

**2006 ASIAN REGIONAL FORUM ON AID EFFECTIVENESS:
IMPLEMENTATION, MONITORING AND EVALUATION**

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**What is required to deliver external assistance
through country systems?**

Public financial management reform in Bangladesh

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The opinions expressed in this case study are the author's alone,
and do not represent the official views of the organisers of
the Asian Regional Forum on Aid Effectiveness

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1. Introduction

1. This case study is one of a series being prepared for presentation at the Asian Regional Forum on Aid Effectiveness: Implementation, Monitoring and Evaluation in Manila in October 2006. It assesses experience to date in implementing the Paris Declaration commitments on systems alignment: namely the efforts by countries and donors to reform and strengthen country systems for public-investment management, and to increase their use for the delivery of external assistance.
2. This country study assesses a series of capacity-building programmes to the Government of Bangladesh's multi-year Public Financial Management Reform initiative: the Reforms in Budgeting and Expenditure Control (RIBEC) project (1996-2002) and its successor Financial Management Reform Programme (2002-2006).
3. The focus of this case study is on process – how change has been initiated and managed, and how PFM reforms interacted with the broader institutional environment in Bangladesh. It also considers how the evolving relationships between donors and Government affected the quality of the assistance. In taking this approach, we are following the advice offered in recent OECD DAC literature on PFM reforms, which notes that our knowledge gaps in this field are not about technical destinations, but about processes of change.¹
4. This case study is based on a review of existing literature and interviews with key donor, Government, consultant and civil society informants during a week-long visit to Bangladesh in July 2006. A draft of the case study has been reviewed by government and donor stakeholders, and every effort has been made to reflect their views in the case study. However, the opinions expressed in this case study are the author's alone, and do not reflect the official views of the organisers or participants at the Manila Forum.
5. This case study will be combined with lessons from procurement reform in the Philippines into a thematic study for presentation at Manila.

2. Context

6. Since independence in 1971, Bangladesh has made considerable strides in reducing poverty and lifting its Human Development Indicators from extremely low levels. During the 1990s, the overall poverty rate declined by 10 percentage points to 50%, despite annual population growth of 2.3%. Bangladesh has a unique history of uninterrupted economic growth since its birth, currently running at around 6%. However, Bangladesh remains a low-income country, with weak social indicators and pockets of extreme poverty. The country is also acutely vulnerable to natural disasters (flood, cyclone and earthquake).
7. Over its 35-year history, Bangladesh has received US\$15 billion in Overseas Development Assistance (ODA), compared to US\$30 billion in commitments.² It ranks 38th of 76 countries under the International Development Association (IDA) Resource

¹ See for example OECD DAC, *Harmonising Donor Practices for Effective Aid Delivery: Vol. 2 Budget Support, Sector Wide Approaches and Capacity Development in Public Financial Management*, 2005,

² US State Department, 2006

Allocation Index.³ The country has been eligible for a Poverty Reduction and Growth Facility (PRGF) from the IMF since 2003, and has benefited in the same period from three policy-linked Development Support Credits (DSC) from the World Bank. Current annual commitments are at US\$1.4 billion.

OECD DAC Guidelines on Procurement Reform

“Effective PFM systems are crucial to countries making progress in reducing poverty. This connection – between PFM systems and poverty reduction – was given added attention with the introduction several years ago of the HIPC debt relief initiative. Most of the Poverty Reduction Strategies (PRSs) that partner countries have developed recognize that sound PFM supports aggregate control, prioritization, accountability and efficiency in the management of public resources and delivery of services, which are critical to the achievement of public policy objectives, including achievement of the Millennium Development Goals (MDGs). In addition, sound public financial management systems are fundamental to the appropriate use and effectiveness of donor assistance since aid is increasingly provided through modalities that rely on well-functioning systems for budget development, execution and control...

In implementing the approach, critical challenges for countries and donors include the following:

- Aligning donor support to country priorities – an issue that requires consideration of how to increase the flexibility of donor interventions.
- Tailoring analytical work to meet country needs – an issue that entails reducing and streamlining analytical work to eliminate duplication and standardization.
- Streamlining the content and coordination of donor conditionalities and support – an issue that requires the establishment of effective structures for donor collaboration, as well as the creation of organizational incentives to promote better integration of technical or advisory assistance.
- Ensuring a credible assessment of PFM performance over time as an information pool for donors to draw upon for their fiduciary assessments.”

