

Public Resource Management

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The Bangladesh Public Resource Management Adjustment Project for US\$150 million equivalent, supported by Credit 2361-BD was approved in FY92. The Credit closed in FY97, following two extensions from the original closing date in FY94. A balance of about US\$50 million scheduled for third tranche release was canceled. The Implementation Completion Report (ICR) was prepared by the South Asia Regional Office. The Borrower's contribution is included as an appendix.

The objective of the Public Resource Management Adjustment Credit (PRMAC) was to support the Government of Bangladesh's efforts to improve macroeconomic management and the balance of payments sustainability. The focus was key fiscal policy and institutional arrangements to improve public resource management, public savings and the Government contribution to the Annual Development Program (ADP). Policy reforms were targeted at improving revenue mobilization by broadening the tax base, improving tax administration and reducing tax arrears. These reforms were complemented by measures designed to improve the management and prioritization of public expenditure, both current and investment spending, so as to improve the efficiency of project implementation and aid utilization. Other measures were intended to strengthen institutional capabilities, institute budget and accounting reform, and improve internal debt management of the larger State Owned Enterprises (SOEs).

Initial progress (FY92 to FY94) in the achievement of the above objectives was good but was less satisfactory in the following two years. There was a strong improvement in the budget's revenue surplus from 0.9% of GDP in FY91 to 3.3% in FY95, which reduced one of the key constraints on the growth of public investment. This was achieved by augmenting revenues and containing current expenditures. A notable achievement was a strong improvement in revenue mobilization from 9.3% of GDP in FY90 to 12.2% of GDP in FY94, due largely to the introduction of a Value Added Taxation system. Disappointingly, this trend was not maintained, and Government revenue declined to 11.5% of GDP by FY96. Progress was also made in improving the quality of the ADP by introducing a rolling three year investment program and enhancing the rigor of project monitoring and evaluation. Again, the impetus for administrative reform weakened and the third tranche was not released, owing to the Government's failure to maintain the revenue performance targets specified under the Credit.

The ICR rates project outcome as satisfactory, sustainability as uncertain and institutional development as substantial. The Operations Evaluation Department (OED) rates the project outcome as marginally satisfactory, institutional development as modest and concurs with the sustainability rating. OED believes that positive progress has been made in improving public resource management in Bangladesh despite the doubts about sustainability, and that this project contributed to this improvement. Less satisfactory were the achievements made in bringing about a fundamental improvement in institutional performance and capabilities. Both the ICR and OED rate Bank performance as satisfactory.

The main lessons drawn from this project include the following: (a) the need for strong Government commitment and resolve in improving public resource management is especially crucial when there are many conflicting interests among potential beneficiaries; (b) in fiscal adjustment operations such as this, tranche release conditions should be limited in number, but sharply focused on key issues and constraints, and take realistic cognizance of the existing institutional limitations;

(c) speedy improvements in revenue mobilization can be accomplished by broadening the tax base, in a transparent manner, buttressed by an appropriate and efficient collection and enforcement system; (d) donors need to work collectively to improve the quality and efficiency of public investment programs.

The ICR is satisfactory but has a number of omissions. There were a number of cofinanciers for this project, but while their comments were solicited, none was received. Furthermore, the standard table showing mission schedules during the life of the project was missing. There are a number of positive features, however. The Aide Memoire of the completion mission, together with the detailed Government comments, suggests that a productive dialogue resulted from the project completion and evaluation exercise.

No audit is planned.