

Quality of Public Financial Management in Bangladesh: An Analysis from PEFA Framework Perspective

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Abstract: *In recent years, the importance of sound public financial management (PFM) system is growing in developing countries especially in the high aid recipient countries of the sub-Saharan Africa and south and south-east Asia because the efficient use of funds from foreign assistance highly depends on the public financial management system of the recipient country. As a developing country with moderate degree of dependency on foreign assistance, Bangladesh also needs a sound PFM system which will ultimately support better governance to achieve the pro-poor developmental objectives of the government. This study mainly tries to measure the quality of PFM system in Bangladesh on the basis of Public Expenditure and Financial Accountability (PEFA) assessment done by the World Bank in 2006 and Government of Bangladesh (GoB) in 2010. The study addresses the research question- Is the quality of public finance management (PFM) system in Bangladesh sufficiently well to help development effectiveness as assessed through the PEFA framework perspective? The empirical results show that the quality of PFM in Bangladesh is fairly low. Most of the performance indicators ranked either 'D' or 'C' means that those indicators are still weak in performance and need greater degree of improvements. The overall average score in 2010 of all the PFM indicators of Bangladesh is only 2.07 (roughly considered 'C') is much lower than 57 countries overall average score 2.33. It indicates that quality of PFM in Bangladesh is lower than the average quality of PFM in 57 countries. In these circumstances, Bangladesh should make action plan to raise most of its 'D' and 'C' ranked indicators to at least 'B' ranked indicators. And to do that the government should address the causes of lower performance in the six main dimensions of PFM system.*

Keywords- *PEFA Framework, Public Financial Management, Performance Indicators*

I. Introduction

1.1 Introduction and rationale of the study

In recent years, there has been growing concern regarding the quality of public financial management (PFM) on developing countries especially in the high aid recipient countries of the sub-Saharan Africa and south and south-east Asia because the efficient use of funds from both foreign assistance and domestic sources highly depends on the public finance management system of the recipient country. Both the developing countries and donor agencies have also recognized the core importance of PFM systems for achieving the national developmental objectives, including economic growth and poverty reduction [1]. To address the fiduciary concerns and to identify strengths and weaknesses that can affect achievement of national developmental objectives and aid effectiveness donor agencies have been devoting increasing attention and resources to assessing and strengthening the quality of PFM systems in recipient countries [1].

The key links in the chain of public financial accountability are weak in Bangladesh. One of the most important weaknesses is the lack of a strategic and long-term view in the planning process, reflected in the over-programming of the annual development plan. This lack allows discretionary behavior, creates opportunities for rent seeking, and leads to too many under-funded projects, delays in implementation, and chronic under-expenditure [2]. Besides, "the Office of the Comptroller and Auditor General, while constitutionally independent, remains dependent on the government for resources. A process for making audit standards compliant with international standards has been launched, and the government is considering a Public Expenditure Framework of Accountability, but progress to date has been limited" [3: p.3]. In these

circumstances, this study analyzed the quality of public finance management (PFM) in Bangladesh from the PEFA framework perspective.

1.2 Statement of the problem

Development Aid (ODA) is given to Bangladesh by governments of developed nations, international aid agencies and through multilateral institutions such as the World Bank, ADB, and OECD and OPEC countries and by individuals through development charities such as Action Aid, Caritas, Care International or Oxfam. It aims at helping to create long-term sustainable economic growth and development. So, the sound PFM system, one of the components of good governance is crucial to achieve the pro-poor developmental aims of the foreign assistance and use of domestic revenue. But, the public revenue and/or resources and the foreign assistance were not effectively translated into the sustainable pro-poor developmental outcome for the economy due to poor governance and lack of sound PFM system. This research therefore aims at answering the following research question:

Is the quality of public finance management (PFM) system in Bangladesh sufficiently well to help development effectiveness as assessed through the PEFA framework perspective?

1.3 Objective of the study

The principal objective of the study is to measure the quality of public financial management (PFM) system in Bangladesh from the PEFA framework perspective. The study also makes some policy recommendations based on the findings, on how the quality of public finance management can be further improved to have a better public service delivery system in the country.

1.4 Scope and significance of the study

The study for measuring the quality of the PFM system of Bangladesh covers the pattern of the PFM for the fiscal year 2002-03 to 2004-05 and for the fiscal year 2007-08 to 2009-10. It covers all the public expenditure of the government and the institutions responsible for managing that expenditure. The study also covers only the PEFA framework for measuring the PFM performance of Bangladesh for the specified periods.

It is expected that findings of this study will provide the real picture of the quality of public finance management of Bangladesh to both the government and donor agencies. Having the picture of the quality of PFM system, the government can take the necessary measures to reform the PFM system and the donor agencies can use it for taking decisions on aid alignment with the country system for better aid effectiveness.

II. Methodology

The study is a desk study and descriptive in nature. Data are collected from the secondary sources especially from PEFA, the World Bank and the Ministry of Finance in Bangladesh as well as other databases. PEFA performance measurement framework is collected from the PEFA website and data on assessment of PEFA indicators are collected from the Bangladesh Country Assistance Strategy 2006-2009 [2] and Public Financial Management Performance Report of Government of Bangladesh [4]. Data on the public expenditure management are collected from the Ministry of Finance, Bangladesh. The study used Paolo de Renzio's [5] methodology to calculate the numeric score of different performance indicators of quality of PFM and to analyze the quality of PFM in Bangladesh. To make comparative analysis on the performance of quality PFM in Bangladesh with other country the study also used the findings of Paolo de Renzio [5].

