

Public Investment Environment in the Planning Sector of Bangladesh: the Process, Challenges and the Reform Actions

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Abstract

Bangladesh has been on the trot for rising the quality of life of the citizen to emerge as a middle-income nation by the year 2021 which requires major improvement in urban and regional development initiatives. Public investment is the single most influential factor that needs to support this growth. But in reality the inherent deficiency and challenges in public investment management system act as a barrier to achieve the goals. It has been a crucial planning and development issue for urban and regional development as well as the overall economic growth of the nation. The study has analyzed the current public investment environment in Bangladesh; and also pinpoint the embedded challenges, along with some recommended reform actions in this regard.

Introduction

The Perspective Plan¹, 2010 aspires to transform Bangladesh from a low income economy (in 2010) to the first stage of a middle-income nation by the year 2021². The Plan further expected the economy to grow at 8% per annum by 2015 and 10% by 2021 along with improving other economic and social indicators i.e. equality in income distribution and women empowerment, per capita income to increase to \$2,000 (\$923 in 2013), and the poverty head count rate to decline from the current 31.5% to 14% by 2021.³ Inclusive to these development plan, rural and urban development is embedded to all of these estimates of macro-economic development.

For an instance, the Revised Annual Development Plan (RADP) of Bangladesh has recognized rural and urban development as a key area of investment. As stated in the

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¹ GED, Planning Commission, 2012

² "As of 1 July 2014, low-income economies are defined as those with a GNI per capita, calculated using the *World Bank Atlas* method, of \$1,045 or less in 2013; middle-income economies are those with a GNI per capita of more than \$1,045 but less than \$12,746; high-income economies are those with a GNI per capita of \$12,746 or more. Lower-middle-income and upper-middle-income economies are separated at a GNI per capita of \$4,125. Note that low- and middle-income economies are sometimes referred to as developing economies." (World bank, 2016)

³ Perspective Plan of Bangladesh 2010-2021

following Table 01, form total 87081.50 crore development investment allocated by GoB 39350.64 crore has been allotted to Rural Development and Rural Institutions, Transportation and Physical Planning, Water Supply and Housing sectors, which are directly related to the urban and regional development. (Programming Division, 2016).

Table 1: Allocation of Development Investment within Urban and Regional Development

Planning Documents	Relavent Sectors	Amount BDT in (crore)		
		Total investment Budget Accuerd according to RADP	Total Development Budget at RADP 2015-2016	% of total development budget
RADP 2015-2016	RADP Sector 02: Rural Development and Rural Institutions	9046.13	87081.50	10
	RADP Sector 07: Transportetion	19212.13		22
	RADP Sector 09: Physical Planning, Water Supply and Housing	11092.38		13
Cumulative development investment provision in these three sector		39350.64		45

Source: Programing Division, 2016

Thus, the public sector is envisaged to play a leading role in provision of basic social goods and services, and capital investment to cater this growth target (GED, Planning Commission, 2012). But much of the argument for public investment relies on the belief that resources allocated to investment translate into an equivalent value of public capital stock; which eventually lower the cost of production and stimulate overall growth process. However, in Bangladesh, evidence suggests that public sector performance is far from ideal. For instance, development project funding needs are not met with the available resources, leading to cost and time overruns (see Table 2).

Table 2: State of Inefficiency in Public Investment in Bangladesh (Based on Fiscal Year 2011-2012)

'Strengthening Public Investment Management System Project' (SPIMS)⁴ analysed time and cost overruns for all projects completed in 2010-11. There were 255 projects analysed. Whilst not a strictly random sample, the project portfolio included projects started between 1995 and 2010 and so is likely to be free from systematic bias. Key findings were:

- 80 projects out of 255 (31%), which were completed in 2010-11, had cost overruns
- For the projects with a cost overrun, the average percent of cost overrun was 34%
- 167 projects out of 255 (65%) had a time overrun
- The original time to complete each of these projects should have been 43 months, but the average time overrun for these projects was 32 months (75%)

Source: IMED, 2012

⁴'Strengthening Public Investment Management Project', executed by the World Bank and part of the Strengthening Public Expenditure Management Program (SPEMP). The SPEMP is a comprehensive program funded by CIDA, DANIDA, DFID, EU and the Netherlands, and administered by the World Bank.

The objective of this research is to review the current procedures used for formulating 'Annual Development Programme' (ADP) and the *Revised ADP* (RADP) in Bangladesh. The paper have also shade some light on some challenges within the current system to improve the situation further.