OECD/DAC Guidelines on Harmonizing Donor Practices for Effective Aid Delivery, Volume 2, February 2005

8. However, Bangladesh is by no means aid dependent. ODA flows account for only 1.5% of GDP.⁴ High levels of migrant labour and the wealth of the diaspora provide annual remittances of US\$3.6 billion, well in excess of ODA. Net Foreign Direct Investments in 2004 totalled US\$456 billion (72% up on the previous year).⁵

9. Development planning in Bangladesh is governed by the National Strategy for Poverty Reduction (NSPR).⁶ The NSPR is joint managed by the Planning Division, which is responsible for the Development Budget (non-revenue expenditure, including most ODA), and the Ministry of Finance (MoF), which manages the Revenue Budget. These agencies place strong emphasis on the importance of the NPRS as a framework for aligning external assistance.

³ Also known as the Country Policy and Institutional Assessment See <http://web.worldbank.org/WBSITE/EXTERNAL/EXTABOUTUS/IDA/0,,contentMDK:20941028~pagePK:51236175~piPK:437394~theSitePK:73154,00.html>

⁴ Secretary, ERD

⁵ UNCTAD, *World Investment Report*, 2005

⁶ Government of Bangladesh, “Unlocking the Potential – A National Strategy for Accelerated Poverty Reduction”, 2005

10. However, ownership of the NPRS is not uniform across the administration. The NSPR is only just being taken up by many of the line ministries, some of which (in the words of one senior civil servant) still see it as an “academic exercise”. However, with the development of Medium Term Budgeting Frameworks linked to the NSPR (a condition of the last DSC), and the coordinated efforts by Planning Division and the MoF to monitor and implement the NSPR, there is expected to be increasing alignment between the NSPR priorities and those of the line ministries in the coming period.

11. So far, however, the NPRS has been only partially successful as an instrument for coordinating external assistance. Concerned that the systems are not in place to enable effective implementation of the NPRS, donors have focused much of their efforts on building state capacity, through processes that are not always country-led. The IMF and the World Bank both place a lengthy list of conditions on their lending designed to strengthen core functions of the state and manage fiduciary risk.

12. Donors have been concerned about core governance capacity for some time, including the need for comprehensive reform of fiscal and economic management. Analytical processes have all identified considerable deficits. Dialogue on Public Expenditure and Financial Accountability has been ongoing since a Government initiated commission made recommendations for reform in 1990. Recent exercises include a Country Financial Accountability Assessment (CFAA), various Public Expenditure Reviews, a Country Procurement Assessment Review and a Report on Standards and Codes in the financial sector (ROSC). Each of these analytical exercises, whilst catalytic in developing a dialogue with government over specific concerns, has at root been externally driven.

13. Co-ordination around Public Financial Management reform has proved difficult at times. Whilst there is a sub-group of the 26-donor Local Consultative Group, which aims to co-ordinate the PFM efforts, it reportedly meets infrequently. The Ministry of Finance noted in a presentation to the March 2005 Paris Forum on Alignment and Harmonisation that:

- there has often been a lack of common understanding and proper coordination among various Ministries and Government Departments;
- different donors have different development assistance strategies; and
- PFM priorities are not synchronized, and often get lost along the way.⁷

Competition has emerged between the donors, and whilst there is a degree of specialisation, technically incompatible approaches and standards have sometimes been provided to the same government agency (for instance Audit).

14. Observers note that institutional memory is a problem in Bangladesh for both the GoB and donors. This makes capacity building problematic. For GoB officials, there is a lack of continuity of postings and transfers (senior civil servants stay in their posts less than 18 months on average). Donor staff tend to be posted to Bangladesh for three years or less.

15. Recent efforts to increase alignment with Government and harmonise approaches are seen as valuable. The NSPR is providing a clear direction for assistance. The recent

⁷ See www.aidharmonization.org/download/254980/Karim-PFM.ppt.

development of the Joint Country Strategy (ADB, DFID, Japan and World Bank) in Bangladesh has resulted in the beginnings of improved division of labour among the donors, including the acknowledgement of DFID's leadership for this element of Public Financial Management Reform.

3. The financial management reforms

3.1 *Background*

16. On Independence from Pakistan in 1971, the country inherited systems of public financial management that had changed little since Partition in 1947. By the mid 1980s, the GoB was hard pressed to provide any effective data about its finances. Bangladesh also had a poor record in developing financial management skills in either the public or the private sector.

17. An inter-ministerial committee was appointed in 1990 to address the need for improved Public Financial Management. The Committee on Reforms in Budgeting and Expenditure Control (CORBEC) was led by the Ministry of Finance and given responsibility to analyse the problems and prepare recommendations for reform.

18. The 1990 CORBEC report was frank. It noted:

- “the lack of adequate and accurate Financial information on a timely basis resulting mainly from manual processes and unsatisfactory systems and procedures of accounting and bank reconciliation;
- a cumbersome, repetitive and overlapping budgetary system and an inefficient as well as old classification;
- a structure arising from manual processes and centralization of resource allocation responsibilities and procedures surrounding the budgeting and resource allocation functions;
- the lack of updated, comprehensive and easy to use Financial rules and regulations;
- the inadequacy of trained manpower and a training system to meet Financial management needs across the government.”