III. Bangladesh's Background Information

3.1 Country economic situation

Bangladesh is a densely populated low income country of South Asia. Its population is about 156.59 million (WDI, 2013) with a high rate of population growth of 1.22% per year. And over the last five years the population growth rate is increasing day by day. The country experienced a gradually increase in GDP growth rate from the year 2009 to 2012. The annual GDP growth rate was 6.63% in 2006 and it decreased to 5.05% in the year 2009 and again reached to 6.01% in 2003. GDP per capita in terms of PPP was US\$ 1870.52 in 2006

and increased to US\$ 2948.01 in 2013 with a gradual increasing trend. Gross capital formation as a percentage of GDP also increased over the period 2006 to 2013.

Both the exports of goods and services and the imports of goods and services of Bangladesh as a percent of GDP have increased over the time. Exports of goods and services as a percent of GDP reached to 19.54% in 2013 and the imports was 26.74% of the GDP for the same period. Readymade garment is the most contributing sector in the export basket of Bangladesh. Total merchandise trade reached to 43.66% of GDP in the year 2013 which indicates that Bangladesh is becoming more trade dependent over the time. Net ODA received as a percentage of GNI was 1.61% in 2006 and reached to 2.10% in 2008 and dropped to 1.07% in 2011 and again reached to 1.65% in 2013. Table-3.1 depicts the overall economic situation of the country using some selected economic indicators of Bangladesh.

Table-3.1: Selected Economic Indicators

Indicators	2006	2007	2008	2009	2010	2011	2012	2013
Population, total	144.87	146.46	147.97	149.50	151.13	152.86	154.70	156.59
Population growth (annual %)	1.20	1.09	1.03	1.03	1.08	1.14	1.19	1.22
GDP (current US\$)	71819	79612	91631	102478	115279	128638	133356	149990
GDP growth (annual %)	6.63	7.06	6.01	5.05	5.57	6.46	6.52	6.01
GDP per capita (current US\$)	495.75	543.59	619.26	685.46	762.80	841.53	862.05	957.82
GDP per capita, PPP (current US\$)	1870.52	2033.65	2175.08	2279.20	2409.55	2588.50	2773.66	2948.01
Gross capital formation (% of GDP)	26.14	26.18	26.20	26.21	26.25	27.42	28.26	28.39
Gross domestic savings (% of GDP)	20.74	20.23	18.90	19.99	20.49	19.84	20.47	21.17
Gross national expenditure (% of GDP)	105.40	105.95	107.30	106.21	105.75	107.58	107.79	107.22
Inflation, GDP deflator (annual %)	22.02	6.47	7.86	6.76	7.14	7.86	8.16	7.17
Merchandise trade (% of GDP)	38.76	39.00	42.81	36.02	40.78	47.15	44.47	43.66
Imports of goods and services (% of GDP)	21.76	22.95	24.96	23.15	21.78	27.50	27.95	26.76
Exports of goods and services (% of GDP)	16.35	17.00	17.66	16.94	16.02	19.92	20.16	19.54
Net ODA received (% of GNI)	1.61	1.79	2.10	1.11	1.14	1.07	1.49	1.65

Source: World Development Indicator, 2014

In the year 2006, the rate of inflation (GDP deflator) was 22.02% but it reduced to 7.17% in 2013. So, for the period of 2007 to 2013 the problem of inflation was not so severe. The gross national expenditure as a percent of GDP was 105.40% in 2006 and increased to 107.22% in 2013.

3.2 Fiscal policy and financial management

Formulation and implementation of a sound fiscal policy is one of the core functions of the government of Bangladesh to maintain macroeconomic stability and fostering economic growth and development in line with targets of poverty reduction. Excess public expenditure over revenue (huge budget deficit) may create adverse effects on maintaining the macroeconomic sustainability. Therefore, efficient fiscal management is of great importance for managing the overall economic situation of the country [6].

3.2.1 Government receipts

The main source of the government revenue of Bangladesh is the tax revenue and it accounts for about 80% of the total government revenue [7]. The tax revenue includes income tax, import duty, excise duty, turn over tax, supplementary duty, other taxes and duties etc. Total tax revenue/GDP was 7.50% in the fiscal year (FY) 2005-06 and was increased to 9.74% in FY 2012-13. Non-tax revenue/GDP also increased over the time as the total revenue/GDP increased for the same period. Table-3.2 shows the government revenue receipts as a percent of GDP for the FY 2005-06 to FY 2012-13.

Table-3.2: Government revenue receipts (as a % of GDP)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Total Revenue	9.30	9.00	9.63	9.81	9.97	10.39	10.89	11.65
Tax Revenue	7.50	7.14	7.64	7.88	8.02	8.63	9.12	9.74
Non-tax Revenue	1.80	1.86	1.99	1.94	1.95	1.76	1.76	1.91

Source: Bangladesh Economic Review, 2014. Figures are based on revised budget.

3.2.2 Public expenditure

The prime objectives of public expenditure of the government of Bangladesh are to improve the living conditions of the people, develop human resources and physical infrastructure and reduce poverty [6]. Table-3.3 represents the public expenditure of Bangladesh (as % of GDP) under the broad categories like development and non-development expenditure for the FY 2005-06 to FY 2012-13. Non-development expenditure is the major part of the total public expenditure of Bangladesh. On an average, non-development expenditure constitutes about 60% of the total public expenditure and development expenditure constitutes about 35% to 40% of the total expenditure. Non-development expenditure includes mainly interest payments on foreign and domestic loans, pay and allowances, subsidies and transfer payments. And the development expenditure includes mainly the expenditure on Annual Development Programme (ADP). As a percent of GDP development expenditure was highest in the FY 2005-06 (4.90%) and in FY 2012-13 it was 4.82%.

