

Financial Management Reform Program in Bangladesh : Strategies and Problems of Implementation

Abu Hossain Muhammad Ahsan^{*}

Introduction

“Money is no more a problem for Bangladesh Government” said, Saifur Rahman, the former Finance Minister (2001-2006), Government of Bangladesh. It is true that Bangladesh is generating a reasonable amount of domestic income in the recent years, collecting a huge remittance from the money sent by the emigrants, and getting substantial fund (in shape of Grants, loans, aids etc) from the donor countries and agencies every year for its’ Annual Development Plan (ADP) as well as for the long term development projects. Despite collecting money for the development projects visible and significant change is yet to be brought about. The main problem, as the scholars point out in the several dialogues arranged by the civil society, lies in the money management. With the high degree of corruption, according to the Transparency International ranking in the recent years, in form of misappropriation of the wealth in the public sector

^{*} Lecturer, Department of Public Administration, University of Dhaka.

and lately the prologue of the Poverty Reduction Strategy Paper (PRSP) persuaded Bangladesh Government to set off public financial management reform.

It is a fact that an efficient public financial management in Bangladesh is now demand-driven rather than supply-induced (Khan: 2000). As we all know, with the PRSP is now underway, the budget takes on a key role as an instrument of implementation of that strategy. Given the budget as the central role, improving public financial management and ensuring accountability are crucial for meeting the goals of the PRSP. Indeed, the PSRP sees improvements in public financial management (PFM) as a key element of its developmental and anti-corruption agenda (Wallich: 2006). Financial Management Reform Program (FMRP) is a technical assistant project, is now working on improving and ensuring transparency, accountability and efficiency in the budget making process and its' execution, the audit strategy and the enhancement of the capability of the staff in executing the intended strategies.

The study is an endeavor to explore and examine various traits of policy implementation with regard to administrative reforms in Bangladesh. The aim of the study is to analyze and describe the policy implementation regarding financial management

reform Program (FMRP) in the light of relevant theories and models. For the purpose, the study intends to put spotlight on the theoretical and conceptual issues and aspects of policy implementation that persuade the process, factors contributed to the instigation of financial management reform policy in Bangladesh, the Ministry of Education in particular, major actors involved in, organizational set up as well as procedural arrangements involved and initiated in the implementation process, strategic tasks associated with, and the constrictions, if not any resistance, in the different phases of the implementation process.

FMRP and It's Background

FMRP is a five-year Program jointly financed by the Department for International Development (DFID-UK) and the Royal Netherlands Embassy (RNE), and executed by the Ministry of Finance, Government of People's Republic of Bangladesh. Its inception phase commenced on 7th of April 2003 and the implementation of the component work plan started on 1st of July 2003. FMRP has been designed to build upon the previous financial reforms initiative which was piloted by DFID-UK, namely Reforms in Budgeting & Expenditure Control (RIBEC) project.

The Financial Management Reform Program (FMRP) has been designed to consolidate the achievements of the early reforms initiatives, especially of the Reforms on Budgetary and Expenditure Control (RIBEC) to date and to initiate reforms in the areas of Public Financial Management which have not been covered by RIBEC. The contribution of RIBEC projects to public sector reform in Bangladesh is unique. Budget preparation has improved through introduction of the new budget classification as well as the computerized data entry systems under RIBEC. But there is still some way to go before the information is fully comprehensive, able to be desegregated for different analyses and delivered to decision makers to reliable deadlines. Further work is needed to be carried out to improve information quality and timeliness (The Inception Report of FMRP, DFID, 2003).

The goal of FMRP is to improve the efficiency and effectiveness of the allocation of resources and to achieve more equitable and improved public service delivery. The purpose of FMRP is to develop accountable and transparent institutional management and operational arrangements for aggregate fiscal discipline, strategic prioritization of expenditure and improved performance during budget execution (www.fmrp.org).

Some preliminary analytic work had been carried out by the Financial Management Units in the larger ministries. However, Finance Division needed to take a more visible lead in improving the overall budgeting process and the improved financial information needs to be fed into expenditure decisions. The Budget Committees of the line ministries need to be activated and the committee would work as the vehicle for preparation of the line ministries own budget under Medium Term Macro Economic Framework (MTEF) expounded in Bangladesh I-PRSP document.

