

Reforms in Public Financial Management – Way Forward

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The Presentation will Cover

- ❑ Challenges of Public Financial Management in Bangladesh
- ❑ The current status of public finances in Bangladesh

- ❑ The future challenges related to public finances in Bangladesh
 - Resource Mobilization challenge
 - Service delivery challenge
 - Infrastructure challenge
 - Deficit financing challenge

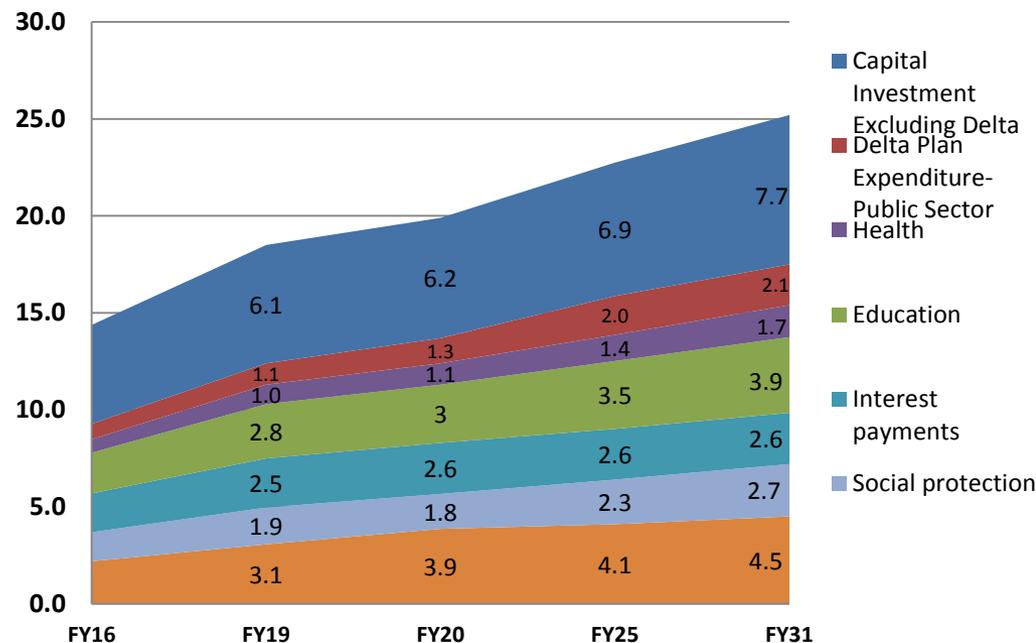
- ❑ How to address the challenges through PFM reforms

Outlook for Public Expenditure A Challenge and Responsibility

- The draft Delta Plan, which is based on the Seventh Five Year Plan and well beyond that, envisages a 10 percentage points increase in budgetary spending to more than 25% of GDP by FY31.
- Since the government will be empowered to spend 1/4th of Bangladesh GDP, it is also an enormous responsibility.
- All categories of spending are projected to increase except for interest payments.
- We all are aware that, if resources of such a high proportion is not spent well, as a society we may not be better off with the larger size of the Government and larger revenue collection from the private sector (from around 12% of GDP to 20% of GDP).

Expenditure Composition in Delta Plan

(As % of GDP, FY16 to FY31)



Source: PRI Staff Estimates

Public Financial Management in Bangladesh

- ❑ 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 have a sound PFM system to manage fiscal discipline with a view to support the developmental works.
- ❑ Bangladesh's PFM system is composed of a series of government activities relating to:
 - Resource mobilization,
 - allocation of resources,
 - management of resource flows,
 - execution of programs and projects, and
 - oversight of public financial resources.
- ❑ Overall, the process includes revenue collection and management, the planning, public procurement, implementation of programs and projects, and audit of public expenditure programs and projects.

Role and Implications for PFM

- ❑ The objectives of public financial management are to: (a) achieve fiscal discipline consistent with macroeconomic stability; (b) effectively allocate resources to national priorities; and (c) ensure value for money and efficient use of resources to deliver services.
- ❑ Achievement of these objectives require improvements in a range of PFM areas working thru three major themes:

Macroeconomic/Fiscal Context

- ❑ Public Resource Mobilization
- ❑ Public Expenditure
- ❑ Public Debt Management

Sectoral Context

- ❑ Sectoral Programs for higher inclusive growth (power, energy, transport, agriculture, rural development and water)
- ❑ Sectoral programs for empowering citizens (health, education, social protection)