Table-3.3: Public expenditure (as a % of GDP)

Particulars	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Total Expenditure	12.66	12.16	14.89	13.35	13.86	14.20	15.28	15.79
(a) Non-development expenditure	7.68	8.08	9.13	9.52	9.67	9.08	9.57	9.23
(b) Development expenditure	4.90	4.27	3.87	3.65	3.99	4.33	4.33	4.82
(c) Other expenditure	0.08	-0.19	1.88	0.19	0.20	0.79	1.38	1.75

Source: Bangladesh Economic Review, 2014

3.2.3 Development expenditure by major sectors

Table-3.4 shows the Annual Development Programme (ADP) expenditure by major sectors for the FY 2005-06 to FY 2012-13. Rural development, power, transport and education & religion sectors comprise about 60% of the total ADP expenditure for the FY 2012-13. Though expenditure on transport sector reduced from 14.30% to 10.14% from FY 2006-07 to FY 2008-09 it again increased to 16.40% in FY 2012-13.

Table-3.4: ADP expenditure by major sector (%)

Sector	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Agriculture	5.20	5.86	6.64	6.27	6.0	6.6	6.37	5.39
Rural Development	15.83	17.14	15.06	16.63	14.0	12.95	12.90	13.53
Water Resources	3.22	2.29	3.73	4.09	4.0	3.51	3.34	3.18
Industries	1.64	1.24	1.34	2.09	2.0	1.23	2.45	3.42
Power	16.22	13.87	13.27	11.67	8.0	14.28	18.88	17.72
Gas, Oil & Natural Resources	1.62	0.74	1.40	1.07	5.0	3.05	1.96	3.26
Transport	14.30	14.40	10.89	10.14	12.0	14.92	14.11	16.40
Communication	2.82	2.72	1.58	0.93	1.0	0.8	2.21	1.37
Physical Planning & Housing	7.56	6.86	7.11	11.5	12.0	9.53	10.52	8.64
Education & Religion	13.83	15.48	15.56	16.0	17.0	14.39	12.26	12.91
Health & Population	9.59	9.97	11.34	10.7	8.0	9.01	7.80	7.01
Others	8.19	9.43	12.02	8.91	11.0	9.74	7.19	7.14
Total ADP	100.0	100.0	100.00	100.0	100.0	100.0	100.0	100.0

Source: Bangladesh Economic Review, 2014

3.3 The legal and institutional framework for PFM in Bangladesh

Bangladesh has a legal framework for governing its budget system. The legal framework is also supported by some other laws and regulations and defines and establishes the key roles and responsibilities of

different actors involved in the budget process. The legal framework for PFM of Bangladesh covers a range of laws and regulations originated from the constitution. Some clear directions regarding the PFM are mentioned in article 80 to 92 of the chapter two of the constitution. The most important act related to the PFM system of Bangladesh is the 'Public Finance and Budget Management Act 2009' which is mainly based on the article 85 of the constitution. Other important PFM laws are Treasury Rules 1957, General Financial Rules, Financial Institution Act 1993 and Income Tax Ordinance and Rules 1984, Value Added Tax Act and Rules 1991, Customs Act 1969 etc.

The following institutions are involved in the PFM process and act according to the legal framework specified by the constitution and complementary laws and regulations related to the PFM system:

- Legislature (The national assembly)
- The Executive Body (Cabinet of ministers)
- The Office of the Controller and Auditor General
- The Ministry of Finance and Planning
- Other Line Ministries
- The Audit Committee
- The National Board of Revenue
- Other Government Enterprises

IV. Overview of PEFA Framework

4.1 Background information

The PEFA public financial management (PFM) performance measurement framework is an integrated framework that allows and/or facilitates measuring the country PFM performance over time. It has been developed by the PEFA partners (The World Bank, EC, DFID etc.) and provides reliable information on the performance of PFM systems, processes and institutions over time. The information provided by the framework also contributes to the government reform process and facilitates harmonization of the dialogue between government and donors around a common framework measuring PFM performance and therefore contribute to lessen transaction costs for partner governments [8; 9]. "The Performance Measurement Framework includes a set of high level indicators, which measures and monitors performance of PFM systems, processes and institutions and a PFM Performance Report (PFM-PR) that provides a framework to report on PFM performance as measured by the indicators" [8: p.1].

4.2 Scope and coverage of the framework

A sound PFM system is of crucial importance for implementation of the government policy priorities and achievement of the pro-poor developmental objectives by supporting macro-economic and fiscal discipline, strategic allocation of resources and smooth & efficient public service delivery [8]. An open and orderly PFM system is one of the enabling elements for these three levels of budgetary outcomes:

- Effective controls of the budget totals and management of fiscal risks contribute to maintain macro-economic fiscal discipline;
- Planning and executing the budget in line with government priorities contributes to implementation of government's objectives; and
- Managing the use of budgeted resources contributes to efficient service delivery and value for money [8: p.1].

PEFA [9] identifies the following six critical dimensions of performance of an open and orderly PFM system (see Table-4.1):

Table-4.1: Critical dimensions of performance of an open and orderly PFM system

Dimensions	Explanation
1. Credibility of the budget	The budget is realistic and is implemented as intended.
2. Comprehensiveness and Transparency	The budget and the fiscal risk oversight are comprehensive and fiscal & budget information is accessible to the public.
3. Policy-based budgeting	The budget is prepared with due regard to government policy.
4. Predictability and control in budget execution	The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds.
5. Accounting, recording and reporting	Adequate records and information are produced, maintained and disseminated to meet decision-making control, management and reporting purposes.
6. External scrutiny and Audit	Arrangements for scrutiny of public finances and follow up by executive are operating.