Scope of FMRP

The scope of FMRP is ambitious in terms of administrative reforms experiences in Bangladesh and includes:

- Strengthening audit capacity and **improving the quality** of audit reports;
- Technical support that will help strengthen Finance Division operations with emphasis on enhancing **the technical and institutional linkages between policy, planning and budgeting** during budget preparation and budget implementation;
- Developing an overall **resource performance management outcomes and outputs framework** that will link resource allocation and use to results;

- Capacity building approaches in line ministries that will establish and develop financial management units for improved **resources management and better co-ordination between planning and budgeting**;
- Improvements to financial information and better data quality that will provide a platform for improved policy analysis and better decision making, as well as improved financial monitoring and reporting;
- Developing national capacities for sustainability of the FMRP outputs through **institutionalization of technical improvements** is a key element. Together with a sustained focus on formal training, both locally and overseas in a range of disciplines that will equip selected officials with the capacities to implement and maintain reform;
- Formal training will be further strengthened through continuous joint problem solving and "learning by doing" in order that the theoretical is combined with the practical, so that the training obtained can be applied to the work for the benefit of both individual and organizational performance.
(<http://www.fmrp.org/objectives.htm>, date May 2006)

The focus of the study is the recently undergoing decentralized budgetary system which is operationalized through two newly espoused strategies, namely, MTBF and MTMF.

Medium Term Budgetary Framework (MTBF)

The origins of this concept lie in the budget management reforms that were introduced in some of high income countries in the late 1970s and 1980s. These reforms were response to the experience that large budget deficits were contributing to macroeconomic instability and that budget planning tended to be incremental and short-term with little attention given to the effectiveness and efficiency of public spending programs. Australia, New Zealand, and the UK were among the early reformers. From the mid 1990s the World Bank started promoting the introduction of MTBFs in developing and transition countries. Key concerns in these countries were to achieve greater realism in budget planning and to strengthen the linkages between government policies and strategies and budgetary resource allocations. MTBFs have also been seen as playing a key role in supporting the implementation of poverty reduction strategies.

It is a multi-year approach to budgeting that sets a medium term framework for government receipts and expenditure. The MTBF links the spending plans of government to its policy objectives and

requires a reliable estimates of resources available for expenditure, as government spending plans must respect a reasonable view of what government receipts (both revenue and foreign assistance) are likely to be over the medium term. Under MTBF line ministries are provided with greater autonomy. An MTBF includes the upcoming fiscal year's annual budget and rolling estimates for the following two fiscal years. Under the MTBF approach line ministries submit their 3 year budgets in two parts: a strategic part outlines their Medium Term Strategic Objectives derived from the national the policy objectives and a resource component which details what resources will be needed to achieve the objectives. The resource component combines both development and non-development expenditure as both are required to achieve the objectives set (GoB: 2007).

Medium Term Macroeconomic Framework (MTMF)

It is a tool for checking the consistency of assumptions or projections concerning economic growth, the fiscal deficit, the balance of payments, the exchange rate, inflation, credit growth, monetary development and the share of the public and private sectors etc. The main purpose of the MTMF is to assess the economic and fiscal sustainability in alternative macroeconomic policy scenarios and the

impact of the risks associated with each of these scenarios. With regard to the MTBF it also provides a method to determine the Government's 'resource envelope' which will be applied in the preparation of budget estimates at Line Ministries (ibid)

System Building Model by Donald Van Meter and Carl Van Horn

The System Building Model (1975) of Implementation study was developed by Donald Van Meter and Carl Van Horn is rigorously studied a policy implementation theory. As the problems stated in the first chapter of my study links with the features of this theory, the aspects of which I would like to apply in my study.