Resource Efficiency and Governance

- ❑ Public Financial Management and Oversight
- ❑ Public Sector Management

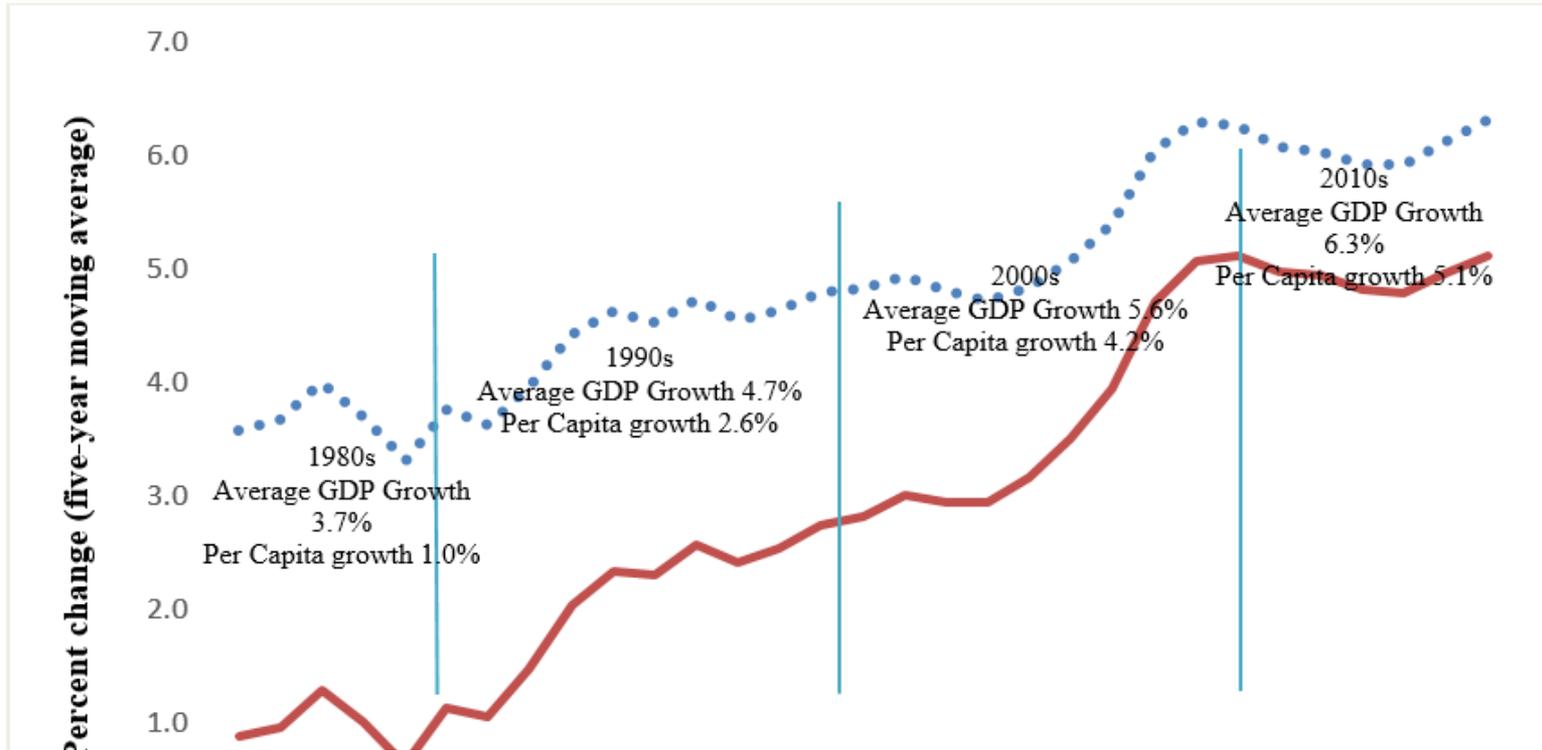
Context and Background

- In 1971 Bangladesh was a new country, emerging from conflict and with an inherited public financial management system modeled according to the needs of the colonial administration in the Indian sub-continent.
- The public financial management (PFM) system has evolved over time to cater to the development needs of the country, but retains features of a system focused on controlling inputs with an emphasis on following administrative orders.
- A series of reforms have been introduced over the last two decades, and much has changed since the inherited system. New laws (notably the Public Money and Budget Management Act, 2009) were introduced to enact the principles of sound financial management.
- A series of public financial reform programs were undertaken from the 1990s onwards, which undoubtedly improved the management of public resources, but nonetheless fell short of expectations.
- The purpose of the new PFM Strategy 2016-21 is to build on the past reforms and learn from what has worked and what has not, in order to strengthen the basics required for achieving the overarching national goals.

Overarching National Goals

- ❑ Bangladesh has made remarkable development progress since Independence; in the last decade average economic growth rates reached 7 percent per year, and growth has been inclusive: poverty headcount rates have fallen from 31.5 percent in 2010 to 25 percent in 2015.
- ❑ Several successes from the last decade are notable and worth mentioning as they set the scene for the next public financial management reform strategy. These include macroeconomic stability which has supported a private sector-led export-oriented growth, and a vibrant non-government and private sector which together with the public sector have provided services that have contributed to reductions in infant and maternal mortality rates, improved gender equality and a rise in completion rates in education.
- ❑ Future goals is to reach middle-income country status by 2021 and further reduce the poverty headcount to 15 percent of the population.
- ❑ To reach the new national objectives the public financial management system needs to be able to deliver several improvements; such as a broader tax base and higher government revenues, a program of public investments to build core infrastructure, and social expenditures that can deliver protection for the poor and vulnerable.

Trends in Bangladesh GDP Growth Since 1985



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