Source: PEFA - PFM Performance Measurement Framework, 2011, p.2

“Against the six core dimensions of PFM performance, the set of high-level indicators measures the operational performance of the key elements of the PFM systems, processes and institutions of a country central government, legislature and external audit. In addition, the PFM-PR uses the indicator-based analysis to develop an integrated assessment of the PFM system against the six critical dimensions of PFM performance and evaluate the likely impact of PFM weaknesses on the three levels of budgetary outcomes” [9: p.2].

The framework does not measure the factors impacting the country PFM performance, such as the legal framework or existing capacities in the government. In particular, the set of high-level indicators highlights on the operational performance of the core elements of the PFM system rather than on the inputs that enable the country PFM system to reach a certain level of quality performance [8;9].

4.3 The set of high level performance indicators

The PEFA [8] identified 31 high level performance indicators for measuring the performance of PFM of a country. Among these 31 indicators, 28 indicators are for the country’s PFM system and the remaining 3 indicators are for donor practice that affects the country PFM system. The selected 28 indicators for the country’s PFM system are classified into three broad categories and 3 indicators for donor practices put into a single category (see box- 4.1). Table- 4.2 represents the PFM high level performance indicator set.

Box- 4.1: Broad categories of high level performance indicators.

A. PFM system out-turns: these capture the immediate results of the PFM system in terms of actual expenditures and revenues by comparing them to the original approved budget, as well as level of and changes in expenditure arrears.
B. Cross-cutting features of the PFM system: these capture the comprehensiveness and transparency of the PFM system across the whole of the budget cycle.
C. Budget cycle: these capture the performance of the key systems, processes and institutions within the budget cycle of the central government.
D. Donor practices: these capture elements of donor practices which impact the performance of country PFM system. [9:p.4]

Table-4.2: The PFM High-Level Performance Indicator Set

A. PFM-OUT-TURNS: Credibility of the budget	
PI-1	Aggregate expenditure out-turn compared to original approved budget
PI-2	Composition of expenditure out-turn compared to original approved budget
PI-3	Aggregate revenue out-turn compared to original approved budget
PI-4	Stock and monitoring of expenditure payment arrears
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency	
PI-5	Classification of the budget
PI-6	Comprehensiveness of information included in budget documentation
PI-7	Extent of unreported government operations
PI-8	Transparency of inter-governmental fiscal relations
PI-9	Oversight of aggregate fiscal risk from other public sector entities.
PI-10	Public access to key fiscal information

	C. BUDGET CYCLE
	C(i) Policy-Based Budgeting
PI-11	Orderliness and participation in the annual budget process
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting
	C(ii) Predictability and Control in Budget Execution
PI-13	Transparency of taxpayer obligations and liabilities
PI-14	Effectiveness of measures for taxpayer registration and tax assessment
PI-15	Effectiveness in collection of tax payments
PI-16	Predictability in the availability of funds for commitment of expenditures
PI-17	Recording and management of cash balances, debt and guarantees
PI-18	Effectiveness of payroll controls
PI-19	Competition, value for money and controls in procurement
PI-20	Effectiveness of internal controls for non-salary expenditure
PI-21	Effectiveness of internal audit
	C(iii) Accounting, Recording and Reporting
PI-22	Timeliness and regularity of accounts reconciliation
PI-23	Availability of information on resources received by service delivery units
PI-24	Quality and timeliness of in-year budget reports
PI-25	Quality and timeliness of annual financial statements
	C(iv) External Scrutiny and Audit
PI-26	Scope, nature and follow-up of external audit
PI-27	Legislative scrutiny of the annual budget law
PI-28	Legislative scrutiny of external audit reports
	D. DONOR PRACTICES
D-1	Predictability of Direct Budget Support
D-2	Financial information provided by donors for budgeting and reporting on project and program aid
D-3	Proportion of aid that is managed by use of national procedures

Source: PEFA - PFM Performance Measurement Framework, 2011

4.4 Scoring system

Public financial management (PFM) performance has been assessed against each of the indicators by assigning ratings of A (the highest) to D (the lowest) based on the comprehensive criteria given in the PEFA framework document. A rating of ‘A’ would be an international level practice and that of ‘B’ a good achievement. Ratings of ‘C’ and ‘D’ indicate weak performance of the indicator and identify PFM elements that are in relatively greater need of improvements [10]. A ‘+’ sign represents intermediate scores available for composite indicators that include two or more sub-dimensions (See PEFA - PFM Performance Measurement Framework - Revised January 2011 for more details).

V. Quality of the PFM System of Bangladesh

This section represents the summary result of the assessment of high-level performance indicators of Bangladesh’s PFM system based on PEFA framework for measuring the overall quality of public finance management (PFM) system of Bangladesh under seven broad headings based on two original assessments done by the World Bank in 2006 [2] and Government of Bangladesh (GoB) in 2010 [4]. The assessment of World Bank in 2006 used the data for the FY 2003 to FY 2005 (3 years) and the assessment of GoB in 2010 used the data for the FY 2007-08 to FY 2009-2010 (3 years).

