



Program Information Documents (PID)

Appraisal Stage | Date Prepared/Updated: 30-Nov-2018 | Report No: PIDA171248

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

Country Bangladesh	Project ID P167491	Program Name Bangladesh Strengthening PFM Program to Enable Service Delivery	Parent Project ID (if any)
Region SOUTH ASIA	Estimated Appraisal Date 02-Dec-2018	Estimated Board Date 15-Feb-2019	Practice Area (Lead) Governance
Financing Instrument Program-for-Results Financing	Borrower(s) Peoples Republic of Bangladesh	Implementing Agency Ministry of Finance	

Proposed Program Development Objective(s)

The Program Development Objective (PDO) is to improve fiscal forecasting, budget preparation and execution, financial reporting and transparency to enable better resource availability for service delivery in selected Ministries, Departments, and Agencies.

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

Government program Cost	356.50
Total Operation Cost	170.00
Total Program Cost	170.00
Total Financing	170.00
Financing Gap	0.00

FINANCING (USD Millions)

Total World Bank Group Financing	100.00
World Bank Lending	100.00
Total Government Contribution	70.00



B. Introduction and Context

Country Context

1. Bangladesh is one of the world's most populous country with an estimated 165 million people in a geographical area of about 144,415 sq km and per capita income of US\$1,670 (WB Atlas method) in 2018, well above the lower middle-income country category threshold which it crossed in FY14. During recent years, economic conditions improved in the country. However, headline inflation increased to 5.8 percent in FY18, from 5.4 percent in FY17, reflecting increases in food prices due to supply shocks. Fiscal deficit was contained at around 4.5 percent of Gross Domestic Product (GDP) in FY18. The FY18 budget targets 5 percent deficit with 26.2 percent growth in expenditures. The current account deficit increased to 3.5 percent of GDP in FY18. The GDP grew well above the average for developing countries in recent years, averaging 6.5 percent since 2010, with an officially estimated growth of 7.86 percent in FY18, driven by manufacturing and construction. Progress on reducing extreme poverty and boosting shared prosperity through human development and employment generation has continued with the poverty incidence based on the international \$1.90 per capita per day poverty line (measured on the basis of the purchasing power parity exchange rate) declining from 44.2 percent in 1991 to a 14.8 percent in 2016 (latest available poverty data. In the World Bank's Human Capital Index 2018, Bangladesh performed better than the South Asian average as well as the lower middle-income average in all criteria except for stunting. With current education and health conditions, a child born today in Bangladesh will be 48 percent as productive as she could have been. Bangladesh's performance against the Millennium Development Goals was impressive relative to the South Asia Region average for most of the indicators. Such progress notwithstanding, the pace of poverty reduction and the rate of job creation has slowed since 2010. Bangladesh needs stronger effort in making growth more inclusive and sustainable to meet its target of eliminating poverty by 2030 and attaining the upper middle-income status by 2031. For accelerating private sector-led growth with improved investment climate, the key challenges are the need for increased infrastructure and power, with much improved quality in spending public resources, better regulations and enhanced skills of its vast and rapidly increasing labor force.

2. Bangladesh's vulnerability to climate change represents a growing economic and fiscal risk. Bangladesh is one of the most climate vulnerable countries in the world. The country's emissions are less than 0.35 percent of global emissions¹. The economic losses due to climate change over the past 40 years were estimated at US\$12 billion². Growth and stability in Bangladesh is subject to extreme forms of climate risks through both ex-post and ex-ante channels. Ex-post macro effects include the direct effects of climate impacts such as sea-level rise, changes in crop yields, and floods after they occur. Over the next decade, growth could be lower, depending on the frequency and magnitude of flooding³. Ex-post impacts include depression of labor demand, particularly for low-skilled workers. Ex-ante impacts, derive from households altering their behavior in anticipation of a climate risk, which affects productivity and growth.