Van Meter and Van Horn's presentation of their theoretical perspective starts with a consideration of the need to classify policies in terms that will throw light upon implementation difficulties. Their approach is comparatively simple (Hill and Hupe, 2002). They developed a conceptual framework on policy implementation process by classifying in two distinguishing characteristics: a) the amount of change involved and b) the extent to which there is goal consensus among the participants on the implementation process. The element of change is important in at least two respects: firstly, implementation will be affected by the extent to which the policy deviates from previous policies

and secondly, the implementation process will be influenced by the amount of organizational change that is required (Van Meter and Van Horn: 1975). They presupposed that implementation would be most successful where marginal change is required and goal consensus is high.

Van Meter and Van Horn go on to suggest a model in which six variables are linked dynamically to the production of an outcome performance (Hill and Hupe, 2002). The model specifies the relationships between the independent variables and the ultimate dependent variable of interest and specifies the relationships among the independent variables. Firstly, they have advanced with two major independent variables: a) Policy Standards and Objectives and b) Policy Resources.

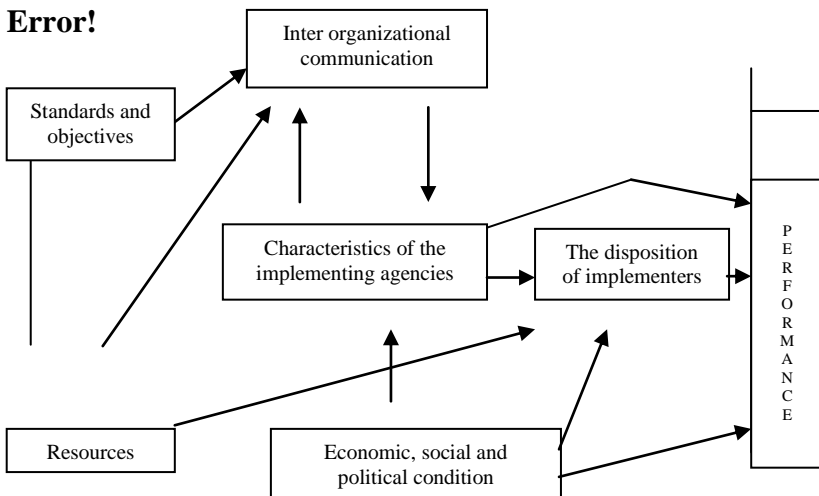
- a) ***Policy Standards and Objectives:*** Policy standards and objectives, which elaborate on the overall goals of the policy decision... to provide concrete and more specific standards for assessing performance (ibid, p-469)
- b) ***Policy Resources:*** Van Meter and Van Horn argue that polices also make available resources which facilitate their implementation. The resources may include funds or other incentives in the program that might encourage or facilitate effective implementation (Van Meter and Van Horn: 1975)

They also added four additional factors in their model, which are

- i) the quality of inter-organizational relationships,
- ii) the characteristics of the implementing agencies, including issues like organizational control but also, going back surely to inter-organizational issues, the agency's formal and informal linkages with the policy-making or policy-enforcing body
- iii) the economic, social and political environment
- iv) the disposition or response of the implementers, involving three elements: their cognition (comprehension, understanding) of the policy, the direction of their response to it (acceptance, neutrality, rejection) and the intensity of that response (ibid, p-46)

Figure 1: Model of the Policy Implementation Process

Error!