5.1 Budget credibility

The ability to implement the budgeted expenditure to support the government’s capability to deliver the public services for the year as expressed in policy statements, developmental output commitments and strategic work plans is a crucial factor [10]. The performance indicator, PI-1 compares originally approved total expenditure of the budget with actual expenditure. As the actual primary expenditure were more than 10% lower

than the budgeted primary expenditures in all the three years, the PI-1 got rating ‘C’ in 2006 which indicates there is greater need of improvements to reduce the gap between the actual primary expenditures and the budgeted primary expenditure. But in 2010, this indicator got rating ‘B’ which indicates a slight improvement in this aspect. PI-2 measures the variance in expenditure composition with the original budget expenditures and got overall rating ‘C’ in 2006 and it drop off to rating ‘D+’ in 2010 because variance in expenditure composition exceeded overall deviation in primary expenditures by more than 10 percentage points in case of both the assessments. It indicates that Bangladesh had poor achievement on PI-2 and it is far from international standard.

In determining budget performance, accurate forecasting of domestic revenue is a critical factor, since budgeted expenditure allocations are based upon that forecast. A comparison between the budgeted and actual revenue provides an overall indication of the quality of revenue forecasting and achievement [10]. PI-3 measures the actual domestic revenue collection compared to the budgeted revenue estimation. Bangladesh got rating ‘C’ on PI-3 in 2006 and ‘B’ in 2010 meaning that we are improving to have a standard revenue forecasting. “A high level of arrears can indicate a number of different problems such as inadequate commitment controls, cash rationing, inadequate budgeting for contracts, under-budgeting of specific items and lack of information” [10:p.13]. The PI-4 measures the extent to which there is a stock of arrears, and the extent to which any systemic problem is being brought under control and addressed. The situation was worse in Bangladesh for PI-4 in 2006 as this indicator got rating ‘D’. For the assessment of 2010, this indicator was not scored because of lack of reliable data. Table-5.1 summarizes the assessment of budget credibility indicators.

Table-5.1: Assessment of budget credibility indicators

PEFA Indicators		Rating	
		2006	2010
PI-1	Aggregate expenditure out-turns compared to original approved budget	C	B
PI-2	Composition of expenditure-outturn compared to original approved budget	C	D+
PI-3	Aggregate revenue out-turns compared to original approved budget	C	B
PI-4	Stock and monitoring of expenditure payment arrears	D	NS

Source: GoB (2010), Bangladesh: Public Expenditure and Financial Accountability Assessment, Annex 2, p.72

5.2 Comprehensiveness and transparency

A robust budget classification system allows the tracking of spending on the major following dimensions like administrative unit, economic, functional and programs [8]. The existing budget classification structure of Bangladesh is a 13-digit structure consisting of four separate dimension covering legal, organizational, operational unit and economic dimensions. PI-5 measures the classification of national budget and got overall rating ‘C’ in 2006 and improved to rating ‘B’ in 2010. It indicates that though Bangladesh made progress on this indicator still far away from international standard.

“Annual budget documentation (the annual budget and budget supporting documents), as submitted to the legislature for scrutiny and approval, should allow a complete picture of central government fiscal forecasts, budget proposals and out-turn of previous years” [8:p.11]. Getting the overall rating ‘C’ in 2006 and ‘B’ in 2010 on comprehensiveness of information included in budget documentation (PI-6) indicates that though Bangladesh is doing well on this indicator needs higher degree of improvement. Performance indicator PI-7 and PI-8 got overall rating ‘D’ and ‘D+’ respectively in 2006, means that the situation was worse for unreported government operations and transparency of inter-governmental operations. In 2010, PI-7 got the rating ‘B’ which is a significant improvement on this indicator but PI-8 drop declined to rating ‘D’. PI-9 rated ‘C’ in 2006 and drop off to rating ‘D’ in 2010 indicates that oversight of aggregate fiscal risk from other public sector entities are below the average level and needs to improve much more.

Transparency generally depends on whether information on fiscal plans, positions and performance of the government is easily accessible to the general public or at least the relevant stakeholders [11]. PI-10 measures the extent to which the key fiscal information accessible to public. In Bangladesh, PI-10 got the rating ‘C’ in 2006 represents that public access to key fiscal information was lower at that time but it improved to rating ‘B’ in 2010. Table-5.2 represents the assessment of comprehensiveness and transparency indicators.

Table-5.2: Assessment of comprehensiveness and transparency indicators

PEFA Indicators		Rating	
		2006	2010
PI-5	Classification of the budget	C	B
PI-6	Comprehensiveness of information included in the Budget	C	B
PI-7	Extent of unreported government operations	D	B
PI-8	Transparency of inter-government fiscal relations	D+	D
PI-9	Oversight of aggregate fiscal risk from other public sector entities	C	D+
PI-10	Public access to key fiscal information	C	B

Source: GoB (2010), Bangladesh: Public Expenditure and Financial Accountability Assessment, Annex 2, p.72

5.3 Policy-based budgeting

Generally the Ministry of Finance is involved in the budget formulation and implementation process in collaboration with the Planning Commission and other line ministries. PI-11 measures the degree of orderliness and participation in the annual budgeting process. Bangladesh received rating ‘B’ on PI-11 in both 2006 and 2010. It indicates that Bangladesh got good achievement on this performance indicator. But the situation was worse for PI-12 in 2006 and improved a lot in 2010 in case of measuring the long-term (multi-year) perspective in fiscal planning, expenditure policy and budgeting.