Given this analysis, CORBEC set out a series of objectives for the Government's reform programme.

19. Once the CORBEC report was published, discussions were held with partners, and both the World Bank and DFID offered support. Government chose to partner with DFID, officially because the UK's assistance would be a grant, not a loan, but reportedly also because there would be fewer conditions attached to the financing.

20. Since then, whilst the World Bank and other partners have provided assistance to GoB for a variety of PFM-related reforms (notably the successful reform of public procurement rules supported by the World Bank that culminated in 2003), DFID has been seen as GoB's “partner of choice” for PFM reform. While the support programme has been evaluated as highly successful, this partnership has at times been stormy as it grappled with the difficult challenges of a large-scale capacity-building programme.

3.2 *Achievements*

21. In the 16 years since CORBEC, a set of core reforms have been put in place, contributing to the achievement of the Government's original vision:

- the computerization of the budgeting system in the Ministry of Finance for data capture, financial and economic analysis, budget forecasting, profiling and modelling;
- updating and consolidation of financial rules and regulations;
- a new government-wide budgeting and accounting classification structure;
- a computerized accounts consolidation system providing for greater accuracy and timeliness in accounting;
- electronic linkage and transfer of budgeting and accounting data between Ministry of Finance and Accounts offices;
- development of a Financial Management Academy (FIMA) to build skills throughout the civil service;
- investment in a cadre of 98 middle-ranking professionals (now beginning to move into senior posts) to provide high level skills through a programme of international post-graduate training and development;
- training of officials in the Ministry of Finance and Accounts offices in information technology so that they can operate the computerized systems;
- extensive training of officials throughout the country on the new classification system;
- the development of advanced budgeting and expenditure management processes through the development of Medium Term Expenditure Frameworks;
- strengthening ministry-level capacities in accounts and budgetary management;
- most recently, the introduction of Medium Term Budget Frameworks.

Estimates vary of the number of civil servants that the programme has directly benefited, but officials note that the totals are in the tens of thousands.

22. These achievements have been fairly dry and technical in nature. However, they have built the foundations for core governance systems, and are preconditions to improved development planning in Bangladesh and greater alignment of external assistance with country systems. Officials, legislators, civil society and donors now have considerably better information on State finances, which in turn enables improvements in policy making, management and external accountability, albeit all starting from a very low base.

4. **The process of change**

23. The reforms in the Budgeting and Expenditure Control (RIBEC) programme began formally in October 1992, two years after the CORBEC report had been completed. RIBEC Phase 1 was a design process, lasting nine months (to July 1993). Like many initiatives, it was substantially led by external consultants.

24. Phase 2 began in January 1995, and was to be delivered in three years. This was to be a comprehensive reform effort across GoB consistent with the CORBEC vision. Interventions were planned to include:

- the sector-wide introduction of new technology;
- new systems of financial management;
- new procedures;
- public-sector wider training on the new technology, systems and procedures; and
- institutional changes to key elements of the PFM structure.

4.1 RIBEC 1996-2000

25. The initial implementation phase, RIBEC 2, was a big project. More than 8 international and 30-40 local consultants were hired. However, respondents note that there was little or no ownership of the process by the Government; it was a “traditional donor-driven Technical Assistance programme”. DFID decided to close down the project in January 1996 following the recommendations of a GOB-DFID joint review, leaving a “rump project” to tidy up and provide some face-saving assistance to GoB for 8 months.

26. The initial objectives for RIBEC had been overambitious. Respondents note that the focus on implementing a comprehensive, government-wide computerised financial management system was “ten years too early” for a country with the capacity weaknesses of Bangladesh. Before a new IT system could be put to effective use, new processes of financial management and new budgeting systems were required.

27. This setback to the reform process coincided with considerable political turmoil in Bangladesh. In March 1996, the Parliament enacted a constitutional amendment to allow a neutral caretaker government to assume power in the three months leading up to elections that were to be held in June.

28. During the caretaker period, there was some confusion about how the transition should be managed. There were no precedents for how government should function, and no budget. The short-staffed Secretary of Finance turned to the now diminished RIBEC team, asking them rapidly to prepare a budget for three months, which they did. He then requested the same team to draw up a budget for the remaining nine months of the financial year that could be presented to the new Government once elected.

29. Whilst this was obviously a case of capacity substitution, and therefore not best practice, the support provided by the project was valued highly. There had been a real need and partners had responded effectively. The Secretary of Finance’s credibility with the new Government had been enhanced as a result. At the same time, the future Secretary of Finance (then a middle-ranking official) joined the project, and he, along with key GoB officials and consultants, forged out of adversity a team who have remained closely involved in the reform process ever since.

