

# GOOD PRACTICE CASE STUDY

## BANGLADESH: CAPACITY DEVELOPMENT IN PUBLIC FINANCIAL MANAGEMENT<sup>1</sup>

### BACKGROUND

1. This case study reviews the efforts of Government of Bangladesh (GoB) to develop capacity in and reform public financial management (PFM) as part of an overall public administration reform effort backed by technical assistance (TA) and budget support of development partners. The study summarizes the reform program and the donor approach in support of the now decade-old program<sup>2</sup>. It also outlines the key factors for the successes achieved to date, factors that are applicable to, and replicable in, many public sector transformation programs in the developing countries.

2. Bangladesh has a population of 130 million living in an area of 55,000 square miles. Government is centralized across 49 ministries/divisions, 64 districts, and 460 sub-districts. The public sector dominates the economy. In 1990s, the PFM system was predominantly manual and was maintained by some 10,000 accounting staff. The public sector has been subject to increasing demands for reform, for more than a decade with a strengthened PFM process seen as a key factor in improving accountability.

3. In 1990, Ministry of Finance (MoF) formed a committee on reforms in budgeting and expenditure control (CORBEC), whose recommendations formed the basis for a detailed diagnostic study in 1973 for PFM reform. A four-phase TA projects to reform budgeting and expenditure control (RIBEC) was financed by DFID from 1994-2001. Based on the success of earlier interventions, a financial management reform program of \$40 million is currently under implementation financed by DFID and the Government of Netherlands. In addition, parallel interventions were financed by the United Nations Development Programme (UNDP) to improve the capacity of the Auditor General's Office and Parliament. The World Bank has been supporting modernization of tax administration and the central bank through TA projects. The World Bank and the IMF are also providing budget support, with PFM one of the core areas for reform.<sup>3</sup>

### OBJECTIVES

4. Government policy is to enhance fiscal accountability and transparency and to improve efficiency and effectiveness in the use of public funds by connecting resource allocation to performance and by feeding the results back into policymaking, strategic planning, and budgeting. These objectives are challenged by (a) poor managerial capacity at operational levels arising from weak personnel planning, (b) low standards of budget execution and management

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<sup>1</sup> This case study is prepared by Financial Management Anchor of the World Bank, based on available project documents and publications of the Reforms in Budgeting and Expenditure Control (RIBEC), Financial Management Reform Program, various diagnostic studies done by various donors'. This case study has not been cleared by the World Bank for quotation or disclosure.

<sup>2</sup> Reform program design benefited from comprehensive diagnostic studies conducted by the World Bank and other donors. The United Kingdom's Department for International Development (DFID) is the lead donor; other donors providing complementary support.

<sup>3</sup> Besides, the ADB and IMF is providing TA support for capacity development of the Ministry of Finance in macro economic and fiscal management. Some bilateral donors are providing TA support to some autonomous institutions. However, this study highlighted mainly the experiences of interventions financed by DFID in MoF and line ministries and the Office of the Auditor General. However, some discussion is made in para 10 about the achievements of interventions made by the World Bank and UNDP.

and financial indiscipline occasioned by a lack of fiscal transparency, probity, and accountability in public services, and (c) weak external audit and parliamentary scrutiny.

5. The ongoing PFM and broader public sector reforms in Bangladesh have received strong support from MoF, driven by the need to improve macroeconomic management and budget planning and execution, as well as by its desire to move from detailed scrutiny of ministries' spending activities to an emerging focus on performance and other budgetary reforms. This is intended to lead to an increased delegation of authority to line ministries and a greater focus on public expenditure outcomes and value for money. However, both GoB and the donors' realizes that achieving this cultural shift across the whole of government will be a slow process over a number of years. So far, the MoF has been able to give PFM reforms the drive and leadership they require. As a result, there is clear evidence of a high level of reform activity, including enhanced macroeconomic stability, fiscal sustainability, and medium-term expenditure framework as well as increased capacity of the Finance Division of the Ministry of Finance to provide effective leadership in PFM reforms. The overarching purpose of these reforms is to achieve the pro-poor economic growth outlined in the March 2003 *National Strategy for Economic Growth, Poverty Reduction and Social Development* (more commonly referred to as the Interim Poverty Reduction Strategy Paper).

## APPROACH

6. The design of the program has acknowledged capacity gaps and institutional constraints. Rather than attempt to influence directly broader resource management issues across the public sector, the program has focused on improving financial management tools and techniques. Recognizing that the broader institutional context was not conducive to supporting strategic and structural change in the public sector, the program limited itself to strengthening operational practices. The approach has concentrated, as far as possible, on improving existing procedures and work practices within the established public expenditure management framework. The roles of staff have not been changed other than from the consequences of computerization in selected offices.