Table-5.3: Assessment of policy based budgeting indicators

PEFA Indicators		Rating	
		2006	2010
PI-11	PI-11 Orderliness and participation in the annual budgeting process	B	B
PI-12	PI-12 Multi-year perspective in fiscal planning, expenditure policy & budgeting	D+	B

Source: GoB (2010), Bangladesh: Public Expenditure and Financial Accountability Assessment, Annex 2, p.72-73

5.4 Predictability and control in budget execution

A set of 9 performance indicators (PI-13 to PI-21) of the total 31 high-level performance indicators constitute the broad dimension, predictability and control in budget execution of the country PFM system. Among these 9 performance indicators, 1 indicator (PI-19) got the rating ‘B’, 1 indicator (PI-15) got the rating ‘D+’, 1 indicator (PI-21) got ‘D’ in both the assessments, 4 indicators (PI-13, PI-14, PI-16, and PI-17) received improved rating in 2010 than 2006 and 2 indicators (PI-18 and PI-20) got lower rating in 2010 than 2006. All of the indicators of this category except PI-19 received a rating equal to ‘C+’ or less. From this finding it is clear that Bangladesh is weak in budget predictability and control in budget execution. Table-5.4 summarizes the assessment of predictability and control in budget execution indicators.

Table-5.4: Assessment of predictability and control in budget execution indicators

PEFA Indicators		Rating	
		2006	2010
PI-13	Transparency of taxpayer obligations and liabilities	D+	C
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	D+	C
PI-15	Effective collection of tax payments	D+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C	C+
PI-17	Recording and management of cash balances, debt and guarantees	C	C+
PI-18	Effectiveness of payroll controls	C	D+
PI-19	Competition, value-for-money & controls in procurement	B	B
PI-20	Effectiveness of internal controls for non-salary expenditure	C	D+
PI-21	Effectiveness of internal audit	D	D

Source: GoB (2010), Bangladesh: Public Expenditure and Financial Accountability Assessment, Annex 2, p.73

5.5 Accounting, recording and reporting

“Timely and frequent reconciliation of data from different sources is fundamental for data reliability” [11:p.26].PI-22 measures the degree of timeliness and regularity of accounts. Bangladesh scored overall rating ‘C’ in 2006 and ‘B’ in 2010 on this indicator means that she is improving with the passes of time. Government of Albania and the World Bank [11:p.27] mentioned that- “problems frequently arise in front-line service delivery units providing services at the community level (such as schools and health clinics) in obtaining

resources that were intended for their use, whether in terms of cash transfers, distribution of materials in kind, or provision of centrally recruited and paid personnel”. PI-23 focuses on the issue of availability of information on resources received by service delivery units. Indicator PI-23 received the overall rating ‘C’ in 2006 and ‘D’ in 2010 represents relatively less availability of information on resources received by service delivery units and large improvements are needed in this respect. Bangladesh also rated ‘C’ in 2006 and ‘C+’ in 2010 for quality and timeliness of in-year budget reports (PI-24) and for quality and timeliness of annual financial statements (PI-25) got ‘C’ and ‘D+’ in 2006 and 2010 respectively (See Table-5.5). These findings indicate that quality of accounting, recording and reporting is much lower in Bangladesh and needs a greater degree of improvements.

Table-5.5: Assessment of accounting, recording and reporting indicators

PEFA Indicators		Rating	
		2006	2010
PI-22	Timeliness and regularity of accounts reconciliation	C	B
PI-23	Availability of information on resources received by service delivery units	C	D
PI-24	Quality, timeliness of in-year budget reports	C	C+
PI-25	Quality and timeliness of annual financial statements	C	D+

Source: GoB (2010), Bangladesh: Public Expenditure and Financial Accountability Assessment, Annex 2, p.73-74

5.6 External scrutiny and audit

A high quality external audit is a fundamental requirement for creating transparency and accountability in the use of public funds [11]. The scope, nature and follow-up of external audit (PI-26) is rated ‘D+’ in both the assessments. Legislative scrutiny of annual budget law (PI-27) and legislative scrutiny of external audit reports (PI-28) got the rating ‘D’ and ‘C’ respectively in 2006 and improved a little bit in 2010 (see Table-5.6). It indicates that the external security and audit system are also poor in Bangladesh.

Table-5.6: Assessment of external security and audit indicators

PEFA Indicators		Rating	
		2006	2010
PI-26	Scope, nature, follow up of external audit	D+	D+
PI-27	Legislative scrutiny of the annual budget law	D	D+
PI-28	Legislative scrutiny of ext. audit reports	C	D+

Source: GoB (2010), Bangladesh: Public Expenditure and Financial Accountability Assessment, Annex 2, p.74

5.7 Donor practices

Direct budget support (both general budget support and sector budget support) from the donor agencies provides an important source of revenue for central government in many countries. Poor predictability of inflows of budget support affects the government’s fiscal management activities in much the same way as the impact of external shocks on domestic revenue generation [11]. According to the PEFA framework, indicator D-1 measures the predictability of direct budget support. The indicator D-1 received the rating ‘B’ in 2006 and declined to ‘D+’ in 2010 means that predictability of direct budget support is getting worsen in Bangladesh and still below the international standard. Predictability of disbursement of donor support for projects and programs affect the implementation of specific line items in the annual budget [10]. Indicator D-2 measures the extent to which the donors provide financial information for budgeting and reporting on project and program aid. Bangladesh got rating ‘C’ in 2006 and ‘B’ in 2010 on this indicator (D-2) means that performance is improving in this regards. Donors’ alignment with the recipient countries national procedures is also a crucial factor for aid effectiveness, since it supports the government’s PFM system. Indicator D-3 measures the proportion of aid managed by the use of national procedures. Indicator D-3 got the rating ‘B’ in 2006 and ‘D’ in 2010 (See Table-5.7) in Bangladesh means that donor alignment with the country system was good in 2006 but in 2010 it was very poor and beyond the targeted level ‘A’.