Research Design

This is primarily a qualitative research, based on the secondary literature from different government laws, rules, circulars, working papers and other research findings. Macro-economic perspective and public investment in Bangladesh requires a holistic view to be interpreted or to be commented. Thus a large scale data collection needed to be done if one want to cater the needs. There had been several authentic empirical data sources in this regard. Thus those data sources had been used to develop this paper.

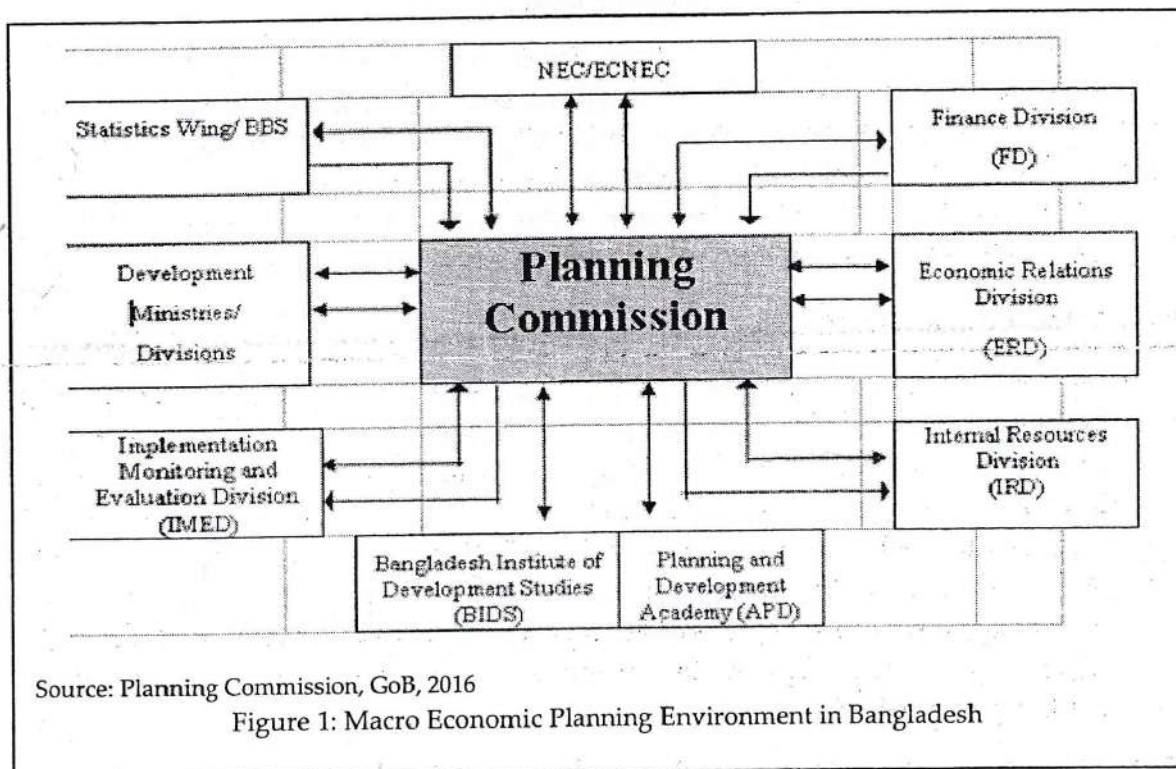
Overall Macro-Economic Planning and Public Investment Environment in Bangladesh

The Perspective Plan, Vision 2021, and the Sixth Five-Year Plan (SFYP) outline national development policy. ADP is the main tool for achieving the sectoral economic objectives and targets in line with the economic development strategies outlined in these plans. As a single-year document, the ADP is prepared annually and contains large investment projects funded through the development budget (GoB and ADP-funded). The contents of the ADP are revised in the RADP by the end of January each year to incorporate an updated list of projects and their revised allocations (often with a lower spending level). The organizational mapping on the macro-economic planning environment in Bangladesh is presented below:

Data is one of the key factors for effective and relevant development planning process. The Bangladesh Bureau of Statistics (BBS) mostly satisfies the information requirement for the Planning Commission (PC). Finance Division (FD) and Internal Resource Division (IRD) counsel the Planning Commission on resource availability and formulation of fiscal and monetary policy. The Implementation Monitoring and Evaluation Division (IMED) monitor the ADP implementation under the Five Year Plan (FYP) framework and the PC takes curative measures hence. Due to the dependency on Official Development Assistance (ODA) from the international sources, one of the key responsibilities lays on Economic Relations Division (ERD) who mobilizes ODA to meet development need over the countries' savings in the development planning environment.