¹ Bangladesh's Intended Nationally Determined Contributions, page 2

² Nationally Determined Contribution of Bangladesh Implementation Roadmap, page 1

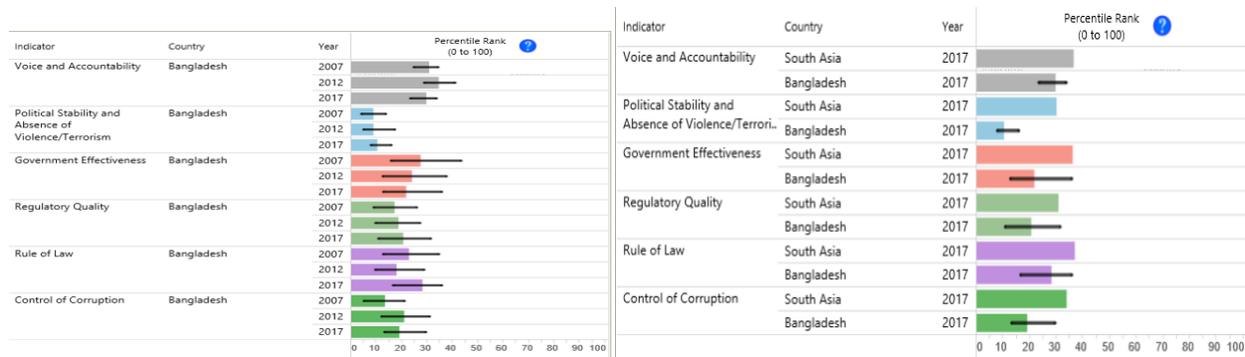
³ World Bank. 2016. Helping Bangladesh Become Resilient to Climate Change Threats. Available at <http://www.worldbank.org/en/news/feature/2016/10/10/helping-bangladesh-become-resilient-climate-change-threats>; Germanwatch e.V. 2017. Global Climate Risk Index 2017. Available at: <https://germanwatch.org/en/12978>; and World Bank. 2009. Bangladesh - Policy note on climate change. Available at: <http://documents.worldbank.org/curated/en/691511468208161047/Bangladesh-Policy-note-on-climate-change>



Sectoral and Institutional Context

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

Figure 1: World Governance Indicators (WGI)



Source: The World Bank – World Governance Indicators

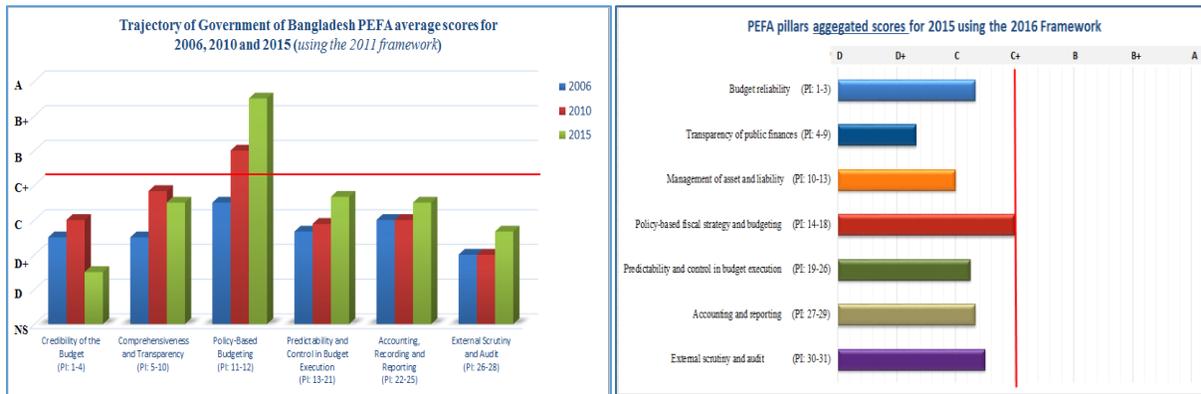
4. Over the past two decades, Bangladesh has improved the PFM systems as a key ingredient of the overall governance, yet bottlenecks exist. The Public Expenditure Review (PER) 2015 validated the government’s then prudent fiscal management - low fiscal deficits (3.1 percent of GDP, although they exceeded 5 percent in FY17), improved sustainability of public debt (debt reduced to 31 percent of GDP at the end of FY17), and increased proportion of development expenditures (41 percent, FY17). At the same time, the PER identifies the key concerns - low tax to GDP ratio (around 9 percent, FY17, one of the lowest in the region), limited budget absorption capacity, decreasing quality of the public investment portfolio resulting in implementation delays (80 percent of projects), cost overruns, low return on investments, and increasing debt service costs. The PER also raises budget allocation issues - rapid asset erosion due to lack of maintenance and repairs⁴, limitations in the design and targeting of agriculture subsidies, and low per capita health expenditures. The public expenditure and financial accountability (PEFA) assessment (2016) shows that despite considerable improvements, Bangladesh’s overall PFM performance is below average for six out of seven pillars. Individual performance indicators revealed