Table-5.7: Assessment of donor practices indicators

PEFA Indicators		Rating	
		2006	2010
D-1	Predictability of Direct Budget Support	B	D+
D-2	Financial Information provided by Donors for budgeting and reporting on aid	C	B
D-3	Proportion of aid that is managed by use of national procedures	B	D

Source: GoB (2010), Bangladesh: Public Expenditure and Financial Accountability Assessment, Annex 2, p.74

5.8 Comparative analysis

Table-5.8 represents the summary results of all the 28 country level PEFA indicators of Bangladesh's PFM system and also makes a comparison with the 57 countries average score on those indicators under 6 broad dimensions simultaneously. PEFA scores are converted into numerical value according to Paolo de Renzio's [5] following methodology:

PEFA Score	A	B+	B	C+	C	D+	D
Numerical Value	4	3.5	3	2.5	2	1.5	1

The summary result shows that Bangladesh ranked 'B' for only 2 of the indicators among all the 28 indicators and 'C', 'D+' and 'D' for rest of the indicators in 2006. The situation was worse in 2006 for the dimensions credibility of the budget (average score 1.75), budget comprehensiveness and transparency (average score 1.75), predictability and control in budget execution (average score 1.83) and external security and audit (average score 1.50) in Bangladesh because individual average score for these three dimensions are lower than 2.00 (equivalent to 'C'). But in 2010, Bangladesh got rating 'B' for 10 indicators which indicates she made a significant improvement in fiscal management compared to previous assessment. Moreover, the result also shows that the average score of all the major dimensions except external scrutiny and audit of Bangladesh got improvement in the assessment of 2010 than the assessment of 2006.

The results on the comparison between Bangladesh and 57 countries of the world (mostly developing) on the PEFA indicator shows that in 2010, Bangladesh's average score on each of the six dimensions except policy based budgeting is lower than the 57 countries average score. The overall average score of Bangladesh was 1.82 in 2006 (roughly equivalent to 'C') and 2.07 in 2010 (roughly equivalent to 'C'). Both of which is also significantly lower than the overall score of 57 countries which is 2.33. Only a few individual indicators scored higher than the 57 countries average in both the assessment. Though Bangladesh is improving her quality of PFM the evidence clearly indicates that quality of PFM in Bangladesh is lower than the average quality of PFM in 57 countries.

Table-5.8: Summary results by budget dimension and indicators and comparison with 57 countries average score

Budget Dimension and Indicators	Bangladesh				*Avg. Score
	Rating		Num. Value		
	2006	2010	2006	2010	
Credibility of the budget					
PI-1: Aggregate expenditure out-turn compared to original approved budget	C	B	2	3	3.01
PI-2: Composition of expenditure out-turn compared to original approved budget	C	D+	2	1.5	2.26
PI-3: Aggregate revenue out-turn compared to original approved budget	C	B	2	3	3.41
PI-4: Stock and monitoring of expenditure payment arrears	D	NS	1	-	2.28
Average			1.75	1.88	2.74
Comprehensiveness and Transparency					
PI-5: Classification of the budget	C	B	2	3	2.61
PI-6: Comprehensiveness of information included in budget documentation	C	B	2	3	2.84
PI-7: Extent of unreported government operations	D	B	1	3	2.67
PI-8: Transparency of inter-governmental fiscal relations	D+	D	1.5	1	2.47
PI-9: Oversight of aggregate fiscal risk from other public sector entities.	C	D+	2	1.5	1.96
PI-10: Public access to key fiscal information	C	B	2	3	2.44
Average			1.75	2.42	2.50
Policy-Based Budgeting					
PI-11: Orderliness and participation in the annual budget process	B	B	3	3	3.02
PI-12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+	B	1.5	3	1.96
Average			2.25	3.00	2.49
Predictability and Control in Budget Execution					
PI-13: Transparency of taxpayer obligations and liabilities	D+	C	1.5	2	2.77
PI-14: Effectiveness of measures for taxpayer registration and tax assessment	D+	C	1.5	2	2.33
PI-15: Effectiveness in collection of tax payments	D+	D+	1.5	1.5	2.01
PI-16: Predictability in the availability of funds for commitment of expenditures	C	C+	2	2.5	2.22
PI-17: Recording and management of cash balances, debt and guarantees	C	C+	2	2.5	2.76
PI-18: Effectiveness of payroll controls	C	D+	2	1.5	2.16
PI-19: Competition, value for money and controls in procurement	B	B	3	3	2.10
PI-20: Effectiveness of internal controls for non-salary expenditure	C	D+	2	1.5	2.14
PI-21: Effectiveness of internal audit	D	D	1	1	1.63
Average			1.83	1.94	2.23
Accounting, Recording and Reporting					
PI-22: Timeliness and regularity of accounts reconciliation	C	B	2	3	2.35
PI-23: Availability of information on resources received by service delivery units	C	D	2	1	1.79
PI-24: Quality and timeliness of in-year budget reports	C	C+	2	2.5	2.47
PI-25: Quality and timeliness of annual financial statements	C	D+	2	1.5	1.98
Average			2.00	2.00	2.15
External Scrutiny and Audit					

PI-26: Scope, nature and follow-up of external audit	D+	D+	1.5	1.5	1.69
PI-27: Legislative scrutiny of the annual budget law	D	D+	1	1.5	2.45
PI-28: Legislative scrutiny of external audit reports	C	D+	2	1.5	1.56
Average			1.5	1.5	1.90
Overall Average			1.82	2.07	2.33

Source: GoB (2010), Paolo de Renzio (2009, ODI working paper no. 302) and author's calculation.

* The average score on PEFA indicators of 57 countries is calculated by Paolo de Renzio in the ODI working paper no. 302 in 2009.