At the micro level, ERD lines up project aids for implementation of ADP. Bangladesh Institute of Development Studies (BIDS) supports PC with research on different issues whenever necessary. Planning and Development Academy i.e. Bangladesh Public Administration Training Center (BPATC), National Academy for Planning and Development (NAPD) supports the PC by providing Capacity building training for the GoB officials. Finally, the Commission submits plans, programmes and projects to the NEC/ECNEC for formal approval. The Programming Division of the PC manages the preparation of the ADP and RADP. The NEC-ECNEC & Coordination Wing of the

Planning Division advises the Executive Committee of the National Economic Council (ECNEC) on approval of Development Project Proposals (DPPs) and Technical Project Proposals (TPPs) prepared by line ministries and agencies, which form sector programmes of the ADP.



Annual Development Programme: Purposes and Processes

The purpose of the ADP as described by the ADP Call Circular, 2014-15 is:

"The Perspective Plan (2010-2021) and the 6th Five Year Plan (2011-2015) have been prepared respectively as the long term and medium term plans for achieving the desired objectives of the Development Vision 2021. The Annual Development Programme (ADP) is the main tool for achieving the sectoral economic objectives and targets in line with the economic development strategies outlined in these Plans." (Programming Division, PC, 2014, p. 01)⁵

From the purpose statement it is obvious that ADP is the prime tool to achieve the strategic and policy goal in the long run. The PC is responsible for preparation, processing and approval of the ADP in Bangladesh. However, ADP preparation is a yearly affair and one of the peak responsibilities of the programming division and the

⁵ The circular is written on Bangla. The researcher of this paper translated the relevant part of the document to use it in this article.

sector divisions of the PC; though IMED, FD, GED, relevant ministries and the agencies are also involved in the process. The coordination function of PC has the jurisdiction to encompass the whole range of planning activities necessary for ensuring consistency of public investments with the overall national and sectoral objectives.

The programming division of the PC is the key agency responsible for preparation of the ADP, which currently takes place within every fiscal year from March to May. A number of procedures and systems (Figure 2) are in place for preparation of ADP and allocation of resources among sectors and various projects/ programmes on the basis of information provided by the line ministries and agencies, sector divisions of the planning commission, IMED, ERD and the Finance Division.