⁴ The Global Competitiveness Report 2014-15 ranks Bangladesh’s overall infrastructure at 130 out of 144 countries.



improvements in seven areas, while 14 remained the same and seven deteriorated. Lack of reliability in the revenue forecast and expenditure budgets, insufficient oversight, lack of alignment between development and operating budget, weaknesses in controls, lack of fiscal and performance monitoring of SOEs, and lack of timeliness for preparation of fiscal reports and audit are key PFM bottlenecks affecting the timely availability of resources for service delivery.

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



5. These PFM bottlenecks affect the efficient allocation, availability and use of resources for social service delivery in several ways. Multi-year planning becomes less effective as the annual budget ceilings are not sufficiently aligned with the ambitions in the 5-year national plans⁵ and strategy documents. The annual budgets are mostly incremental within tight envelopes with limited flexibility for equitable resource allocation geographically or among different programs. Delay in budget releases is often cited as one of the biggest bottleneck to smooth and efficient service delivery. Budget release for health sector development funds (especially reimbursable project aid for the 3rd and 4th quarters) often takes more than two months⁶, primarily due to ministry-level internal approval processes. This delays the implementation of critical activities and the payment to contracts for goods/services. In addition, social sector budgets are fragmented due to the vertical programs and externally-financed interventions that poses several management challenges at the level of the budget holders and frontline service providers. Slow procurement process delays the provision of necessary goods and services. For example, it takes an average of 15–18 months for drugs to reach the Upazila Health Complex and below, while it shouldn't take more than 9 months in procuring and distributing these. Sector ministries often advocate for the need for flexible cash resources at the health and education facilities. While cash handling is not considered as a good practice and risky, there is sufficient evidence from the field of how public service delivery suffers due to lack of resources for minor repairs, petty purchases, or paying the travel allowance for maternity patients. In some health sector program, the issue has been addressed on an ad hoc basis. Finally, inadequate audit follow-up and delayed resolution of audit paras could affect aid disbursement and civil servants' terminal benefits, thereby negatively affecting the motivation of service providers.

6. The Government of Bangladesh has been a pioneer in introducing a climate-responsive public financial management system. In 2014, the government adopted a Climate Fiscal Framework, providing

⁵ Analysis shows that the annual social sector expenditures have been significantly below what was planned in the 5th or 6th five-year plans.

⁶ World Bank. In press. *Diagnostic Study of PFM for Strengthening Health Financing and Service Delivery in Bangladesh*.



a roadmap to link national climate strategies with the resource allocation system. The Climate Fiscal Framework prompted more specific interventions to make the budgeting exercise under the medium-term budget framework (MTBF) climate inclusive. This was first initiated in a pilot of six ministries in the FY 2017-18 budget. In June 2018, the Bangladesh Climate Financing for Sustainable Development: Budget Report 2018-19, was rolled out covering all twenty line ministries that have programs and projects of significant climate relevance. The assessment shows that 8.82 percent of the FY19 budget of the twenty ministries (covering around half of the total national budget) was targeted to climate mitigation or adaptation. It also illustrates the evolution of the government financing response over time through the national budget and the growing importance of this response. Complementing this technical report, the government – with support from UNDP – published for the first time in August 2018 a Citizen’s Climate Budget, which translates the technical report into a set of simplified infographics for the general public. Together, these reports enhance transparency and help stakeholders identify areas of opportunity to leverage public expenditure to strengthen climate resilience.