30. Whilst developing the emergency budgets had been a success, these actions were not part of the project’s TOR. Given the poor delivery of RIBEC against the original outputs on which DFID approval had been obtained, the recommendation in September 1996 from technical experts from DFID London was that the project should be closed down. This led to a strong disagreement between local and London-based DFID staff. Eventually, and against the advice of the London-based advisers, the local DFID office decided to continue with the project in some form. The fact that the country office had

battled to support GoB's needs developed a bond of trust between GoB, DFID in Dhaka and the consultants.

31. The next 20-month phase of the project (RIBEC 2B) comprised easily defined targets, focusing on simpler aspects of technical capacity development. As one participant put it, it was more "mechanical". A new budget classification was defined, PC-based computerisation of some processes was begun, a new chart of accounts was implemented, and a process of (locally sourced) software development initiated. These tasks were relatively simple, and could be achieved by competent international and local consultants.

32. It was during this phase that the Financial Management Reform process took off. The success was aided by the nature of the tasks (which were easily defined, understandable and achievable), but more importantly by the levels of trust that had developed during the "crisis" of 1996. Such trust, it is noted by those who were involved, enabled frank discussions of topics such as individual capacity deficits, and created a highly motivated team with a desire for delivery.

33. During this time, a pattern emerged of achieving "revolution through evolution", changing elements as the opportunities arose whilst at the same time maintaining clarity on the direction and the eventual end point. Some observers have directly linked this approach to the nature of the political environment in Bangladesh, where opportunities for change open and close rapidly, often linked to the preferences of those in powerful positions.

34. An understanding also emerged that the success of reform would not be achieved through technical excellence alone, and consultants (and DFID staff) began consciously to employ diplomatic and political strategies. Respondents cite one overseas study tour to the UK, when a small team of reformist civil servants accompanied the then Finance Secretary and, in a choreographed effort, successfully lobbied him to become more supportive of the reforms.

35. Partners also identified that there was a need to create a critical mass of reform-minded middle-ranking officials who would progress into senior positions, and be advocates for change. As acceptance of reform spread from the initial "mechanical" (and therefore non-threatening) improvements under RIBEC 2A, opportunities arose for further initiatives building on these successes

36. By 1998, RIBEC 2B was underway. The objectives for this phase included:

- improved quality of accounting;
- stronger financial management exercised by the Finance Division (FD) within the MoF;
- Financial Management Units operational in four ministries and supporting their Budget Committees;
- the maintenance of the information technology infrastructure (computer hardware and software) by FD and the Controller General of Accounts (CGA).

37. Other associated initiatives included Reforms in Government Audit (RIGA) and the Financial Management Academy (FIMA). A programme of postgraduate training

overseas was implemented. Links were made to ongoing reform programmes in Health, Education and Agriculture.

38. Elements of this expansion would eventually prove unsustainable. It did not prove feasible to place Ministry of Finance staff into line ministries in Financial Management Units since their primary accountability was to MoF, and they were not fully accepted by their host ministries. At the same time, an attempt to roll a RIBEC-like project into the Planning Division (responsible for the Development budget) failed. There were limits to how far the reform processes could achieve its goals, as a result of regulations, working practices and cultures within the Civil Service beyond the project's scope.

39. However, one report noted:

“Over the past three years the project has not only repaired the damage done to its image in the first year of phase 2 but has also raised it to a point that it is now cited as one of the most successful technical assistance projects in Bangladesh and a role model in DFID in terms of project delivery, sustainability, etc. The birth of a cluster of complementary projects originating from RIBEC and devoted to specific tasks in the field of financial management and the likely growth of future projects of a similar nature bear testimony to the fact that financial management reforms in Bangladesh are now demand-driven rather than supply-induced.”⁸

4.2 *RIBEC 2000-2002*

40. At the end of RIBEC 2B, a further 3 years of assistance was agreed, known as RIBEC 2000. This extended existing activities, while widening the scope across more ministries and deepening the focus on priority areas such as the management of accounts.

41. However, progress under RIBEC 2000 slowed considerably. Some respondents note that there was a rapid breakdown in the relationships between stakeholders due to the inevitable turnover of staff in DFID. This was unfortunate, since one of seconded officers from GoB who had been a consultant on RIBEC 2 had returned to Government and was now Secretary Finance. A DFID evaluation of RIBEC in August 2001 concluded that:

“although at the purpose level RIBEC had been successful in continuing to facilitate the development of systems and capacity for improved resource allocation, it had not fulfilled the higher-level objective of impacting on resource allocation decisions. The evaluation noted that the achievements of RIBEC needed to be consolidated through future long-term development, and that it is crucial to increase demand for public financial management reform.”