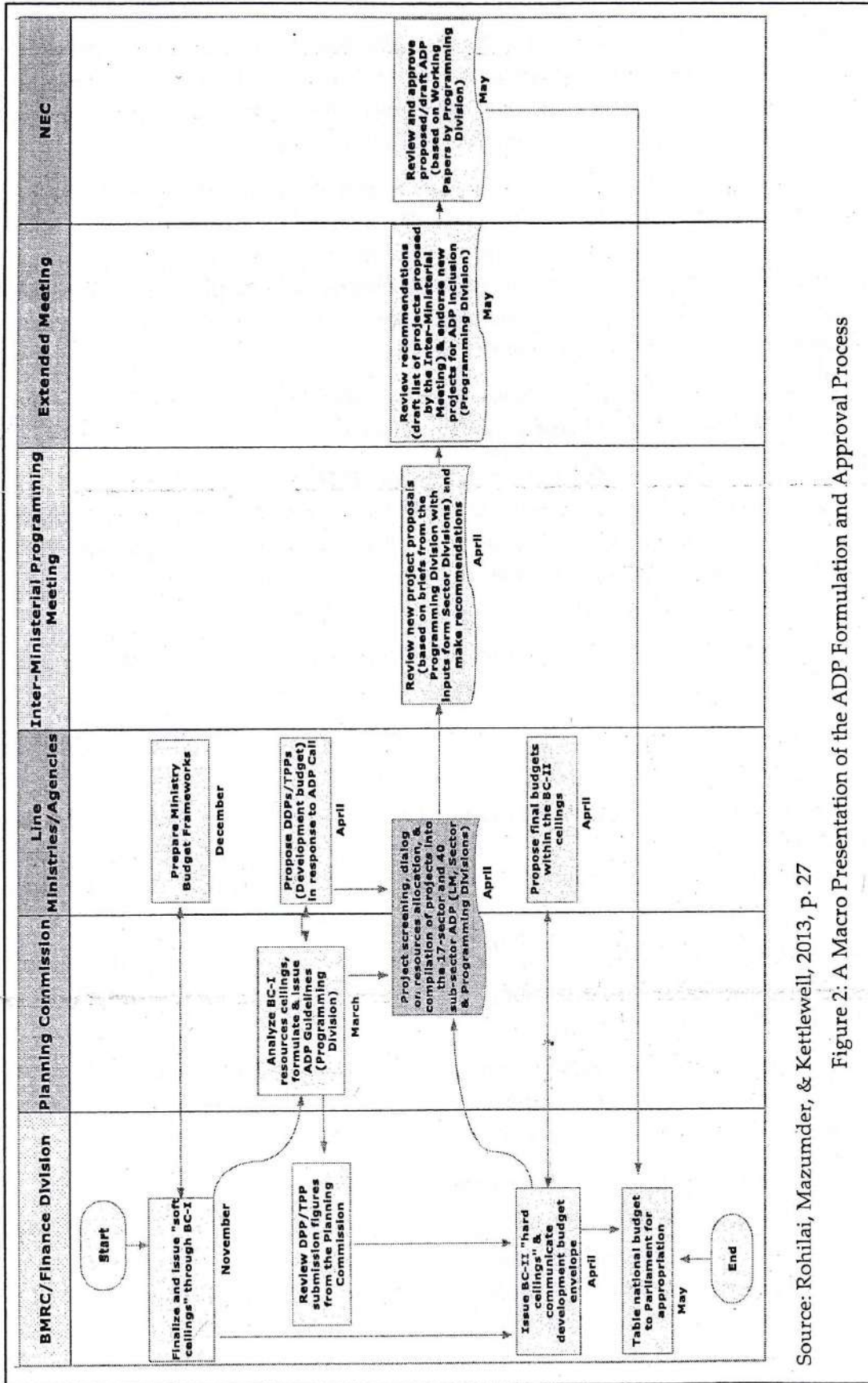
Responsibilities of, and interaction between, other relevant government entities and the PC within ADP preparation process are outlined below:

- The *Budget Management and Resource Committee* (BMRC) headed by the FD sets the resource envelope (ministry-wise). FD shares the information with the line ministries and agencies through the budget circulars. It includes both the Non-development and development budget. Ministries and agencies then decide the amount they plan for development budget within the resource envelope shared by FD.
- The programming division distributes funds to annual ADP in consultation with line ministries and agencies (within the resource envelope).
- The programming division, line ministries and agencies, and ERD set project-wise project aid allocations for the ADP.
- Following analysis of resource demands (put forward by the line ministries and agencies through the ADP Call Circular) by the Programming Division and the Sector Divisions, the Government (the Planning Commission) determines the size of the ADP.
- Following approval of the ADP by the NEC, the Finance Division integrates the ADP and Revenue Budget and tables the National Budget to the Parliament for appropriation.

At present, there is no categorization of development projects apart from the lists of approved, unapproved, revised unapproved and new projects. In a broader sense, the ADP projects are classified as investment and technical assistance projects.

The Revised ADP: Purposes and the Process

The purpose of the RADP is “revising allocations of the projects included in the original ADP and making allocations to new approved projects eligible for inclusion in the RADP, as well as selection of new unapproved projects for inclusion in the RADP” (Programming Division, PC, 2014). RADP plays an important role in the public investment environment in Bangladesh. Contents of the ADP are revised during the RADP process to incorporate an



Source: Rohilai, Mazumder, & Kettlewell, 2013, p. 27

Figure 2: A Macro Presentation of the ADP Formulation and Approval Process

updated list of projects and their revised allocations estimated based on the information provided by ministries and agencies, Sector Divisions of the Planning Commission, IMED, ERD and the Finance Division. The RADP preparation process includes the following steps:

- Issuance of the RADP Guidelines in November/December of every fiscal year by Programming Division of PC, and submission of proposed projects in the RADP formats in concern with the line ministries and agencies.
- The line ministries and agencies revise the proposals in the light of the RADP Guidelines, and economic sector/sub-sector-wise resources allocation which has been recommended by the Programming and Sector Divisions of the PC.
- Revision of project-wise project aid allocation based on the real situation (Sector Divisions of PC).
- The Inter-Ministerial Programming Committee meets to discuss reallocation requests from line ministries and agencies and finalises the list of projects and project-wise allocation for the RADP.