7. A PFM Action Plan (2018-23) has been recently approved to support effective implementation of the PFM Reform Strategy (2016-21)⁷. The strategic goals of PFM reforms are to: (a) maintain aggregate fiscal discipline compatible with macro-economic stability and pro-poor growth; (b) allocate resources consistent with Government priorities as reflected in National Plan; (c) promote the efficient use of public resources and delivery of services through better budget execution; (d) promote accountability through external scrutiny and transparency of the budget; and (e) enhance the enabling environment for improved PFM outcomes. Within these goals, the PFM Action Plan provides the implementation roadmap for some priority actions with clear institutional responsibilities among thirteen thematic reform components, cost-benefit analysis of sub-activities, and results indicators to monitor the successful implementation. The PFM Action Plan also elaborates on the governance structure for reforms and the change management approach through a specific component devoted to these non-technical issues. As a cross-cutting issue, climate change financing has been addressed in several components of the PFM Action Plan. In addition, the Prime Minister has approved the roadmap for merger of the administrative and economic cadres, which will enable better alignment between the development and recurrent budgets.

8. With the proposed IDA financing, the new Strengthening PFM Program to Enable Service Delivery (SPFMS) will support implementation of part of the PFM Action Plan. Government’s internal Program Document for the SPFMS received the approval of the Honorable Prime Minister on Nov. 12, 2018. The SPFMS includes components directly led by the Finance Division (FD) – including the macro-fiscal forecasting, debt management, budget preparation and execution, integrated financial management information system (IFMIS), treasury single account (TSA), SOE monitoring, pensions, internal audit, and financial reporting. The program boundaries are further clarified later in this document.

9. The SPFMS builds on the government’s efforts to establish a climate responsive PFM system, partly supported by the First Bangladesh Jobs Programmatic Development Policy Credit⁸. A prior action under the Jobs program was the roll out of Climate Budgeting across twenty ministries with climate relevant expenditures and the approval by the Cabinet of the National Environmental Policy 2018, which will enable leveraging public expenditure for investments in climate resilience and climate change

⁷ The PFM Action Plan has been approved by the Minister of Finance.

⁸ Expected to be approved by the World Bank in December 2018.

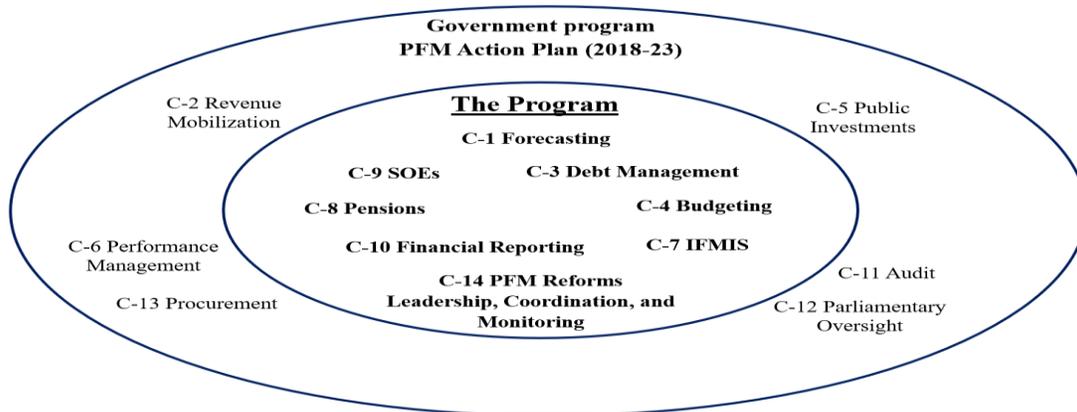


mitigation. This PforR operation will aim at ensuring the effective operation of this climate responsive PFM system and ensure that climate considerations are adequately attended to during (ex ante) budget preparation that leads to a higher spending on climate mitigation and adaptation.