42. Decision-makers locally in DFID were now of the opinion that RIBEC was insufficiently ambitious, and as formulated under RIBEC 2000, not addressing the core challenges facing GoB.

43. At this point, differences emerged between DFID and the GoB on the way forward. When technical staff in the DFID Dhaka office commissioned a design for the

⁸ Khan et. al., “ Experience Of A Financial Reforms Project In Bangladesh” in Public Administration and Development Volume 20, Wiley 2000.

next phase of the programme from consultants, this initial design was rejected by DFID, who then drafted their own concept paper, which they presented to Government. This second design was then rejected by GoB (specifically the new Secretary) who drafted a third design, which in turn was rejected by the DFID office.

44. At this point, the current head of DFID Bangladesh (whilst in a previous role) flew to Dhaka with another technician to broker the design of the new programme. He and his colleague worked with GOB and the local DFID office to develop an acceptable plan, which would obtain funding approval from DFID.

45. While noting that the efforts to date were not yet sustainable, DFID recognised the strategic importance of building on the successes to date.

“Whilst the RIBEC projects have made a major contribution to improving the quality and comprehensiveness of financial information the [2001] evaluation recognised that the improved financial information was not being used to inform resource allocation decisions and there were questions over the sustainability of project activities. The FMRP has been designed to consolidate the achievements to date and address these weaknesses. The contribution of the RIBEC projects to public sector reform in Bangladesh is unique. There are no other major initiatives ongoing in public sector reform at the present time and the RIBEC projects are often cited as the only initiatives which have made a substantial impact.”⁹

46. As the evaluation in 2001 had made clear, creating sustainability was seen as a long-term endeavour. By the end of RIBEC 2000, DFID had spent over £10m on supporting RIBEC, with another £5m on associated projects in Audit and Tax.

4.3 The Financial Management Reform Programme 2002-2006

47. The next phase of assistance, the Financial Management Reform Programme (FMRP), was approved in 2002 at a cost of £25m over 5 years. DFID had been keen to partner with other donors, and for this phase was joined by the Netherlands who funded 25% of the programme costs.

48. FMRP was to have five components;

- “To provide improved audit reports and well-researched reports on other financial management issues for parliamentary scrutiny of public accounts.
- To enhance aggregate fiscal management and to develop the regulatory framework for financial and performance management.
- To enhance resource allocation and utilisation, and financial, resource and performance management capacity in line ministries.
- To enhance financial management reporting systems.
- To build the capacity of the Financial Management Academy as a sustainable centre of excellence for financial management training in government.”¹⁰

49. The process of initial design, obtaining approval and hiring consultants for FMRP took eighteen months from mid 2002 to 2004. This coincided with discussions between

⁹ DFID Financial Management Reform Programme Project Document.

¹⁰ FMRP Project Document, DFID, Royal Netherlands Embassy Dhaka and GoB

the World Bank and GoB on FMR issues, notably as part of the negotiations for the multi-million dollar Development Support Credits. Funding conditionalities were linked to the DSCs, including that GoB put in place Medium-Term Budgeting Frameworks in four ministries within one year.

50. Initially FMRP was not as flexible as the RIBEC projects had been. This was intentional. DFID, with the full support of GoB, moved to reimbursing consultants on a “milestone” basis. It was intended that payments linked to a clearer definition of (agreed) targets would enable more effective achievement of results. Whilst initially this appears sensible, in operation it proved difficult. During contracting, for the first year of operation the parties agreed 240 individual payment-linked targets. Consultants only got paid if the milestones were achieved, giving them, but not their partners in government, an incentive to achieve. At the same time, these milestones had been set earlier during the planning phase. As a result, observers report that the focus was on narrowly defined tasks (dominated by analysis in the first design phase), rather than the maintenance of the trust, relationships and processes of engagement that had proved so important earlier.

51. After the design phase, during the first operational year of FMRP, the GoB raised concerns about the performance of the new programme. The Secretary Finance (who had been involved with RIBEC and the reform process since 1998) suggested that FMRP needed to be reoriented.

52. As a result, management by milestones was removed, and the staffing and the process of engagement re-organised. At the same time, one of the key consultants who had been involved since January 1998 was requested by GoB to take a more prominent role in FMRP. In addition, the programme was restructured to incorporate a higher degree of flexibility.

The Financial Management Reform Programme	
Components	
•	Supporting Audit
•	Strengthening the capacity for Macro Economics
•	Implementing MTEF at ministry level,
•	Further building the accounts function to be functionally, rather than geographically based,
•	Enhancing the use of information technology
•	Strengthening planning (took two years to acknowledge that MoF need planning cell working with them at ministry level),
Crosscutting working groups;	
•	Establishing the PRSP and how to achieve PRSP objectives,
•	Improving Treasury Management,
•	Achieving Institutional change (not FIMA, tidying up all the rules, legal documents – MTEF is strictly speaking illegal),
•	Building wider training capacity across Bangladesh.