The rest of the RADP approval process follows the same steps as the ADP preparation (See Figure 1).

In 2012, "Fact Finding Study on Public investment in Bangladesh," a report of Japan International Cooperation Agency (JICA) has shown that the deviation from the ADP allocation and real utilization of this allocation has a big gap in the end of the fiscal years; this gap is both at the aggregate and composition level of public investment. Considering the aggregate level, in the period of 2005-2010, the fund disbursement rates (actual versus budget) ranged between 68 percent and 84 percent (JICA, 2012). In the case of composition level, the World Bank point to that about 10 percent of the projects enlisted in the ADPFY2010-11 experienced no physical progress causing substantial reallocations in the RADP (World Bank, 2011).

The DPP/TPP Formulation Process and its Relationship with the ADP/RADP

The development fund allocated by the ADP to the ministries has been utilized to prepare new development projects in the form of *Development Project Proposal* (DPP) or *Technical Assistance Project Proposal* (TAPP) that have been expected to implement within the FYP. The idea of the Projects/programmes has come from different sources i.e. the line ministry, donors, on-going project managers, implementing divisions/agencies. However, core concern for DPPs/TPPs preparation rests on the *Planning Wings* of the different implementing agencies who initiate the idea. The following table contains the DPP/TPP preparation, formulation, appraisal steps in Bangladesh:

Table 3: DPP Preparation Process

Step 1: Agencies prepare projects and submit them to the line Ministry/Division.

Step 2: The Project Screening Committee in ministries, chaired by the Secretary, examines submitted projects. Members of the Committee include representatives from the Planning Wing/Branch, Development Wing and Budget Wing/Branch of the Ministry/Division and the head of the Executing Agency. Projects requiring recruitments using Reimbursable Project Aid (RPA) and GoB resources are sent to the Manpower Committee of the Finance Division, chaired by the Additional Secretary of the Finance Division, for consideration. The Finance Division Committee sends its recommendations to Ministry/Division within 15 days of receipt of the proposal.

Step 3: The Departmental Project Evaluation Committee (DPEC), chaired by the Secretary of the concerned Ministry/Division, scrutinizes proposed projects further to ascertain they meet the Ministry's/Division's objectives and funding for the proposed project can be attained.

Step 4: New project proposals are then sent to the Sector/Division of the Planning Commission for processing by the Project Evaluation Committee (PEC) and approval of the Planning Minister/ECNEC (depending on a project's financial size) – within 10 days following receipt of the Finance Division recommendation. Revision of on-going projects for up to 10% above or below the original approved costs requires approval of the Minister, based on DPEC recommendation. Project revision exceeding 10% of the original costs, need to be sent to Sector/Division of the Planning Commission for processing by the PEC.

Step 5: DDPs that do not meet requirements of Sector/Division of the Planning Commission are sent back to Ministry/Division within 30 days of receipt. Ministry/Division revises/recasts the rejected DPPs as per comments from the Sector/Division and resubmits them to the Planning Commission within 25 days. The Planning Commission is required to process DPPs for the PEC meeting within 30 days of receipt from the Ministry. Minutes of PEC meeting are circulated within 10 days.

Step 6: Projects that need recasting, are required to be resubmitted within 25 days of the receipt of the PEC meeting minutes. Where cost rationalization is required, IMED is required to complete the exercise within 15 days of receipt of the PEC minutes. The relevant Ministry is required to submit the recast DDP to the Planning Commission within 25 days of the receipt of cost rationalization report from IMED. If a Ministry fails to submit the recast project within 40 days to the Planning Commission without a justification for delay, processing of the project will be stopped and it will not be considered for further processing.

Step 7: The PEC submits project along with a summary to the Planning Minister/ECNEC (as the case may be) for approval of the DPP within 10 days of receipt of issuance of the PEC minutes, or 10 days after receipt of the recast DPP from the Ministry. The PEC recommends projects for approval of the Minister for Planning/ECNEC depending on the threshold (now BDT500 million for the Planning Minister).