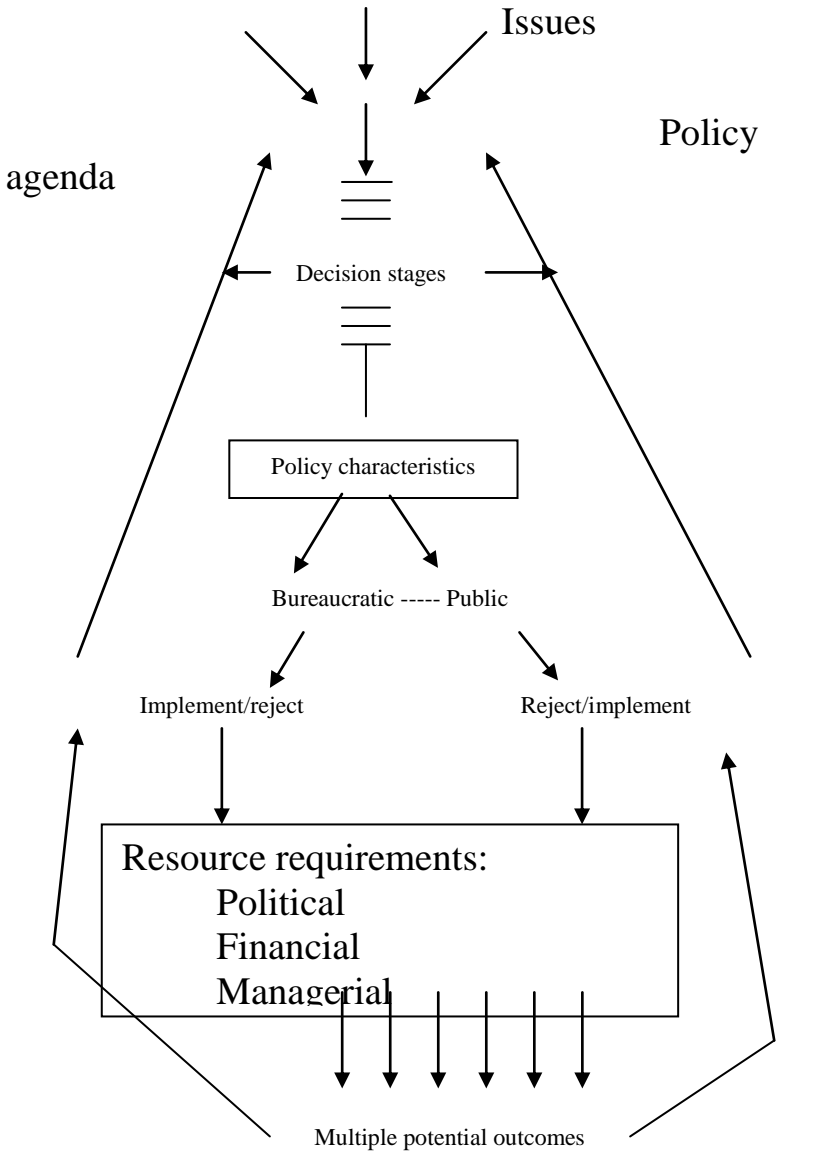


Source: Van Meter and Van Horn, 1975: 463, cited in Howlett and Ramesh, 2003.

The Interactive Model

John W. Thomas and Merilee S. Grindle (1990) have developed a framework on policy implementation basically in the context of developing countries. They actually developed two contrasting model of policy implementation, namely the linear model and the interactive model. In their first model they described the policy process as linear where a proposal gets on the agenda for governmental action, a decision is made on the proposal and the new policy or institutional arrangement is implemented, successfully or unsuccessfully. In this model they discussed the policy cycle process rather than discussing why the implementation process becomes successful or unsuccessful. But in the Interactive Model of policy implementation they were much conscious about the factors and reactions of the people involved in different phases of the policy process.

Figure 2: The Interactive Model of Policy Implementation



Source: Grindle M.S & Thomas J.W (1990)

According to Thomas and Grindle (1990), the range of outcomes results from the fact that implementation is an interactive and ongoing process of decision making by policy elites (political and bureaucratic officials who have decision making responsibilities and whose decisions become authoritative for society) and managers (implementers) in response to actual or anticipated reactions to reformist initiatives. They began with the assumption that a state of equilibrium surrounds an established policy set. This equilibrium results from the acceptance of existing policy or institutional arrangements by those who are affected- positively or negatively- by them. The central element in the model is that a policy reform initiative may be altered or reversed at any stage in its life cycle by the pressures and reactions of those who oppose it (Grindle and Thomas, 1990).

Thus, the decision process needs to be envisaged as a series of formal and informal stages, with numerous actors, not as a single point with a single

decision maker (ibid). As there are so many stages involved in the policy process, reactions could come from either of these points, and the interaction among the actors of different levels. Moreover, according to them the characteristics of the policy will have an important influence on the nature of the reaction or response to change.