Table 5.9 represents the average score of Bangladesh on six budget dimensions and its comparison with East Asia and Pacific (EAP) countries, Sub-Saharan Africa (SSA) countries and Low Income Countries (LICs). The result shows that in case of policy based budgeting and accounting, recording and reporting Bangladesh is doing better than these three groups of countries. But for other dimensions Bangladesh is doing well compared to EAP, SSA and LICs. In case of budget credibility Bangladesh's performance is far away from the EAP, SSA and LICs. The result also shows that overall score of Bangladesh on six dimensions in 2010 is less than the overall average score of EAP, SSA and LICs but bit closer to them.

Table-5.9: Summary results by budget dimension and comparison with EAP, SSA and LICs countries average score

Budget Dimension and Indicators	Bangladesh		*Avg. Score		
	2006	2010	EAP	SSA	LICs
Credibility of the budget	1.75	1.88	2.70	2.54	2.39
Comprehensiveness and Transparency	1.75	2.42	2.44	2.36	2.88
Policy-Based Budgeting	2.25	3.00	2.38	2.45	2.42
Predictability and Control in Budget Execution	1.83	1.94	1.96	2.08	1.97
Accounting, Recording and Reporting	2.00	2.00	1.76	1.96	1.95
External Scrutiny and Audit	1.50	1.50	1.54	1.97	1.75
Overall Average	1.82	2.07	2.13	2.23	2.13

Source: GoB (2010), Paolo de Renzio (2009, ODI working paper no. 302) and author's calculation.

* The average score on PEFA indicators of EAP (8 countries), SSA (21 countries) and LICs is calculated by Paolo de Renzio in the ODI working paper no. 302 in 2009.

5.9 Policy actions should be taken for PFM reforms

Bangladesh needs to have a greater degree of improvements on most of the high-level performance indicators set by the PEFA framework to ensure better quality of public financial management (PFM) with a view to achieve the government's targeted pro-poor developmental objectives. Following policy actions should be taken for improving the quality of PFM system of Bangladesh:

- i) To increase the credibility of the budget, government should –
 - Get out from the tendency of over-programming the ADP in the original budget to reduce the gap between actual primary expenditure and the budgeted primary expenditure.
 - Forecast the domestic revenue collection in a more accurate manner considering the reality and avoiding the over-ambitious propensity, especially for non-tax revenue forecasting.
 - Improve the monitoring of expenditure payment arrears and create a reliable data source on expenditure payment arrears.
- ii) For achieving budget comprehensiveness and more transparency government should –
 - Make a new budget classification structure which will be consistent with the Classification of the Functions of Government (COFOG) definition of the functions of the government.
 - Include all necessary information in the budget documentation and try to reduce unreported government operations.
 - Introduce standard accounting practices (SAP) for state-owned enterprises and autonomous government agencies to reduce the fiscal risk from these public sector entities.
 - Make key fiscal information accessible to public.
- iii) To improve the policy-based budgeting government can take steps to –
 - Increase the participation of line ministries in the budget preparation process.
 - Address to long-term perspective (Medium Term Budgetary Framework and PRSP targets) in fiscal planning, expenditure policy and annual budgeting.
- iv) For better predictability and control in budget execution government should –
 - Strengthen the National Board of Revenue (NBR) both legally and institutionally to make them more efficient in collection of tax payments and ease the tax payment process for the taxpayers.

- Increase the efficiency of Economic Relation Division (ERD) and Bangladesh Bank in recording and managing of cash balance, debt (external and domestic) and guarantees.
 - Make the public procurement system more transparent and efficient.
 - Strengthen the internal audit mechanism with logistic supports.
- v) For better accounting, recording and reporting, government should –
- Computerize the government accounting system at the upazila level for timeliness and regularity of accounts reconciliation make the information more available on resources received by the service delivery units.
 - Produce accounting information on a timely basis and increase the quality and timeliness of annual financial statements.
- vi) To improve the external scrutiny and audit government should –
- Present the proposed annual budget to the Parliament at least 45 days prior to start the fiscal year for better legislative scrutiny.
 - Strengthen the public accounts committee (PAC) for better legislative scrutiny of external audit reports.

VI. Conclusion

A sound public financial management (PFM) system is essential for better governance that allows the government to achieve the macroeconomic sustainability, developmental objectives and pro-poor economic growth. As a developing country Bangladesh should also have a sound PFM system to manage efficiently her fiscal discipline with a view to support the developmental works. But the evidence shows that the quality of PFM in Bangladesh is fairly low. Bangladesh's average overall score on all the indicators is 2.07 according to the assessment of 2010 which is much lower than the 57 countries overall average score (2.33). Average score of each of the six major budget dimensions in Bangladesh also lower than that of 57 countries average (Table-4.8). Moreover, among the 28 PEFA high-level performance indicators (PI) to measure the quality of PFM at the country level, 3 indicators ranked 'D', 9 indicators ranked 'D+', 2 indicators ranked 'C', 3 indicators ranked 'C+' and 10 indicators ranked 'B' and no indicator ranked the highest ranking 'A' in Bangladesh. A total of 17 indicators ranked in the category of either 'C' or 'D' indicate that performance of those indicators are very low and needs a greater degree of improvements on those indicators. So, to improve the quality of PFM system of Bangladesh the government should specifically identify the factors responsible for low performance of the PEFA indicators and take actions on those factors to improve the performance gradually. Government should also develop a detailed action plan for raising many of the 'C' and 'D' rating indicators to 'B' rating. Further policy research can help the government of Bangladesh in this regards.

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