7. The program objectives and content reflect a low key, "bottoms-up" rather than "top-down" approach. However, as the program has evolved, and with its successes in improving the quality of financial information and in building skills, there is increasing pressure on the program to become involved in helping to change decision-making processes and the overall financial management framework. The current goal of the program is the efficient management of the economy. The change in emphasis has come about in response to the gradual widening of the project's outputs and purpose into broader areas of financial management than just improvement in the quality of financial data. PFM reform has gradually moved into the next stage: using the enhanced data for decision-making. The piloting of Management Accounting Units in 12 line ministries and the development of controllership functions in the line ministries, through the creation of 53 Chief Accounts Officers, are the main vehicles for this initiative.

## ACHIEVEMENTS

8. Faced with a difficult institutional context, the program has made significant progress in an *evolutionary way*. The turnaround from a failing program in 1996<sup>4</sup> to the highly visible and admired success story is remarkable. The key players recognized that *change management* issues were more important to, and influential on, the potential success of the program than were purely technical solutions. Although the visible successes to date are largely of a technical nature, there are more subtle changes that have occurred with regard to personnel behavior and performance. These changes, though difficult to discern and quantify, are in many ways more important than

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<sup>4</sup> The RIBEC programme started in 1992 with the launching of a diagnostic and design study. A DFID review in 1995 and found significant problem in the designing of the first project and whole project was restructured having highly focused shorted phases ( RIBEC 2A, 2B and RIBEC 2000), which were more realistic.

the upgrading in systems and deliverables. The program applied a team-based approach to implementation allowing GoB staff in the driving role. There are signs that the program is starting to influence decision making and to encourage the adoption of new approaches.

9. The main outcome so far includes simplification and comprehensiveness of budget presentation, designing new budget classification and chart of accounts, updating of rules regulations, manuals and procedures, automation of budget and timely preparation of budget reports, and presentation of audited accounts to the parliament. The program also facilitated creation of 53 Chief Accounts Officers position to head the accounts sections in ministries, divisions and departments to facilitate development of controllership functions. In addition, Management Accounting Units (MAU) were also set-up in 12 large spending ministries/divisions to improve financial management functions. The program developed significant training infrastructure and provided training to about 8000 staff in public financial management. Besides, a significant number of staff were offered higher degree in a tailored program on Government financial management in association with a university in United Kingdom. This human development program is very carefully prepared to meet the specific needs of the reform program. As a result, the program created a large number of highly educated middle and senior level cadre staff having up-to-date knowledge in PFM and modern outlook to demand and lead the change in the ministries and the Auditor General's office.

10. The projects financed by the World Bank and UNDP has also made good progress in modernizing the custom administration, create more capacity in the office of the Auditor General and also in the parliament. The custom department implemented ASYCUDA++ system for modernization of the custom administration and implemented a number of reforms like, establishment of large tax payers unit, simplification of the custom law and reduce the time lag in custom assessment. The central bank is also modernizing its financial management and implementing international accounting and auditing standards for its own accounts and also in the financial sector. With the support of the UNDP, the Auditor General has increased its capacity in performance auditing, submission of short form audit opinions on the audited financial statements and management letters in all aided project accounts. The important achievement in the Parliament is setting-up of an Institute of Parliamentary Studies, which provides training to Parliamentarians and the Parliamentary staff, modernization of the library of the Parliament and creating research capacity in the library to support Parliamentarians.

11. The outputs already delivered are now *sustained* and operated by the users, and there are increasing demands for further reforms in related fields. MoF has increased its confidence to loosen its traditional control and detailed supervision of ministerial spending. In many areas of Government, the traditional methods of work have been discarded and in their place automated systems are being widely used.

**KEY SUCCESS FACTORS AND LEASONS LEARNED**

12. The essential factor of program success is the alignment of an achievable program design with a workable process involving committed and competent individuals. Commitments to quality and excellence, and the focus on process and people, have fostered this emerging success story. The approach is built around three principles: (a) emphasizing a “bottoms-up” rather “top-down” approach, with the focus on strengthening procedures rather than attempting to realign policies; (b) seeking to bring about change through evolution rather than revolution and thus avoid unnecessary confrontation with established norms; and (c) helping to establish a critical mass of informed “clients” demanding change rather than following a supply-driven approach. Tactical elements in the change management program explicitly seek to identify and engage the “champions of change” and to establish a network of “change agents” willing and able to carry forward the reform process. In greater detail, the following factors have contributed to the program's success:

A. **Program design and approach.** The first phase of the RIBEC project faced significant problems in implementation. The project design was over ambitious, inadequate involvement of the GoB staff, benchmarks of project achievements were not well defined. The project had four

components – budget, accounts, computerization and training. Most of the project components could not make significant achievements after one year of implementation. DFID intervened after one year of implementation, significantly changed the consultants team members and changed the course of the project based on mutual understanding of GoB, DFID and the consultants team. As a result, project was redesigned into smaller phases. The outputs and activities were clearly delineated and the measures of success clearly quantifiable. As a result, the participants were able to see and understand the rate of progress and, if slippages occurred, to take the necessary corrective action. The content of the logical framework and regular reporting against the framework have assisted monitoring. Problems are resolved without confrontation and by using the established networks within Government.