Problems of Implementation of FMRP

The Administrative Culture and Bureaucratic Response to Change

The Administrative Culture of a country persuades the disposition of the bureaucrats, implementers and whilst impinges on the interorganizational relationships. The administrative system both at national and sub-national levels in Bangladesh, which has a unitary system of government, remains largely centralized, despite many attempts made in the past to decentralize its administrative process and vest greater authority and responsibility in offices and levels down the hierarchical line. Although there are multiple decision-making layers in every ministry/division, there is a tendency among the officers below the secretary level to “pass the buck”. When a case is placed before an officer for his decision, the most usual response is to provide a guarded opinion and forward the file to the next higher officer. Each higher officer follows the same pattern until the matter reaches the top.

Few officers take risks that are involved in making a decision even if the position he is occupying authorizes him to do so. The tendency to push up things is due to many reasons. One main reason is the lack of experience and knowledge of the working at the secretariat level by assistant secretaries and the consequent lack of confidence to take decision at their level. This situation is further aggravated by a lack of trust in their ability by the superiors and the tendency towards centralization (Khan: 1991). In the centralized administrative system only the senior level bureaucrats take part in the policy design and formulation. The operational level officers who implement the policy virtually have no participation in the policy formulation. The lack of mutual trust leads to lack of coordination among the superiors and subordinates that hinders the implementation of the reform policy.

It is found that the administrative system of Bangladesh can be characterized more by traditional than by modern norms. It is also characterized by high degree of power distance, low tolerance for ambiguities, dependence on traditional sources of information and preference for employees with traditional qualities (Jamil: 1994). It can be said that the historical perspective of the bureaucratic system and the nature of administrative culture prevalent in the country has made the bureaucracy as a rigid

organization with lesser and sometimes no acceptance for the change.

Inter Organizational Relationships

When a reform initiative is implemented through the project the interaction and interrelationships between the organizations, especially the executing agency and the project office (support unit) become very important. Their coordinative, cooperative and collaborative effort can make the implementation successful which is mostly absent in the line ministries under FMRP. Some officials of the Ministry of Education who are responsible to prepare budget for the upcoming years were found not to be familiar with the activities of the project unit of FMRP which is supposed to provide with technical and strategic support, situated in the Ministry. This hampers the efficiency of Budget formulation process of the line ministries.

Disposition of the Implementers

The perception of the implementers is very significant especially when bureaucrats' involvement is enormous in the implementation process. The content of this reform project suggests that a high degree of delegation of responsibility is involved in the line ministry. As theory argues, implementers should understand the Program. As the operational level bureaucrats were not involved in the policy formulation process, the majority of

the bureaucrats in the line ministry have no understanding about the contents of the Program. Due to lack of understanding they were either unable or not willing to accept the Program and work accordingly to achieve the output. The Finance Division which was previously responsible for preparing the budgetary allocation for the line ministries played a critical role in the implementation of MTBF. The study found that since the centralized authority to prepare the budget was decentralized to the line ministry which was a political decision, the bureaucrats of the Finance Division were not willing to assist the line ministries to prepare the Mid-term Budgetary Framework.

Institutional Arrangement to cope changes

Institutional arrangement to cope with the intended reform has proved to be another important factor leading to policy implementation. The administrative system in Bangladesh is highly centralized; authority is centralized, responsibility is centralized, the structural arrangements prioritize the central authorities. In order to cope with the decentralized budgetary system, decentralized institutional arrangement is needed. Interestingly, the line ministries were quite happy to get the budget making responsibility but when it was a question of structural change or expansion by

deploying more implementers they seem to be very reluctant. None of the fourteen ministries that are supposed to adopt MTBF has not brought about required institutional change or arrangement considering it a specialized responsibility.

Workload and Priorities

In the line ministry every officer has specified job responsibility and other routine works and it is said that even the specified load of work is very profound. The responsibility of budget allocation and preparation is a time consuming job, requires specialized knowledge and this responsibility is given to the officers as an additional duty. The officers took the routine work and the departmental work as the priority responsibility because with these works they can exercise their authority on the stakeholders. The reluctance towards the budgetary responsibility have made the implementation process problematic in the line ministry.