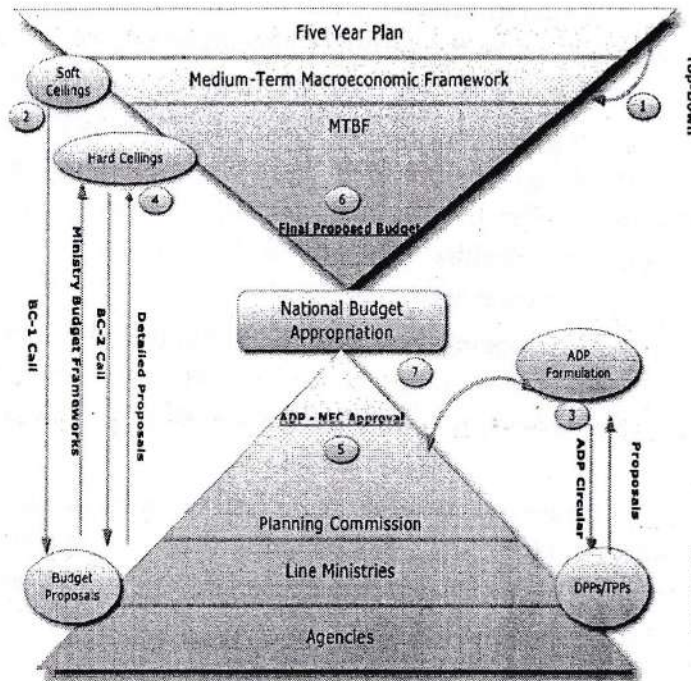
There is no time limit for the NEC-ECNEC & Coordination Wing to submit DPPs for approval of ECNEC meeting. Approval Letters for projects approved by the Planning Minister are issued by Sectors/Divisions, and by the NEC-ECNEC & Coordination Wing of the Planning Division in the case of those approved by the ECNEC. An Administrative Order (AO) is issued by the concerned Ministry/Division for each case.

Source: General Economic Division, 2014

Assessments and Analysis

Bangladesh has developed a theoretically inclusive PIM system including, i) the long-term Perspective Plan, Vision 2021, ii) the FYP as the long term strategic direction for

development; iii) the *Mid-Term Budgetary Framework* (MTBF) as the mid-term three year rolling budgetary framework; and iv) the ADP as the short term development plan. Based on the formal system in place as depicted in Figure 3, the Planning Commission through General Economics Division (GED) undertakes the macro-sectoral planning, which is set out in the FYP.



Source: Rohilai, Mazumder, & Kettlewell, 2013

Figure 3: PIM process in Bangladesh

The Finance Division, through the Budget Monitoring and Resource

Committee (BMRC),⁶ leads the annual process to establish aggregate and Ministry ceilings, which are used for the formulation of the development and non-development budgets by the line ministries and agencies. The Planning Commission (Programming Division) issues the ADP Call under which line ministries and agencies prepare their submissions for the ADP. Budget execution is overseen by the Finance Division, while the IMED monitors project implementation.

Strategic Linkage among the Planning Stages

In reality, however, the strategic linkage between ADP projects/programmes and the FYP national priorities/strategic objectives is weak; 'stemming from a weak link between the SFYP, the Medium-Term Macroeconomic Framework (MTMF), and MTBF, the ADP' (JICA, 2011). Weaknesses in the stated process are outlined below:

Linkage between the National Policy Framework and the ADP

- The national priorities in the FYP are structured in a broader sector context that does not match the 14-sector ADP programme. The comprehensive guideline for prioritisation of resources allocation between and the within sectors is missing in the

⁶ Chaired by the Finance Minister and including membership from the Planning Commission/Planning Division.

FYP. These separations between ADP and FYP harden the process to conduct sector prioritisation and needs assessment result. Thus already inadequate/scare resources from ADP further allocated inefficiently across a large number of projects. This eventually leads to challenges the targeted achievements. For instance, as shown in the Table 1, an outcome of inefficiencies in the resource allocation process leads to cost and time overruns.

- The contemporary ADP preparation guidelines mostly unsuccessful to facilitate the line ministries/agencies on establishing strategic link with proposed projects and national and sectoral priorities. Effectively, this eventually provides line ministries/agencies the privilege to prioritise any project they want; even if it compromises the efficient use of the sectoral resource allocation.
- Hence, a large number of projects are being proposed with limited effect on the sectoral objective; which reduces the time allocation at Inter-Ministerial Programming Meetings for each project to properly evaluate and scrutinize the project proposals.
- Subsequently, a large number of projects with weak or no link to national priorities are proposed to, and approved by, the ECNEC. For instance, there are 662 projects without allocation of the 2013-14 ADP, which are essentially new "priority" projects proposed to come on stream during the financial year.