PforR Program Scope

10. The Government’s PFM Action Plan (2018-23) includes fourteen reform components of which the new SPFMS Program will support eight of them. The government has requested Bank support for the PFM Action Plan components directly led by FD – including the macro-fiscal forecasting, debt management, budget preparation and execution, IFMIS, treasury single account, SOE monitoring, pensions, internal audit, and financial reporting. Government resources have not been sufficient to maintain the reforms’ momentum in these areas after the closure of the Strengthening Public Expenditure Management Program, package A (SPEMP-A) in 2014. This also impeded FD’s ability to lead the overall PFM reforms in Bangladesh.

Figure 3: Program boundary



11. The selection of eight PFM Action Plan components for the Program is driven by several factors. Firstly, they are closely related to the PFM bottlenecks to service delivery as explained in Box 1 below; secondly, these components are closely interconnected – (a) use of improved fiscal projections for budgeting binds the multiyear perspective with annual allocations and ensure improved budget quality and enhanced social sector allocations, (b) improving IFMIS will lead to timely financial reporting and better use of financial information by the budget-holders, (c) improving IFMIS also entails automating pensions and other payments through Electronic Funds Transfer (EFT) and online bill submission (d) an effective internal audit and SOEs monitoring are important for efficient expenditure control (including subsidies to SOEs), and (e) government debt management and information on SOE debt and contingent liabilities is an integral part of risk analysis for fiscal projections; thirdly, these components are primarily under the control of FD that will facilitate coherent implementation of the Program; and finally, this block of PFM reforms is unfunded while other components are already supported by the Bank and DPs - public investments (JICA



US\$5 million), procurement (IDA, US\$55 million), revenue mobilization (IDA, US\$60 million & EU Euro 4 million), and audit (EU, Euro 6 million).

12. The total cost of PFM reforms laid out in the PFM Action Plan exceeds US\$350 million for the next five years (Table 1). This includes reform activities led by the National Board of Revenue (US\$49.6 million), Planning Commission (US\$20.1 million), Cabinet Division (US\$40.2 million), Comptroller & Auditor General (US\$10.2 million), Parliament Secretariat (US\$6.4 million), and Central Procurement Technical Unit (US\$60 million), in addition to the components led by the FD (US\$170mil). Out of these, US\$115 mil is already provided by the World Bank and other DPs. The proposed IDA PforR is financing US\$100 mil, or 28.1 percent of the total.

C. Proposed Program Development Objective(s)

Program Development Objective(s)

13. The Program Development Objective (PDO) is to improve fiscal forecasting, budget preparation and execution, financial reporting and transparency to enable better resource availability for service delivery in selected Ministries, Departments, and Agencies.

PDO Level Results Indicators are:

Use of improved fiscal projections for budget-making

- Improved budget alignment with development strategy through better performance of BMCs (Average BMCs performance improves by twenty percent)
- Reduced number of days for DDOs to receive budget in selected Ministries, Departments, and Agencies (MDAs) (Sixty percent of DDOs receive budget by July 31)
- Timely, reliable payments of salaries and vendor invoices with strengthened treasury single account and automated payment system in selected MDAs (Forty percent EFT and thirty percent DDOs submitting online bills, and forty percent reduction in new special accounts outside TSA)
- Budget-holders effectively use financial information (50 percent budget-holders)

D. Environmental and Social Effects

14. The Program has an environmental and social risk-rating assessed as “low”. Given the scope of the Program, its types and scale of investment, geographic focus, institutional capacity and previous experience of FD with World Bank projects, the risk is rated ‘low’ from the environmental and social perspectives. Overall, the Environmental and Social Systems Assessment (ESSA) (Annex 5) found that the program is compatible with the core principles of PforR. The team is convinced of the institutional capacity of FD in running the program. However, ESSA recommends bolstering institutional capacity through recruiting environmental and social safeguard consultants for the program duration. This recommendation is summarized as actions and incorporated in the PAP.