53. Critical to the process of reorientation were discussions between the new head of DFID Bangladesh and the Secretary Finance, both of whom had met several times over

the previous five years in various capacities. At the same time, consultants who had worked on the programme in its RIBEC and FMRP forms were asked to contribute technical approaches that would refocus the programme, and work with DFID's technical staff. Both these processes, a return to the more collective working of earlier where GoB, donor and consultants seek jointly to overcome problems with the relationships of trust at the centre, enabled the process to be rescued.

54. The project is now managed in 7 components and 4 crosscutting groups. This covers the same areas as set out in the initial FMRP concept, but is seen by managers as less unwieldy.

55. Since re-orientation, FMRP has continued to strengthen. Its successor, FMRP2, is now being developed, to start immediately after the end of the current phase, in July 2007.

5. Costs, benefits and impact

5.1 *Capacity building*

56. Respondents note that much has been achieved through this programme of assistance. In particular, the issues raised in the original CORBEC report have been responded to.

57. Financial information is now more available, increasingly accurate and often provided when required (achieved through improved accounts, procedures and increasing computerisation). For the first time, the spending of an entire ministry can be clearly identified. A new budgetary system (now enhanced with the development of MTBFs) has been put in place, which is comprehensive and appropriate to the needs of the GoB, increased decentralisation of budget, and resource allocation has been enabled through the use of Information Technology and deepening staff skills. New financial rules and regulations are in place, appropriate to the country's needs. A comprehensive process of skills development and training has overcome many of the past deficits in human resource capacity.

58. Technical improvements have also led to institutional changes. This is particularly noteworthy where there is considerable inertia around restructuring.

59. As its capacity increases, the MoF is able to accelerate the achievement of its objectives. Because of the widespread investment in human resources, reform-minded officials are increasingly in senior decision-making positions. As a result, initiatives such as the adoption of the MTBF can be accelerated (it is now being rolled out across 10 ministries, not just 4 the DSC required).

60. Equally, improved information is enabling better analysis. The strengthening of the macro-economic modelling capacity of government allows much more robust budgeting than in the past.

61. A virtuous circle of reform is developing, building from the initial small achievements, the constant process of engagement has enabled wider, deeper and more strategic gains to be made.

62. Yet, whilst the process is ongoing, it is recognised that significant areas have yet to be touched by the reforms. A critical issue is now *how* the improved information is used. For instance, whilst Parliament has access to increasingly accurate financial information, the nature of its oversight (for instance through the Parliamentary Accounts Committee) is limited in practice.

63. Similarly, whilst much of the effort to date has focused on the reform of the Ministry of Finance, change and development in this element of government has not been matched by similar advances in the Comptroller and Auditor General's office, nor in the Planning Division (responsible for the development budget). Equally, at Ministry level, respondents note that establishing budget management committees and getting ministries to take ownership over their finances has been difficult, (a task historically done centrally by the MoF), and whilst there is considerably more information available, it is not totally accurate and nor flowing in ministries to the right decision makers in time (notably the Budget Management Committees).

64. The MTBF is seen as a key driver for change to increase the quality of Budgeting. It is also hoped that the MTBF, with its explicit link to the NSPR, will unify more clearly the development and recurrent budgets. It was observed by respondents that the NSPR and the MTBF are still young. Potential ambiguities are being ironed out, and as its acceptance across government increases, so will the effectiveness of these two tools.

65. Trust and a degree of mutual accountability between all principle stakeholders has been important, but costly to maintain. This mutual accountability has depended on effective relationships between, in particular GOB, DFID and the implementing consultants. Where there have been times of weakness in the relationship, achievement of the reform objectives have been hindered. (for instance during one 2 ½ year period when there were four DFID programme officers). Maintaining these relationships has relied on a various approaches, including investment in considerable informal contacts between stakeholders.

66. For the partners, many see the willingness to work over a long multi-year timeframe as a key cost that has resulted in many benefits. As one respondent noted, "the revolution has happened, but it has taken 10 years" – and it is not yet complete. Another respondent was blunt: the "biggest obstacle to reform is capacity itself. No-one really understood just how much needed to be done."

5.2 *Harmonisation and alignment*

67. GoB officials are keen to point out that, whilst the reforms may not at times have necessarily been in line with aspects of "best practice", ownership of the reforms has been higher than for most other donor-supported initiatives in Bangladesh. As a result, partners identify that the assistance has substantially been aligned with GoB requirements, particularly given its origins in the CORBEC report.