Linkage between the MTBF and the ADP

- FD is the focal point for 3 year rolling MTBF process; while PC manages the single-year ADP process. The dynamic MTBF process is not aligning the static ADP process. In this regard, there has been weak coordination between FD and PC.
MTBF do not have any sectoral focus; the aggregate resource ceiling is segregated to Ministry level. The projects which a ministry selects could, in some cases, cover a number of sectors or subsectors.⁷ Effectively then, sector and sector budgets are merely an aggregation of the projects. The ADP and Budget Circulars seem to be two parallel processes; they are issued separately without any proper linkage and coordination.

ADP and RADP process

The ADP and RADP processes have many limitations as:

- The existing system fails to filter low priority projects; largely because of the unclear sector priorities/objectives and lack of proper guideline. Hence, ill-conceived projects weaken the appraisal mechanisms;
- Due to political will, informal and ad-hoc influences over identification and selection of public investment projects, especially in the infrastructure sector;

⁷ For example, the Power Division's development budget includes projects in both Generation and Distribution sub sectors

- The lack of adequate human and technical resources to carry out appraisal and evaluation process properly.
- The RADP seems fails to achieve its intended goals as its poor performance on addressing allocative inefficiencies in the ADP and reallocate resources among project in an efficient manner.

Findings from different Research on the PIM system in Bangladesh

In the recent years there have been many researches on the PIM system in Bangladesh which have identified some of the key gaps and challenges; some of the relevant issues are enlisted in the Table 4.

Table 4: Summary of Findings from Other Studies.

<p>1. Linkage Between the Annual Development Programme and the Five-Year Plan</p> <ul style="list-style-type: none">➤ JICA (2012) recommended developing a "Strategic ADP outline" for dividing strategies and targets of the SFYP into the 17 ADP sectors.➤ The World Bank (a) (2011) recommended formulating "sector specific operational plans, based on the FYP". <p>2. Linkage Between ADP and the Budgeting Process</p> <ul style="list-style-type: none">➤ World Bank (2011) indicated that there is a need for streamlining the procedures for preparing the ADP and, most importantly, a need for better communication and integration amongst the stakeholders at three levels (agencies, line ministries, and the Planning Commission) and with the Finance Division. <p>3. Linkage between the ADP and Project Approval Process</p> <ul style="list-style-type: none">➤ The World Bank (2011) concluded that the ADP guideline includes a long list of priorities, and the guideline is not utilised for project selection/prioritisation.➤ The quality of project costing and time estimations is low. The World Bank (2011) study indicated that cost overruns for the FY2010 were 28% on average, and for the FY06-10 the average was 2.9 years.➤ The World Bank (2011) recommended moving the call for ADP project proposal, which is issued in March/April each year after the Budget Circular Call, forward to December/January to give the Planning Commission and Executive Committee of the National Economic Council (ENCEC) more time to appraise/prioritise and approve projects.

Concluding Remarks

GoB has a role in undertaking public investments to create public goods; but considering high levels of public debt and limited resources for investment, they need to ensure that, every investment allocated must be made to count and contribute to economic growth. Otherwise it will increase the tax burden on general citizen and increase the public borrowing, which may impose a burden on future citizens. Here, efficiently using resources for public investment is imperative to overall development as well as to urban and regional development. But the public investment decisions in Bangladesh have been wastefully managed, subject to corruption and misappropriation, and a constant source of dismay and disappointment to citizens. Under these conditions, investment on establishing effective systems for managing public investment has become a prior necessity.

Communally, the challenges imprinted in this article demands a fresh approach with clear and direct connection between the FYP, public investment programme and the national budgeting process. To get the most out of public investment, the existing PIM process needs to be improved;

- by convallescening connection between planning and budgeting processes;
- by changing its focus to a medium-term outlook;
- And, by improving the DPP process through proper screening process that will filter out low-priority and ill-conceived projects.

There is a lack of technical capacity along the project cycle process (both at the line ministries and agencies, and Planning Commission/ECNEC level) that leads to preparation, appraisal and approval of poor quality DPPs. Wide spread capacity building initiative need to be undertake in this regard. The capacity building initiative should not be isolated project based ones; rather need to mainstream and internalized it within the government system. Recently GoB have declared minimum training requirements for the government officers. This initiative is a positive indication, though the quality and effectiveness of the capacity building training need to be maintain strictly.

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