**B. *Proactive and flexible donor's role.*** DFID, Bangladesh, has played a key role through engagement and participation on a regular basis, formally and informally, in all planning, organizing, and implementing activities. Its monitoring role and its close engagement with the program have been of benefit both in terms of responding to requests for support and in providing technical input to the program. The regular monitoring visits by DFID's advisers have proved invaluable as an external check and challenge and as a "sounding board" for new ideas. DFID has adopted a flexible and responsive approach to implementation. This style has enabled the program to move into new areas, such as the Management Accounting Units in the ministries, in response to emerging needs expressed by GoB. As a result, DFID has established a preeminent position in assisting in this area of transformation.

**C. *Long-term commitment by donors.*** PFM capacity development takes a long time: a study conducted in Africa by the aid agencies of Sweden and Norway suggests that it takes 15–24 years. The donors operating in Bangladesh have taken a long-term view of capacity development (DFID, the Bank, Canadian International Development Agency, and UNDP have been providing support for more than a decade, and have committed further support for the next half a decade).

**D. *Complementing, not competing, donor aid.*** Donors in many other reform areas in Bangladesh are competing with each other. However, in PFM, the donors are not so much competing rather complementing each other. For example, the World Bank is supporting PFM capacity development in gap areas not funded by other donors'. In addition, the Bank and the Fund are reinforcing the capacity-development efforts of DFID and other donors through appropriate conditionalities in development support credits.

**E. *Demand versus supply.*** The program, as originally designed, evolved from the felt need of Government decision makers. The creation of joint teams involving GoB officials and consultants and specific actions targeted to address the recognized weaknesses were central to the original design. This approach proved successful. The program's prospect for sustainability has been enhanced considerably by the present demand across ministries to be more extensively involved in PFM reform. The marketing of the successes has stimulated considerable interest.

**F. *Advocacy role of the Finance Division of the Ministry of Finance.*** One of the major factors in the program's success has been the support of the Minister of Finance and leadership provided by the Secretary, Finance Division, MoF, and the Comptroller and Auditor General (C&AG). Their role has been vital both in terms of providing visible leadership and in establishing the high profile of the program. In addition, they have guided the direction and on occasion have forced the pace of change, helping to overcome administrative blockages.

**G. *Flexible implementation.*** The modalities of program delivery have been important and have changed over time in the light of experience. The approach has been flexible and thus able to respond to changes in personnel and to the demands of the program for alternative competencies. The program has adopted a project management structure that has provided a facilitatory, rather than control, framework. The structure is built around a steering committee, task forces, and an operational management team comprising PIU representatives and senior members of the consultancy team. Relationships have been developed and confidence established to such an extent that much of the routine business and decision-making is processed outside these structures. In practice, they tend to be used to ratify earlier decisions. This joint

approach has facilitated the transfer of skills and helped to bring about a sense of ownership of the reform program.

H. ***Selecting the right implementation team.*** The effectiveness of the program implementation team has been influenced by three key factors: the team structure; its membership, and its leadership. The team combines serving Government officers, international consultants contracted by DFID, subcontracted national consultants who are serving as Government officials on temporary placement, and retired senior officers. This provides the essential mix of technical skills with knowledge of the working environment and a network of contacts. The leadership of the implementation team has rested with the national and international consultancy managers, who have worked in partnership. The seniority, experience, and skills of the national manager have blended well with the program management and professional consultancy skills of the international manager. They have formed a very effective driving force within the overall team structure.

I. ***Involvement of key stakeholders.*** The program laid out clear-cut strategies of networking and team building covering the program team as well as the beneficiaries. The strategy included raising awareness and creating an expectation of change, publicizing success stories, creating the right teams and broadening the base of support. The public relations and marketing role has been an important element in the success story. Formal and informal, as well as functional and cross-functional, teams are promoted and nurtured by the program to facilitate the exchange of ideas, sharing of experience, and identify common ground for cooperation. The program bring cross-civil service cadre officers together at the Financial Management Academy for training in PFM, which has broadened the interest and involvement in the program beyond those immediately affected by the budgeting and accounting reforms. This new group of supporters is adding to the pool of change agents essential to broaden and deepen the reform efforts.

## CONCLUSION

13. Though the early phases of the reforms and capacity development in PFM looks very promising, Bangladesh has to go a long way to have a sustainable high performing PFM system. As the program is following a evolutionary approach, the overall progress is still slow but sustainable. To make the PFM reform program more effective, there is also a need for broader support from the political level, both in power and opposition, to improve the financial accountability environment through PFM reforms. This is not still evident due to confrontational politics and ineffective Parliament.

14. The Donors may agree with the Government a medium and long-term strategy to improve public financial management and make it part of proposed development support (or Poverty Reduction Strategy Credits/Poverty Reduction Growth Facility) and continue to provide complementary technical assistance for sustainable capacity development in PFM. The donors and the Government should also agree to monitor the progress of capacity development using the benchmarks now being developed jointly by the Public Expenditure Working Group of the World Bank, IMF and PEFA.