Involvement of the Implementers in the Decision Making Process

As the theorists argue, marginal change is possible when the goal consensus among the implementers is high. In FMRP, we see that FMRP recommended a major change in the policy and decentralized the budgetary system and whilst the goal consensus is very low among the operation implementers. In fact, neither of the decision making administrators nor of

the operation level officers of the Line Ministry were present in the policy/decision making process. As the operational level officers did not know a lot about the ongoing project and had lack of understanding about the content of the project, they rather resisted the policy at the implementation level.

Heterogeneity of Cadre

One of the interesting findings of this study is the heterogeneity of the cadre in a ministry or department which influences the level of coordination at the operational level. The civil servants of different cadres are working in the ministry of education. They have different background, foundation training, job responsibility and above all different orientation of work. This heterogeneity of cadre of civil servants creates an ineffable working condition resulting lack of coordination, different views and opinion, diverse policy orientation and working skills. The lack of coordination among the operational level civil servants hinders the implementation of the reform policy.

Skill Development to Cope with Change

Training is an important method or technique provided to the implementers to cope with the required strategy that comes through reform. The study finds that a wide variety of training was

required to meet the project needs but due to lack of facility of the training academy, Financial Management Academy (FIMA), the training of the implementers was delayed. In the first two years, the academy could not fix up schedule for the trainees. Moreover, the Finance Division influenced the academy lingering the training induction of the implementers of the line ministries. The FD in lieu of coordinating the overall activities including training Program, they stood firm against the decentralized budgetary system and virtually created different obstacles for the reform project.

Personnel Turnover

The last one but not the least ‘personnel turnover’ is probably the most critical factor of policy implementation of FMRP and is very common to most of other reform projects in Bangladesh. It is found that transfer of the civil servants is very common in Bangladesh. After getting the advanced training most of the implementers got transferred from the ministry they worked before. As a result, every now and then a vacuum is created in the Ministry of Education and new people come who do not know anything about FMRP and budgetary techniques and eventually want to avoid that responsibility.

Conclusion and Suggestions

Based on the analysis and discussion so far in this study, it can be said that the bureaucratic aspects rooted in the British period are still prevalent in our society with almost the same sort of authority, power, perception, deposition, status quo, and provide resistance to change to the reform initiatives with a slender exceptions. And lack of necessary support, cooperation and coordination from the implementers towards the reform implementation might lead to an unproductive and unsuccessful project. It is, therefore, necessary to change the attitudes and mindsets of the bureaucrats and work according to the reform needs for the common good. In that case, it is essential to develop their understanding of the reform initiatives by ensuring the involvement of different level implementers in the policy process. Most of the development works in Bangladesh are project based and there is a common perception among the implementers that project is for a certain period of time. Therefore, political will to allocate continuous resources to sustain the project output is a fervent need.

In addition, there are certain aspects that should be taken into consideration for an effective and efficient project implementation. There should be a capable and suitable institutional structure and arrangements to meet the reform needs. The feasibility of the structural adjustment should be

made before the policy reform on decentralized administrative system is taken. Coping with the requisite institutional arrangements capable personnel should be deployed and sustained. The job responsibility of the implementers should be specified thus they know what kind of job they have to perform and since the preparation of the budget requires specialized knowledge, the person responsible for should not be burdened with other routine works. Timely and proper training home and abroad is required to perform the specialized job. Therefore, the training academy or institute or departmental training wing should be strengthened with necessary resource persons and logistic support. Since the turnover of the personnel is one of the main obstacles or policy implementation, an implementers' pool could be formulated comprising all the trained operational officers of the line ministries included in the project and making sure that the transfer of the implementers is done within these ministries.

This study is an attempt to see how far the policy implementation theories of Van Meter and Van Horn and Grindle and Thomas are applicable to the policy implementation of FMRP. It could be concluded by saying that the findings of the study are very much consistent with the variables of the aforesaid theories, especially with the theory of Van Meter and Van Horn. The quality of the

interorganizational communication, the understanding of the objectives of the reform projects, the efficiency and effectiveness of the implementing agency, the perception of the implementers, resources mobilization to sustain the projects which are the factors of the System Building Model, are the most persuading factors of the implementation of FMRP. Besides these factors, two other are very important in my study; personnel turnover and involvement of the operational level bureaucrats in the policy process.

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