68. The choice of the Government to partner with DFID for the bulk of the reforms has sometimes been seen as exclusionary by other donors. However, GoB has been able to keep assistance for these core reforms manageable, coherent and simple through the tactic of primarily drawing on DFID TA. This relationship resulted from GoB identifying a partner who it felt had a comparative advantage, and consciously minimising competing strands of assistance.

69. Some observe that this tactic was forced on Government as a result of the lack of effective co-ordination among donors; organisational incentives within donor organisations had meant competition between, rather than integration of, technical analysis and support.

70. Respondents note in particular that relationships with the World Bank (or rather technical staff, who wish to reflect the global expertise of the Bank in Financial Management Reform more fully in the Bangladesh programme) have sometimes been strained, and that there was a feeling that GoB was “being told off” rather than offered support. For GoB, much of the comparative advantage of using a bilateral donor was not technical, but in the nature of the relationship.

71. Observers have noted that, rather than competition (for instance between the World Bank and DFID) the working of the FMR in Bangladesh demonstrates mutual support between the organisations. For instance, the CFAA and the DSC discussions of the World Bank resulted in actions within the DFID funded programme to implement their recommendations and conditions (e.g. MBTFs).

72. Such a symbiosis between partners requires a very close working relationship between the donors. Whilst DFID and its other partners in the Joint Strategy (ADB, Japan and the World Bank) have achieved a common analytical base for their assistance, they have not yet moved to the level of joint programming. Similarly, there are concerns about the operation of the Local Consultative Group’s sub-group for the sector. Respondents identify that the perceived success of the Financial Management Reforms may be part of the problem; there is a “halo effect” where other partners wish to participate in the success, and demonstrate this to their headquarters.

73. Throughout their operation, the FMR programmes have also sought to collaborate with other initiatives, particularly SWAPs in Health and Education. In some cases this has been in order to build capacity in Ministries. In other cases it this collaboration has been defensive, trying to maintain control of financial management processes in a climate where donor demands have required the establishment of parallel systems.

74. Indeed, in the current large Health and Education programmes donors have required financial and performance information that is considerably more sophisticated than the government can utilise. Donor demands result from their need for accountability, and can potentially undermine attempts at building sustainable structures over time, as one respondent put it “if we put a system in, we haven’t addressed the underlying problem of why there is a lack of demand for the information”. He went on

“The quick fixes are more high profile, it will win you a lot of friends in the short term. But the reality is that it is being driven by the donors, and as soon as the SWAP finishes, it dies. If you can build the demand within government, you will get something that is not as shiny, and it will be slower, but it will be sustainable. This is understood by the governance people, but not by the social sectors; they want immediate solutions. They want more immediate answers, they have the programmes in place and they need the systems to operate.”

75. Indeed, in the case of the support for health and primary education, reimbursement from donors has to be against information that is not routinely collected

by Government. Clearly, the creation of parallel systems is specifically counter to Paris principles, and has been acknowledged as counter-productive, but the process continues.

76. Donors recognise that the process is building core government capacity that will enable further alignment. As is becoming clear through the initiation of the MTBF, the investment in the basic systems, and cadre of reformers, is paying increasing dividends.

“Five principles have emerged that reflect good practice in PFM work...

- PFM work should facilitate and encourage country leadership in setting/managing the PFM reform strategy and action plan.
- PFM diagnostic work should be conducted in an integrated and coordinated manner, drawing upon the distinct competencies of the PFM country team and other donors, with the timing and scope determined largely by country needs.
- PFM work should be weighted toward supporting PFM implementation reforms and capacity building rather than detailed diagnostic analysis, should add value to Government budget and reform processes, and should be aligned with Government decision-making cycles.
- PFM reform work should be framed within a multi-year horizon, sequenced around agreed priorities, and built upon a coordinated donor approach.
- PFM work should be linked to a robust monitoring and evaluation framework that clearly articulates the gains in PFM system performance that are sought or achieved.”

Taken from the Strengthened Approach document, developed by the World Bank in consultation with the PEFA partners and the OECD DAC Joint Venture on Public Financial Management

6. Lessons Learned

77. A 2000 article¹¹ highlighted the following reasons for the success of the programme of reforms to that date.

- ownership of GoB of project planning;
- the creation, and maintenance of an awareness of the urgent need for change (principally by and within GOB);
- the creation of a network of change advocates;
- the active development of networks and team-building (particularly of consultants and GoB officials);
- anchoring change in the culture of government as much as possible whilst working towards systemic reform, “revolution by stealth”;
- ensuring that the project management structure was constituted of high level stakeholders;
- selecting the right project team.