15. The Program does not apparently pose any environmental or social risk since all the activities of the program are aimed at strengthening PFM program to enable service delivery. There is no physical



facilities construction, civil works or any activities that can pose any environmental risk whatsoever. Nevertheless, all citizens of the country including the vulnerable, the poor, disabled, women, children, the elderly and the indigenous people at large will directly benefit from the program due to service delivery improvements.

16. Specific environmental and social benefits expected of the program are:

- a. Disbursement Linked Indicator (DLI) 2 is aimed at improving budget alignment with development strategy and gender, social, and climate considerations through better performance of BMCs. This indicates that there will be an increased focus on allocating funds to environmentally sustainable projects and the capacity of BMCs will be increased to better screen such projects. This would encourage the inclusion of environmental sustainability concepts while submitting proposals for projects as added emphasis is assigned in the screening process.
- b. DLI 1, 2, 3 and 8 would help to improve the efficiency of the present PFM system at the macro level with its positive effect felt at the micro level. As such, these would directly and indirectly benefit all including the women, children, elderly, marginalized people, the vulnerable groups and the indigenous people.
- c. DLI 4 on Electronic Funds Transfer (EFT) and online bill submission would go a long way to directly benefit all government employees including the vulnerable, poor and disabled, women, and the elderly. Presently the system is manual, and clerical staff prepare the salary demand in a paper bill format on monthly basis and the process is slow, cumbersome and at risk of errors. This creates bottlenecks in the process. Any error in salary bill leads to a resubmission, and the process takes time and the affected recipient suffers. EFT will make the ‘salary’ matter paperless and efficient. Similarly, the social safety net payments to widows, freedom fighters and the elderly will improve.
- d. DLI 5 focuses on improved pension service (disaggregated by gender) through the EFT no later than the following pension payment cycle after retirement.
- e. DLI 10 is aimed at developing skills of the persons employed for PFM reform implementation and monitoring at the FD and recipient ministries. Such improved workforce skills would have a positive effect on the overall PFM program. Thus, all including the vulnerable, poor, disabled, women, the elderly and the indigenous people at large would indirectly benefit from DLI 10. In addition, DLI 10 would also provide post-graduation courses/certifications to 100+ staff and the Program would track them by gender to promote women among participants.

E. Financing

Program Financing

Sources	Amount (USD Million)	% of Total
Counterpart Funding	70.00	41.18
Borrower	70.00	41.18
International Development Association (IDA)	100.00	58.82



IDA Credit	100.00	58.82
Total Program Financing	170.00	

17. The Program is complemented by a compact, but important, change management/ enabling environment technical assistance to support, anchor, deepen, and sustain the reform processes. A separate Bank-executed technical assistance of approximately US\$10-12m over the lifetime of the Program under the SPEMP MDTF (financed by the Governments of Canada and the United Kingdom, and the European Union) will support selected PFM reforms. It will ensure the provision of timely and quality technical assistance and advice as required and include the engagement of expertise to support the government in niche areas (such as cash management, commitment control, TSA expertise, budgeting, and MTBF), as well as several discrete studies to help enhance understanding of key public resource management constraints at central or sectoral levels. The technical assistance would help the government identify relevant actions to address challenges faced as they evolve, broker solutions to collective action problems, and help ensure that reform processes are informed and adapted as implementation progresses. This is continuation of the ongoing engagement e.g. the development of the PFM Action Plan. This included DPs’ provision of time, comments on the PFM Action Plan and contributions on specific analytical inputs, as well as financing for engagement of technical and secretarial assistance through the SPEMP. DPs will continue to support the technical assistance required for SPFMS success.

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