More upfront work is needed to clarify the PFM Information Technology (IT) strategy, system architecture and user requirements, before committing large amounts of funding for an IFMIS development.
- The appropriateness of time-based contracts must be evaluated carefully; in particular, for IT systems development.
- More importance should be attached to upgrades of legacy systems and interim IT solutions.

Implementation:

- The reforms require flexibility to course-correct during implementation that is often not available through the government planning templates and processes.

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- The recent reform experience has shown the advantage of having smaller contracts (instead of large bundle contracts) to enable effective monitoring and flexibility needed for reforms, and now the government has better procurement and management capacity for such contracts.
- Capacity building should target a larger audience to mitigate the risk of high staff rotation.

Financing:

- Alternative instruments, including multiple projects, a programmatic approach, or result-based financing, could be considered.
- Bank-executed technical assistance could be used to procure high-quality technical assistance.

14. **A Program-for-Results (PforR) Operation would make a significant contribution in responding to these lessons learned.** *Firstly*, it would focus attention on results which reflect genuine change to the strengthening and functioning of PFM systems developed in the past, and making the relevant connections to support the service delivery outcomes through better functioning systems. *Secondly*, it would transform the generalized high-level support for PFM reforms into the specific actions with ownership required to achieve these results. The PforR would support a framework for monitoring and reporting that would transform the high-level support for PFM reforms into actionable drive and accountability. The Government can follow its own rules to achieve these results, ensuring that work processes are suitable for the local context. As part of the preparation, technical assessments conducted with client counterparts would help to identify key challenges and opportunities for change that could be addressed through disbursement-linked indicators (DLIs) and steps towards achieving these DLIs would be identified.

15. **The Program will be complemented by a compact but important change management/enabling environment technical assistance to support, anchor, deepen, and sustain the reform processes.** A separate Bank-executed technical assistance (approximately US\$ 8-10 m over the lifetime of the Program) under the SPEMP MDTF will support selected PFM reforms. It will ensure the provision of timely and quality technical assistance and advice as required and include the engagement of expertise to support the government in niche areas (such as Cash Management, Commitment Control, Treasury Single Account (TSA) expertise, budgeting, and medium-term budget frameworks), as well as several discrete studies to help enhance understanding of key public resource management constraints at central or sectoral levels. The technical assistance would help the government identify relevant actions to address challenges faced as they evolve, broker solutions to collective action problems, and help ensure that reform processes are informed and adapted as implementation progresses.

16. **Other instruments such as Investment Project Financing (IPF), Development Policy Operation (DPO), and Technical Assistance & Advisory Services have been considered not to be as good a fit to the current challenges as a PforR for the following reasons:**

- Many PFM and governance challenges go significantly deeper than a need for policy changes and require a multi-year more granular engagement. This makes a DPO a less perfect fit than a PforR.
- The need is not so much for outside technical assistance as for structuring and focusing organizational and leadership attention on key reforms. An IPF would therefore be a less perfect fit than a PforR. As the Government has been implementing the Public Expenditure Management Strengthening Program since 2015 through their own-funds as a recurrent budget scheme, it has built significant capacity of using mainstream

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country systems to undertake PFM reforms and demonstrated a prudent use of public funds. Hence, an IPF with DLIs doesn't seem to be good option to continue the mainstream use of country systems.

- Related to the above, small-scale technical advice alone would not deliver the incentives needed to bring forward reforms. In addition, such support has been provided by the development partners in recent years and would be available to complement the implementation of the Government PFM Program as mentioned above.

C. Program Development Objective(s) (PDO) and PDO Level Results Indicators

Program Development Objective(s)

18. The Program Development Objective (PDO) is to improve fiscal forecasting, budget preparation and execution, financial reporting and transparency of the central government.

PDO Level Results Indicators

- Use of data from an upgraded macroeconomic fiscal model for budget preparation
- Improved performance of Budget Management Committees (BMCs) and Budget Working Groups (BWGs) and timely budget release
- Percentage of budget-holders effectively use financial information for decision-making and transparency
- Percentage of pensioners paid through the EFT no later than the following pension payment cycle after retirement
- Central government annual financial statements, compliant with IPSAS cash basis, submitted to OC&AG within 3 months after the fiscal year end

D. Program Description

PforR Program Boundary

17. **The new Strengthening PFM Program for Enhanced Service Delivery (SPFMES) will support the Finance Division in implementing 8 out of 14 selected components of the Government's PFM Action Plan.** The Government has requested the Bank-support for the PFM Action Plan components directly led by FD – including the macro-fiscal forecasting, debt management, budget preparation and execution, integrated financial management information system (IFMIS), treasury single account (TSA), SOEs monitoring, pensions, internal audit, and financial reporting. Government-own resources haven't been sufficient to maintain the reforms' momentum in these areas after the closure of SPEMP-A in 2014 and also impeded FD's ability to lead the overall PFM reforms in Bangladesh. While the new Program will support FD-implemented components, separate projects and initiatives are already in place for the components implemented by the National Revenue Board, Planning Ministry, and accountability institutions. Hence, the proposed IDA operation will fill a significant gap by co-financing the implementation of 8 out of 14 components of the PFM Action Plan, that will be directly led by the FD.



E. Initial Environmental and Social Screening

18. The Environment and Social Specialists of the team will assess - at Program level - the government’s authority and organizational capacity to achieve environmental and social objectives against the range of environmental and social impacts that maybe associated with the program. In consequence an Environmental and Social Systems Assessment (ESSA) will be prepared that will address the consistency of the proposed program with the Core Principles relevant and applicable to this PforR operation.

19. From a social point of view the issue of “cultural appropriateness of, and equitable access to program benefit...” will be particularly looked at and will focus on accessing rights and interests of Indigenous Peoples and the needs or concerns of vulnerable groups. The ESSA will pay attention to groups that are vulnerable, including as relevant the poor, the disabled, women and children, the elderly, or marginalized ethnic groups. As appropriate, special measures will be proposed to promote and ensure that programs benefitting these groups are appropriately funded and managed.

20. From an environmental point of view, the ESSA will look at the criteria that ensure that public financing is directed to environmentally sustainable endeavors that do not impact negatively human health and biodiversity. During the course of the preparation of the program meaningful consultations with relevant stakeholders including civil society representatives will be held to ensure that their concerns are fully taken in for the purpose of making more effective and efficient the PFM system of the country.

21. A gender analysis will be conducted to identify relevant gaps between women and men, boys and girls, particularly as they relate to the Bank’s broader country engagement framework. This analysis will be used to identify specific actions that can be supported by the program, to be linked with relevant indicators in the results framework. This analysis will also focus on how the operation will contribute to the four pillars of the World Bank Group Gender Strategy 2016-2023 (to narrow gaps between males and females in human endowments, more and better jobs, ownership and control of assets, and voice and agency).

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