¹¹ Khan et al., *op. cit.*

78. Ownership has been central to the success of the process, which had its roots within a vision set by the GoB. This is a critical success factor.

79. Maintaining effective dialogue has been essential. When this has broken down, problems were more difficult to solve. Periods of poor communication have coincided with less successful periods of the programme. Not relying on the formal processes to manage the relationship between the partners has been important. The success of the reforms have been as much one of diplomacy as technical excellence.

80. The desire of individuals to drive, and participate in, the reform process has been important. A culture of innovation and leadership of reform has developed among senior Civil Servants in the Ministry of Finance. This has been actively encouraged through the reforms, with the specific investment in growing a critical mass of reformers who can drive the process forward in the future.

81. One little commented aspect has been the use of secondments from GoB into the consultancy team. This, against best donor practice, is seen by GoB officials as a key element in increasing the transfer of skills from the TA consultants. It has reportedly enabled individuals to take stock, and through the exposure to new management styles, develop an awareness and desire for change. It has also built new networks of advocates. Respondents note that the importance of networking should not be underestimated in maintaining the impetus for reform. The current and previous Secretary Finance had both been consultants on the programme, as had the current and previous Controller General of Accounts.

82. Twice the reform process was almost terminated, and twice realigned (with success). Partners should not be wedded to the initial plans if they go off track, and it would appear from this Bangladesh experience that large capacity-building programmes with a high level of pre-planned specificity do not work.

83. Indeed it is in the nature of contexts such as Bangladesh that a high degree of opportunism is required to cope with changes in the context. The lesson of the early stages of the reform, where the political uncertainty of the 1998 election enabled the reforms to take off, is that the context requires a high degree of tactical flexibility to achieve the strategic objective, and that judgements need to be taken on what is the right, rather than the best, action to take at a particular time.

84. The pace and phasing of the change has been important. The pressure for rapid change was, and remains, unrealistic given both the capacity constraints and the nature of the reforms required. The phasing of the reform process crucially began with achievable, demonstrable and defined technical changes, notably linked to computerisation. The process has gone on to deepen these, then widen the initiative to more difficult institutional and cultural issues. Based on the foundation of improving the availability and quality of information, the initiative is only now beginning to look at how this information is used.

85. Observers note that local DFID staff had long expressed a view (without setting it out in a defined strategy) that the process of reform would need to extend beyond the usual 3 year planning horizon. This enabled all partners to think more strategically, reduced pressure for “quick wins” and again underlined the trust of the partners in each other.

86. The incremental approach (recognising the “multi-year horizon” of the Strengthened Approach) has borne fruit. Success has built on success, and a virtuous circle of reform has now developed that allows new innovations such as the MTBF to be adopted quickly.

87. Strong country ownership of the reform has compensated for a lack of fully co-ordinated support from external partners. Co-ordination would have been enabled had there been a clear GOB plan that partners could align behind. Opinions differ on the appropriateness of setting medium-term targets for the reforms in Bangladesh, indeed, when a milestone approach was attempted, it failed. Some see the lack of a plan as a pragmatic response to the political realities of Bangladesh. However, with the increased adoption of generally accepted policy documents (notably the NSPR) it might be the time to revisit this issue.

88. Subsequent to preparation of the NSPR, in response to donor pressure, the Secretary of Finance Division (SoFD) is working on a PFM Reform Strategy. In May 2006, the Finance Division of the Ministry of Finance (MoF) and the Comptroller and Auditor General (C&AG) produced a Medium Term Rolling Action Plan for Public Financial Management Reform. This sets out their aspirations and provides the groundwork for an aligned and harmonised response from donors. At a recent meeting of the Local Consultative Group, PFM Working Group donors agreed to fund this joint design mission.

89. The design of the programme will be based on donor’s long engagement with the MoF and C&AG on public financial management. Currently, the most comprehensive series of interventions is included in the Financial Management Reform Programme (FMRP) funded by DFID and the Royal Netherlands Embassy (RNE) and it is important that the new programme be started in 2007 to take advantage of this.

90. However it is clear that the programme has complemented, for instance, the World Bank’s negotiations linked to policy-based lending (e.g. MTBF implementation).

91. There are concerns that whilst there is clear achievement, there is no clear Government mechanism in place to measure the progress of reform. This is being undertaken by donors (principally the WB), who are now using the PEFA indicators.¹² Some respondents feel that the fact that these indicators are comprehensive may be counter-productive. Whilst much has been achieved in Bangladesh, capacity is still fundamentally low. Setting high targets that appear out of reach now may hinder partners taking steps in the right direction; it might simply appear too far to begin climbing. The issue of monitoring needs to be addressed further.

¹²

See <http://www1.worldbank.org/publicsector/pe/StrengthenedApproach/4PFMIndicators.pdf>.

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